2018 Financial Statements

Volksbank

Banca Popolare dell’Alto Adige
A Public Limited Company

Registered Office and General Management: Via del Macello No. 55 – I-39100 Bolzano
Registered Capital at 31 December 2018 €201,993,752, fully paid up
Tax code, VAT No. and Companies Register No. 00129730214
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund
ABI 05856.0
www.bancapopolare.it – www.volksbank.it

DAS WAR 2018

Die Volksbank hat das Geschäftsjahr 2018 mit einem sehr guten Bilanzergebnis abgeschlossen. Besonders positiv: Das Kerngeschäft ist deutlich gewachsen – quer über das gesamte Einzugsgebiet. Der Nettogewinn beträgt 34,3 Millionen Euro. Für die Aktionäre schlägt sich das gute Ergebnis in einer Dividende von 27 Cent/Aktie nieder.

„Mit dem Nettoergebnis des Geschäftsjahres 2018 haben wir nicht nur gehalten, was wir versprochen haben, sondern auch erneut die Stärke unseres Geschäftsmodells unter Beweis gestellt. Wir haben im Kerngeschäft sowohl Margen als auch Volumina deutlich gesteigert und damit eine gute Ausgangsbasis für die weitere Umsetzung des Strategieplans 2019-2021 geschaffen."

Otmar Michaeler

Sehr geehrte Aktionäre

das Geschäftsjahr 2018 steht bei der Volksbank unter einer großen Überschrift: Wir wachsen deutlich – vor allem in unserem Kerngeschäft. Die Volksbank schließt das Geschäftsjahr 2018 mit einem Reingewinn von 34,3 Millionen Euro (+41%) ab – ein ambitioniertes Ergebnis, das wir im vergangenen Jahr angekündigt, angepeilt und erreicht haben. Damit haben wir unsere **Position als größte und ertragsstärkste Regionalbank im Nordosten Italiens** weiter ausgebaut.

Ich möchte Ihnen die wichtigsten Ergebnisse der Jahresbilanz 2018 aufzeigen:

• **Wir wachsen im Kerngeschäft.**
Erstmals in der Geschichte der Volksbank hat die Bilanzsumme die Schwelle von 10 Milliarden Euro überschritten. Wir sind in unserem Kerngeschäft gewachsen und haben unsere Marktanteile

im gesamten Einzugsgebiet erhöht – sei es im Kredit- als auch im Einlagengeschäft mit Familien und Unternehmen. Zu dieser umfassenden Geschäftsausweitung haben unser historischer Heimatmarkt Südtirol und die nordostitalienischen Provinzen Trient, Belluno, Vicenza, Treviso, Pordenone, Venedig und Padua beigetragen.

• **Wir verdienen im Kerngeschäft.**

Wir haben eine Steigerung der Rentabilität angekündigt und gehalten: Der ROTE (return on tangible equity/Rendite auf das materielle Eigenkapital) liegt bei 4,9% (2017: 3,2%). Das starke Wachstum der Kunden-Ausleihungen in bonis (6,8 Mrd. Euro/+9,0%) und der Einlagen (7,7 Mrd. Euro/+4,5%) konnten wir nutzen, um sowohl Zinsmarge (165,4 Mio. Euro/+8,9%) als auch Kommissionsgeschäft (89,1 Mio. Euro/+1,0%) zu steigern. Unsere Anstrengungen zielen auf eine künftig noch rentablere Bank.

• **Wir haben die Qualität unseres Kreditportfolios weiter verbessert.**

Die Quote der Problemkredite (NPL/non performing loans) lag zum Jahresende 2018 beim niedrigen Wert von 8,7% (gegenüber 12,9% im Vorjahr). Damit liegt der Wert noch unter jenem vor der Übernahme der Banca Popolare di Marostica (2014: 9,1%). Wir werden die Quote der Problemkredite im laufenden Geschäftsjahr weiter reduzieren.

Der Verwaltungsrat ist mit dem Ergebnis des Geschäftsjahres 2018 sehr zufrieden. Es ist uns gelungen, alle wichtigen Ziele zu erreichen.

Das Jahresergebnis ist auch eine sehr erfreuliche Botschaft für Sie, die Aktionäre der Bank. Nur eine Bank, die Gewinne schreibt, ist auch in der Lage, Dividenden auszuschütten. **Der Verwaltungsrat wird der Hauptversammlung vorschlagen, eine Dividende in der Höhe von 0,27 Euro/Aktie auszuzahlen.** Dies entspricht einer Ausschüttungsquote von 40% des Reingewinns.

Gemeinsam mit Management und Mitarbeitern freuen wir uns über das Ergebnis 2018 – es spornt uns an, unsere Ergebnisse auch in Zukunft weiter zu verbessern. Wir sind auf dem richtigen Weg.

Für das laufende Geschäftsjahr peilen wir einen Reingewinn von über 40 Mio. Euro an – und wir werden intensiv an der Umsetzung unseres ambitionierten Strategieplans 2019-2021 arbeiten. Der Strategieplan setzt weiterhin auf das Geschäftsmodell einer tief verankerten Regionalbank im Nordosten Italiens. Die Strategie basiert auf weiterem Wachstum auf Basis der erfolgreichen Arbeit der vergangenen Jahre, wo die Bank im Zuge von Filialeröffnungen in Nordost-Italien und der gelungenen Integration der Banca Popolare di Marostica ihren Aktionsradius und ihre Größe ausgebaut hat. Das Potenzial liegt darin, im bestehenden Einzugsgebiet durch solides und gesundes Wachstum weitere Marktanteile dazu zu gewinnen. In diesem Szenario stellt die Volksbank ihre Stand alone-Fähigkeit unter Beweis, schließt aber das Nachdenken über Alternativen nicht aus, wenn sie für Aktionäre und das Einzugsgebiet der Volksbank von Vorteil sind.

Angesichts der soliden Ergebnisse 2018 ist es bedauerlich, dass der Aktienkurs die gute Entwicklung der Bank nicht widerspiegelt. Der Handel auf Hi-MTF ist sehr verhalten. Wir verstehen die Enttäuschung vieler Aktionäre, die sich eine bessere Liquiditätssituation erwarten. Wie Sie wissen, nehmen Verwaltungsrat und Management keinen Einfluss auf die Preisbildung auf Hi-MTF – der Preis bildet sich durch Angebot und Nachfrage. Damit der Preis ansteigt, braucht es eine höhere Nachfrage, d.h. Käufe auf der Plattform. Höhere Nachfrage entsteht dann, wenn die Bank durch ihre guten Ergebnisse das Interesse der Anleger weckt. Verwaltungsrat, Management und unsere Mitarbeiter arbeiten weiterhin mit vollem Einsatz daran.

Mit freundlichen Grüßen,

Otmar Michaeler
Präsident des Verwaltungsrates
Südtiroler Volksbank AG

OUR PER-
FORMANCE
IN 2018

Volksbank ended 2018 with an excellent balance sheet result. Especially positive: the sharp growth in the core business – across the board throughout the entire catchment area. Net income was €34.3 million. For shareholders, the good result is reflected in a dividend of 27 cent per share.

"With our 2018 earnings, not only have we fulfilled our commitments, we have reconfirmed the effectiveness of our business model. We significantly increased both the margins and volumes of our core business, laying a solid foundation for the implementation of the 2019-2021 business plan".

Otmar Michaeler

Dear Shareholders

Volksbank's 2018 financial year can be summarised as follows: we have undergone significant growth – particularly in our core business. We ended 2018 with a net profit of €34.3 million (up 41%) – an ambitious target that we set ourselves last year and have managed to achieve. **Volksbank can confirm excellent levels of profitability, consolidating its position as the regional bank of reference in the North-East.**

I would like to point out the following significant results in the 2018 financial statement:

- **The core business is growing.**

For the first time, total balance sheet assets exceeded €10 billion due to growth in the core business, which saw market shares increasing in the catchment area – both in terms of deposits and loans to businesses and households. The home market of South Tyrol as well as the other provinces (Belluno, Padua, Pordenone, Trento, Treviso, Venice and Vicenza) contributed to this growth.

• **Increased core profitability.**
We achieved profitability growth in line with our objectives: ROTE (return on tangible equity) stood at 4.9% (2017: 3.2%), supported by growth in performing loans to customers (€6.8 billion/+9.0%) and direct deposits (€7.7 billion/+4.5%), which had a positive impact on net interest income (€165.4 million/+8.9%) and net commission income (€89.1 million/+1.0%). Our efforts will focus on further increasing our Bank's profitability.

• **Excellent credit portfolio quality.**
The share of non-performing loans (NPL) of total gross receivables amounted to 8.7%, down from 12.9% at the end of 2017. This value is in line with the 2014 figure of 9.1%, immediately before the merger of the Banca Popolare di Marostica Group. We intend to further reduce the proportion on non-performing loans in the current year.

The Board of Directors is very satisfied with 2018 results. We have achieved all our main objectives.

The operating result for the year is a very positive sign for shareholders, i.e. the Bank's owners. Only a profit-making bank can distribute dividends. **The Board of Directors will propose to the Shareholders' Meeting the distribution of a dividend of €0.27 per share**, amounting to 40% of the distributable profit.

Management and staff are satisfied with the 2018 result. It spurs all of us on to continue to improve in the future.

We're on the right track. **For the current year, our aim is to achieve a net profit of over €40 million, and we'll work to achieve our 2019-2021 business plan objectives**, with continuing focus on the business model of a regional bank deeply rooted in the North East which foresees further growth based on what has been achieved in previous years, when the Bank extended its scope and its size through the opening of branches in the North-East and the incorporation of Banca Popolare di Marostica. We see further potential for development through solid and sustainable growth. Volksbank is consolidating its ability to stand alone, but does not rule out considering alternative options, provided that they can be beneficial to shareholders and the local community.

It is unfortunate that despite strong 2018 results, the share price does not reflect the Bank's strong performance. Trading volumes on Hi-MTF are very low. We understand the disappointment of many shareholders who expect greater liquidity. As you all know, the Board of Directors and management have no influence on the Hi-MTF market price, which is the result of supply and demand. In order for the price to recover, demand must increase, i.e. the number of purchase orders on the platform must increase. To this end, we believe that the Bank's results will boost investor confidence and interest. The Board of Directors, management and all employees will continue to work hard to achieve this goal.

Kind regards,

Otmar Michaeler
Chairman of the Board of Directors
Banca Popolare dell'Alto Adige Spa

ANNUAL FINANCIAL REPORT 2018 FINANCIAL YEAR

SUMMARY

VOLKSBANK
THE TERRITORIAL NETWORK

Banca Popolare dell'Alto Adige
A Public Limited Company
Listed in the Bolzano Companies Register at No. 00129730214
A Member of the Interbank Deposit Protection Fund
ABI 05856.0

HEAD OFFICE

Via del Macello No. 55 – Bolzano
Schlachthofstraße 55
Tel. + 39 0471 – 996111 – Telefax 0471 – 979188

www.bancapopolare.it
www.volksbank.it
gsinfo@volksbank.it

BRANCHES

BOLZANO PROVINCE

Appiano – Eppan Via J. G. Plazer 56 - J.-G.-Plazer-Straße 56	Tel. 0471-944270
Bolzano – Bozen Telser Gallery 1 - Telsergalerie 1	Tel. 0471-944190
Bolzano – Bozen Piazza Mazzini 2 - Mazziniplatz 2	Tel. 0471-944020
Bolzano – Bozen Via C. Augusta 5 - C.-Augusta-Straße 5	Tel. 0471-944250
Bolzano – Bozen Via del Macello 55 Schlachthofstraße 55	Tel. 0471-944310
Bolzano – Bozen Via del Ronco 15 Neubruchweg 15	Tel. 0471-944260
Bolzano – Bozen Via Galvani 3/f - Galvanistraße 3/f	Tel. 0471-944320
Bolzano – Bozen Via Leonardo da Vinci 2 Leonardo-da-Vinci-Straße 2	Tel. 0471-996151
Bolzano – Bozen Via Resia 132/b Reschenstraße 132/b	Tel. 0471-944290
Bolzano – Bozen Via Roma 45 - Romstraße 45	Tel. 0471-944200
Bolzano – Bozen Viale Druso 64 - Drususallee 64	Tel. 0471-944340
Bolzano – Bozen Vicolo Gumer 7 (sportello economale) GNumgasse 7 (Schatzamtsschalter)	Tel. 0471 996123
Bressanone – Brixen Major Portics 2 Große Lauben 2	Tel. 0472-811213
Bressanone – Brixen Via J. Durst 28 J.-Durst-Straße 28	Tel. 0472-811600
Bressanone – Brixen Via Plose 38/b Plosestraße 38/b	Tel. 0472-811560
Bruno – Bruneck Bastos 24 - Graben 24	Tel. 0474-544700
Bruno – Bruneck Via S.Nicolò 14 St.-Nikolaus-Straße 14	Tel. 0474-544790
Bruno – Bruneck Via Valle Aurine 30 – Ahrntalerstraße 30	Tel. 0474-544760
Cadistone – Steinhaus Cadistone 105 Steinhaus 105	Tel. 0474-544800
Caldaro – Kaltern Piazza Principale 13 Marktplatz 13	Tel. 0471-944220
Caldaro – Kaltern Via Stazione 10 Bahnhofstraße 10	Tel. 0471-944235
Campo Tures - Sand in Taufers Via Municipio 4 Rathausstraße 4	Tel. 0474-544740
Chienes – Kiens Via Chienes 1 - Kiener Dorfweg 1	Tel. 0474-544730
Chiusa – Klausen Piazza Tinne 5 - Tinneplatz 5	Tel. 0472-811540
Dobbiaco – Toblach Viale S. Giovanni 23 St.-Johannes-Straße 23	Tel. 0474-54770
Egna – Neumarkt Largo Municipio 32 Rathausring 32	Tel. 0471-944280
Sciliar Fiè - Völs am Schlern Via Bolzano 3 Bozner Straße 3	Tel. 0471-944080
La Villa – Stern Via Colz 56 - Colz Straße 56	Tel. 0471-944010
Laces – Latsch Via Stazione 1/b Bahnhofstraße 1/b	Tel. 0473-254440
Laives – Leifers Via Kennedy 123 Kennedystraße 123	Tel. 0471-944240
Lana Piazza Tribus 17 - Tribusplatz 17	Tel. 0473-254350
Lasa – Laas Via Venosta 44 - Vinschgaustraße 44	Tel. 0473-254310
Lazfons – Latzfons San Giacomo 3 - St. Jakob 3	Tel. 0472-811620
Luson – Lüsen Vicolo Dorf 19 - Dorfgasse 19	Tel. 0472-811590
Malles Venosta – Mals Via Stazione 9/b Bahnhofstraße 9/b	Tel. 0473-254400
Merano – Meran Piazza del Grano 3 - Kornplatz 3	Tel. 0473-254111
Merano – Meran Via Goethe 74/a Goethestraße 74/a	Tel. 0473-254300
Merano – Meran Via Matteotti 43 Matteottistraße 43	Tel. 0473-254330
Merano – Meran Via Monte Tessa 34 Texelstraße 34	Tel. 0473-254390
Merano – Meran Via Roma 278 Romstraße 278	Tel. 0473-254420
Monguelfo – Welsberg Via Parrocchia 13 Pfarrgasse 13	Tel. 0474-544750
Naturno – Naturns Via Principal 37/b Hauptstraße 37/b	Tel. 0473-254370
Nova Levante – Welschnofen Via Roma 8 Romstraße 8	Tel. 0471-944090
Now – Auer Via Stazione 8 - Bahnhofstraße 8	Tel. 0471-944040
Ortisei - St. Ulrich Piazza S. Durich 3 - S Durich-Platz 3	Tel. 0471-944330
Racines – Ratschings Tiles 18 Stange 18	Tel. 0472-811610
Renon – Ritten Via del Country 14, Frazione Collalbo Dorfstraße 14, Fraktion Klobenstein	Tel. 0471-944370
Rio de Pusteria – Mühlbach Via K. Lanz 50 K.-Lanz-Straße 50	Tel. 0472-811520
S. Leonardo in Passiria - St. Leonhard in Passeier Via Passiria 14 - Passeirer Straße 14	Tel. 0473-254380
S. Lorenzo di Sebato - St. Lorenzen Via Josef Renzler 17 - Josef-Renzler-Straße 17	Tel. 0474-544780
Scene – Schenna Piazza Arciduca Giovanni 7 Erzh.-Johann-Platz 7	Tel. 0473-254430
Selva Gardena – Wolkenstein Via Meisules 155/a Meisulesstraße 155/a	Tel. 0471-944000
Silandro – Schlanders Via Covelano 10 Göflaner Straße 10	Tel. 0473-254410
Siusi – Seis Via Sciliar 16 - Schlernstraße 16	Tel. 0471-944300

PROVINCE OF BOLZANO

Vandoies – Vintl Via J. A. Zoller 8 J.-A.-Zoller-Straße 8	Tel. 0472-811640
Varna – Vahrn Via Brennero 101 Brennerstraße 101	Tel. 0472-811650
Velrotation – Feldthurns Country 12 - Dorf 12	Tel. 0472-811580
Vipiteno – Sterzing Via Città Nuova 22/a Neustadt 22/a	Tel. 0472-811500

PROVINCE OF BELLUNO

Auronzo di Cadore Via Corte 33	Tel. 0435-505650
Belluno Via Caffi 15	Tel. 0437-356700
Cencenighe Agordino Via XX Settembre 107	Tel. 0437-356640
Cortina d' Ampezzo Largo dei Poste 49	Tel. 0436-863500
Domegge di Cadore Via Roma 48	Tel. 0435-505620
Dosoledo Piazza Tiziano 2	Tel. 0435-505670
Feltre Via Monte Grappa 28	Tel. 0439-842600
Forno di Zoldo Via Roma 70/b	Tel. 0437-356620
Limana Via Roma 116/118	Tel. 0437-356690
Longarone Via Roma 89	Tel. 0437-356720
Mel Via Tempietto 33/a	Tel. 0437-356660
Padola Piazza San Luca 22	Tel. 0435-505690
Ponte nelle Alpi Viale Roma 87	Tel. 0437-356630
S. Pietro di Cadore Via P.F. Calve 16	Tel. 0435-505680
S. Stefano di Cadore Via Venezia 30	Tel. 0435-505630
Santa Giustina Via Feltre 17	Tel. 0437-35680
Sedico Via Cordebili 2/b	Tel. 0437-356650
Tai di Cadore Via Ferdinando Coletti 15	Tel. 0435-505600
Valle di Cadore Via XX Settembre 76	Tel. 0435-505660

PROVINCE OF PADUA

Carmignano di Brenta Via Marconi 36	Tel. 049-6950010
Cittadella Via Riva Pasubio 5	Tel. 049-6950040
Padua Corso Milano 99	Tel. 049-6950020
Piazzola sul Brenta Via dei Contarini 36	Tel. 049-6950050
Sarmeola di Rubano Via della Provvidenza 7/a	Tel. 049-6950060
Tombolo Via Vittorio Veneto 1	Tel. 049-6950000

PROVINCE OF PORDENONE

Cordenons Via Sclavons 77	Tel. 0434-786540
Pordenone Via Galvani 8	Tel. 0434-786520
Sacile Via Martiri Sfriso 9	Tel. 0434-786500

PROVINCE OF TRENTO

Ala Via della Roggia 10	Tel. 0464-912520
Arco Via S. Caterina 20	Tel. 0464-912510
Borgo Valsugana Via Hippoliti 11/13	Tel. 0461-211060
Cavalese Viale Libertà 7	Tel. 0462-248500
Cles Piazza Navarrino 16/17	Tel. 0463-840510
Fondo Via Cesare Battisti 39	Tel. 0463-840500
Lavis Via Rosmini 65	Tel. 0461-211070
Mezzolombardo Via A. Degasperi 4	Tel. 0461-211030
Moena Piaz de Ramon 24	Tel. 0462-248510
Mori Via della Terra Nera 48/d	Tel. 0464-912500
Pergine Viale Venezia 44	Tel. 0461-211050
Riva del Garda Viale Damiano Chiesa 4/g-h	Tel. 0464-912560
Rovereto Via G. M. Della Croce 2	Tel. 0464-912530
Tione Via Circonvallation 56	Tel. 0465-338500
Trento Piazza Lodron 31	Tel. 0461-211000
Trento Via Brennero 302/a	Tel. 0461-211080
Trento Via Enrico Fermi 11	Tel. 0461-211090

PROVINCE OF TREVISO

Casale Sul Sile Via G. Marconi 3	Tel. 0422-508170
Castelfranco Veneto Borgo Treviso 62	Tel. 0423-974610
Conegliano Via Cavour 11	Tel. 0438-907770
Conegliano Via Cesare Battisti 5	Tel. 0438-907740
Crocetta del Montello Via Andrea Erizzo 64	Tel. 0423-974620
Loria - **Ramon di Loria** Via Poggiana 4	Tel. 0423-974670
Mogliano Veneto Via degli Alpini 16/g/f/e	Tel. 041-546660
Montebelluna Via Montegrappa 24/c	Tel. 0423-974660
Motta Di Livenza - Via P. L. Bello/Ang. Via Cigana 1	Tel. 0422-508180
Oderzo Via degli Alpini 24/26	Tel. 0422-508100
Paese Via Cesare Battisti 3	Tel. 0422-508140
Pieve di Soligo Via Nubie 3/d	Tel. 0438-907700
Preganziol Piazza Gabbin 16	Tel. 0422-508120
Quinto Di Treviso Via Vittorio Emanuele 11	Tel. 0422-508190
Spresiano Piazza Luciano Rigo 49	Tel. 0422-508130
Treviso Viale Brigata Treviso 1	Tel. 0422-508210
Treviso Via San Vito 12	Tel. 0422-508150
Treviso Viale IV November 13/a	Tel. 0422-508110
Treviso Viale Montegrappa 46	Tel. 0422-508201
Valdobbiadene Foro Boario 21-23-13	Tel. 0423-974600
Vittorio Veneto Galleria Tintoretto 3	Tel. 0438-907710

PROVINCE OF VENICE

Venezia Campo SS Apostoli Sestriere Cannaregio 4547/4552	Tel. 041-5446810
Fossò Via Roncaglia 1	Tel. 041-546690
Marcon Viale della Repubblica 2	Tel. 041-5446680
Martellago Via Friuli 28	Tel. 041-5446780
Mira Via Venezia, 120	Tel. 041-5446730
Mirano Via Cavin di Sala 39	Tel. 041-546710
Noale Via Tempesta 31	Tel. 041-546630
Portogruaro Via S. Agnese 28	Tel. 0421-480810
San Donà di Piave Via Vizzotto 98/100	Tel. 0421-480800
Spinea Piazza Marconi 17	Tel. 041-5446670
Venezia Mestre Piazza Mercato 51 - Fraz. Marghera	Tel. 041-5446800
Venezia Mestre Via Miranese 256/h - Fraz. Chirignago	Tel. 041-546600
Mestre, Venice Via Torre Belfredo 23 - Villa Toesca	Tel. 041-5446750
Venezia-Jesolo Lido – Via Firenze 6,	Tel. 0421-480820

PROVINCE OF VICENZA

Asiago Piazza Carli 42	Tel. 0424-596090
Bassano Del Grappa Piazza Garibaldi 8	Tel. 0424-596100
Bassano Del Grappa Piazzale Firenze 2	Tel. 0424-596060
Bassano Del Grappa Villaggio S. Eusebio 94/a	Tel. 0424-596080
Belvedere di Tezze sul Brenta Via Nazionale 47	Tel. 0424-596020
Breganze Piazza Mazzini 2	Tel. 0445-617050
Bressanvido Via Roma 94	Tel. 0444-577000
Calvene Via Roma 22	Tel. 0445-617030
Camisano Vicentino Piazza Pio X 2	Tel. 0444-577010
Cassola Via Martiri del Grappa 3	Tel. 0424-596040
Cassola Via Pio X/Angolo G. D'Arezzo – Loc. S. Giuseppe	Tel. 0424-596240
Conco Piazza San Marco 20	Tel. 0424-596170
Dueville Piazza Monza 30/31	Tel. 0444-577020
Malo Via Vicenza 97 – Loc. San Tomio	Tel. 0445-617070
Marostica Via Mazzini 84	Tel. 0424-596200
Mason Vicentino Via Marconi 85	Tel. 0424-596000

PROVINCE OF VICENZA	
Monticello Vigardolo Via Spine 3B	Tel. 0444-577090
Mussolente Via Vittoria 47	Tel. 0424-596050
Nove Via Molini 2	Tel. 0424-596110
Romano D'Ezzelino Via Roma 62	Tel. 0424-596140
Rosa' Via Dei Tigli 7	Tel. 0424-596150
Sandrigo Via Roma 34	Tel. 0444-577040
Sarcedo Via Schio 34	Tel. 0445-617010
Schiavon Via Roma 120	Tel. 0444-577050
Schio Via Cementi 8	Tel. 0445-617090
Tezze sul Brenta Via Risoramento 23	Tel. 0424-596180
Thiene Viale Bassani 26/28	Tel. 0445-617110
Vicenza Laghetto Via dei Laghi 135	Tel. 0444-577060
Vicenza Porta Castello Viale Roma 10	Tel. 0444-577070
Villaverla Via S. Antonio, 43	Tel. 0445-617130
Zane' Via Trieste 110	Tel. 0445-617140
Asiago Piazza Carli 42	Tel. 0424-596090

CORPORATE POSITIONS AND AUDITING FIRMS

BOARD OF DIRECTORS

Chairman
Otmar MICHAELER

Deputy Chairmen
Maria Giovanna CABION
Lorenzo SALVÀ (**)

Directors
† Marcello ALBERTI (**) (until 30 April 2018)
Lorenzo BERTACCO (*) (***)
David COVI (*) (***)
Philip FROSCHMAYR
Lukas LADURNER (**)
Alessandro MARZOLA (***)
Giuseppe PADOVAN (**)
Margit TAUBER (*) (***)
Gregor WIERER (***)

HEAD OFFICE

General Manager
Johannes SCHNEEBACHER

Deputy General Manager
Stefan SCHMIDHAMMER

FINANCIAL REPORTING OFFICER

Alberto CALTRONI

AUDITING FIRM

BDO Italia S.p.A.

BOARD OF STATUTORY AUDITORS

Chairman
Heinz Peter HAGER

Statutory auditors
Georg HESSE
Joachim KNOLL

Alternate auditors
Emilio LORENZON
Markus WISTHALER

(*) Members of the Independent Directors Committee
(**) Members of the Credit Committee
(***) Members of the Risk Committee

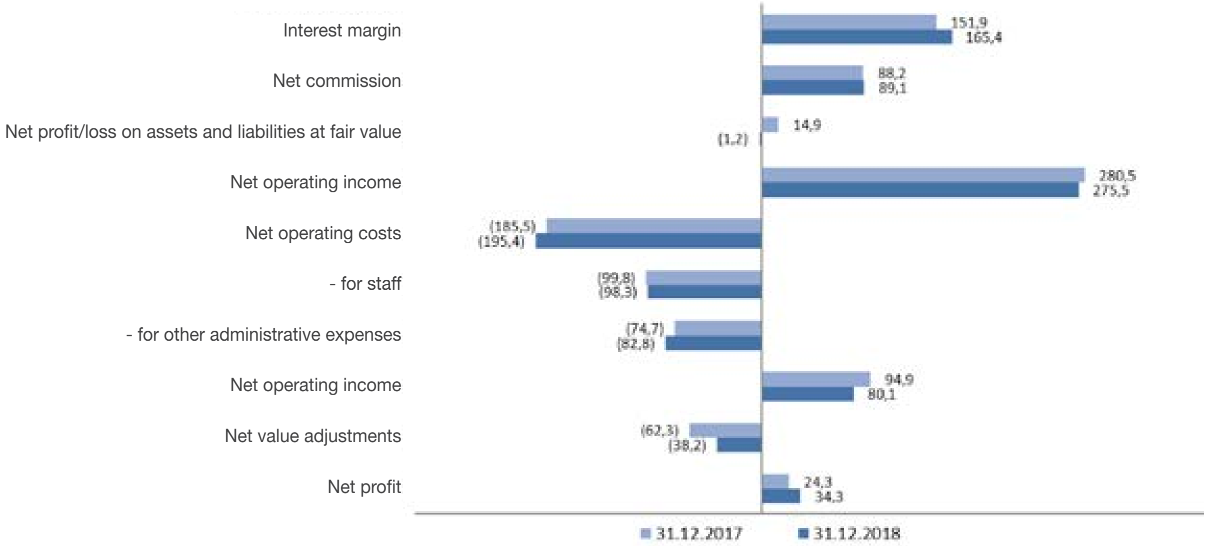
COMPANY REPORTS AND FINANCIAL STATEMENTS

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

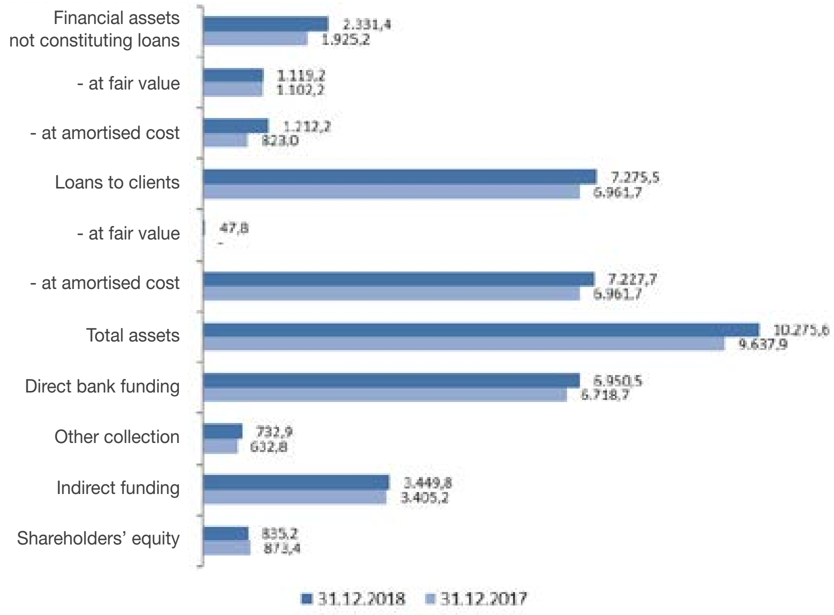
The following table shows a summary of the Bank's key figures and indicators, calculated on the basis of the financial statements.

Key economic data



Profit and loss figures	**31.12.2018**	**31.12.2017**	**Changes**	
(€ million)			**Ass.**	**%**
Interest margin	165.4	151.9	13.5	8.9%
Net commission	89.1	88.2	0.9	1.0%
Net result of assets and liabilities at *fair value*	(1.2)	14.9	(16.1)	-108.3%
Net operating income	275.5	280.5	(5.0)	-1.8%
Net operating costs	(195.4)	(185.5)	(9.8)	5.3%
- for staff	(98.3)	(99.8)	1.4	-1.4%
- for other administrative expenses	(82.8)	(74.7)	(8.1)	10.9%
Net operating income	80.1	94.9	(14.8)	-15.6%
Net value adjustments	(38.2)	(62.3)	24.1	-38.7%
Net profit	34.3	24.3	10.0	41.1%

Key balance sheet data



Balance sheet data	31.12.2018	31.12.2017	Changes	
(€ million)			**Ass.**	**%**
Financial assets not constituting loans	2,331.4	1,925.2	406.3	21.1%
- at fair value	1,119.2	1,102.2	17.0	1.5%
- at amortised cost	1,212.2	823.0	389.3	47.3%
Loans to clients	7,275.5	6,961.7	313.8	4.5%
- at fair value	47.8	-	47.8	n.a.
- at amortised cost	7,227.7	6,961.7	265.9	3.8%
Total assets	10,275.6	9,637.9	637.6	6.6%
Direct bank funding	6,950.5	6,718.7	231.9	3.5%
Other collection	732.9	632.8	100.1	15.8%
Indirect funding	3,449.8	3,405.2	44.6	1.3%
Shareholders' equity	835.2	873.4	(38.2)	-4.4%

Main indicators

Economic, financial indicators and other information	31.12.2018	31.12.2017
Financial indicators		
Structural indicators		
Financial assets / total assets	93.5%	93.3%
Gross loans to clients / Direct funding from clients (retail)	110.1%	110.5%
Fixed assets / total assets	2.5%	2.7%
Total risk-weighted assets (RWA) / Total assets	63.0%	62.6%
Goodwill / Total assets	1.0%	1.0%
Number of employees	1,327	1,366
Number of branches	170	176
Profitability indicators		
ROE (net profit/shareholders' equity)	4.2%	2.8%
ROTE (net profit/tangible equity)	4.9%	3.2%
ROA (net profit/total assets)	0.4%	0.3%
Cost to income ratio	66.4%	65.6%
Basic EPS (earnings per share)	0.70	0.49
Diluted EPS (earnings per share)	0.70	0.49
Risk ratios		
Net non-performing loans / net loans to clients	5.1%	7.8%
Gross non-performing loans / gross loans to clients	8.7%	12.9%
Texas ratio (Net non-performing loans/tangible equity)	51.8%	71.9%
% coverage of bad debts	55.5%	53.7%
% coverage of non-performing loans	44.0%	43.5%
% coverage of performing loans	0.9%	0.8%
Supervisory capital (€ thousands) and capital ratios		
Class 1 Primary Capital (CET 1)	727,860	715,365
Total own funds	857,860	821,514
Total risk-weighted assets (RWA)	6,471,938	6,032,971
CET 1 Ratio - Primary Tier 1 capital (transitional)	11.2%	11.9%
Total Capital Ratio - Total own funds (transitional)	13.3%	13.6%
CET 1 Ratio - Primary Tier 1 capital (fully phased)	10.4%	11.8%
Total Capital Ratio - Total own funds (fully phased)	12.4%	13.5%
Non-Financial Indicators		
Productivity Indices (in Euro)		
Direct Collection per Employee	5,790,067	5,381,733
Loans to clients per employee	5,482,643	5,096,422
Assets under custody - third-party products, per employee	1,754,194	1,620,554
Assets under custody - third party securities and own shares issued, per employee	845,524	872,262
Intermediation margin per employee	193,829	188,625

REPORT ON OPERATIONS

REPORT ON OPERATIONS

1.1 ECONOMIC ENVIRONMENT AND MARKETS ([1])

1.1.1 THE INTERNATIONAL AND NATIONAL ECONOMIC ENVIRONMENT

International economy

After a strong start, in late 2017 and January 2018, the markets fell dramatically, first in the period up to April, then in the period from October to December. Uncertainty has been a feature of emerging markets, with crises in Venezuela, Argentina and Turkey. In addition to the long gestation of the UK's exit from the European Union, 2018 was characterised by strong oil price growth, followed by a sharp decline in October, in addition to the uncertainties arising from the protectionist measures implemented by the Trump administration, which initially targeted steel and aluminium, then the European Union and NAFTA, and finally mainly China. The numerous and significant geopolitical events, such as the wars and uprisings in the Middle East, the continued migratory pressure in Europe and the United States, the emergence of populist movements in Italy and the ensuing uncertainties related to the process of approving the European Commission budget, contributed to the uncertainty on financial markets.
The slowdown in the international economy in the third quarter of 2018 continued in the latter part of the year. The industrial sector experienced a widespread slowdown which coincided with a further loss of momentum in international demand. Towards the end of the year, world trade in goods by volume fell by 1.6%, against the trend of the previous month.
International trade returned to 2016 levels, down from 2017. The latest indications from the Global PMI for new export orders tend to confirm the current trend. Towards the end of the year, the world economy saw a worsening of financial market conditions, which was compounded by economic and political instability in both developed and emerging countries.
China's economic performance continues to affect global growth prospects. In the fourth quarter, China's real GDP slowed slightly, partly as a result of the uncertainties associated with the new protectionist policies in the United States. In the United States, the six-month outlook showed a deterioration, which intensified at the beginning of 2019 with the shutdown, an event which, as noted by the Conference Board, weighed on consumer confidence, driving confidence down to its lowest since July 2017. The US Federal Reserve left the Fed Fund benchmark rate unchanged at 2.25-2.5%, indicating that the next rises will depend on economic developments.
The Euro/dollar exchange rate strengthened in the final months of the year, a trend that continued in early 2019. Brent prices rose again towards the end of 2018. Expected oil prices will be conditioned by the outcome of China-US trade agreements and the evolution of Chinese economic data.

The Eurozone and Italy

The Eurozone economy grew rapidly in 2017, but with weak wage growth. The economy slowed in 2018, but with wages rising.
The slowdown in the third quarter of 2018 reflects one-off factors, which led to a slowdown in the German economy. Growth slowed in the first half of 2018 to 0.4% quarter on quarter, which is well below potential. In the third quarter, the German economy contracted, while the Eurozone as a whole grew by just 0.2%.
In the second half of the year, the Eurozone GDP grew by +0.9% quarter on quarter in quarterly annualised terms. Within the Area, Germany recorded an annualised quarterly change of +0.1%, while France grew by +1.1%.
In real terms, Eurozone GDP grew by +0.2%, which is stable compared to the summer months. The aggregate trend reflects the contraction in Italy (-0.2%) and positive trends in France (+0.3%) and Spain (+0.7%).
Overall, the Eurozone was affected by the deterioration in the international economic environment and above all by the slowdown in investment. This slowdown particularly penalised the German economy, which is highly dependent on global demand for capital goods. At its January 2019 meeting, the ECB's Governing Council revised the risks

([1]) Volksbank Processing on ABI, International Monetary Fund, World Economic Forum, European Central Bank, Bank of Italy, ISTAT and chamber of commerce data, newsletters and economic newspapers.

for the area from "balanced" to "downwards" due to the more uncertain scenario arising from the no-deal risk for Brexit and specific country factors such as the drop in car production in Germany as a result of the entry into force of new EU legislation. However, the ECB assessed the risk of recession as low, as financial conditions remain broadly accommodative and the labour market continues to improve, with implications for labour costs and inflation.. The slowdown in the Eurozone economy was confirmed by the revision of the 2019 growth forecasts recently published by the European Commission to +1.3% from the previous +1.9%.

In January 2019, the available leading indicators confirmed that the current weak phase is continuing. The €-coin indicator fell for the third consecutive month, affected by the ongoing decline in business and household confidence and the further weakening of the industrial cycle. The European Commission's Economic Sentiment Indicator (ESI) also fell further (down 1.2 points from the previous month), its lowest level since late 2016. The deterioration in confidence appears to be broad-based across sectors, with the exception of construction. In national terms, the ESI grew only in France, while it fell in Germany and Italy and remained broadly stable in Spain.

According to a preliminary estimate, in the fourth quarter Italian GDP, expressed in chain-linked values with 2010 as the reference year and adjusted for seasonal and calendar effects, confirmed the negative trend that emerged in the previous quarter (-0.2% and -0.1%, respectively). In particular, the national component (gross of stocks) made a negative contribution, while the foreign net component made a positive contribution.

On the supply side, the preliminary estimate shows that the value added of the services sector is stable, while the value added of industry is decreasing.. Industrial production data shows an increase in the downward trend in the pace of activity that began in early 2018. This contraction appears to be broad-based across sectors, with the exception of durable consumer durables. However, the yearly average of overall production showed a positive trend (+0.8% compared to 2017). The data on industrial orders was also negative, with a decrease in the September-November quarter for both domestic and foreign markets (-1.3% and -1.0% respectively). In December, the Italian labour market confirmed a stable situation in terms of employment, with a slight improvement in unemployment. The number of job seekers fell (down 44 thousand compared to the previous month), causing the unemployment rate to fall (10.3%, down 0.2 percentage points from the previous month). However, unemployment rose in the fourth quarter (up 64,000 on the previous quarter). The unemployment rate remains among the highest in the Eurozone (with Spain and Greece), for both the population as a whole and for the under 35 age group. Italian inflation remains below that of the Eurozone: the differential widened to half a percentage point for the index as a whole and was slightly wider for the core measurement. Among the main groupings, price dynamics in Italy are higher only for energy. However, the gap was reduced to 0.7 percentage points (compared to 1.1 points more in December).

Monetary Policy

At its meeting on 24 January 2019, the Governing Council of the European Central Bank left policy rates unchanged: the refinancing rate at zero, the lending rate at -0.40% and the marginal lending facility at 0.25%. The Governing Council expects the key ECB interest rates to remain at their current levels until at least summer 2019 and in any case as long as it is necessary to ensure that inflation continues to converge steadily to levels below but close to 2% over the medium term. As regards non-standard monetary policy measures, the Governing Council intends to continue to fully reinvest the principal repaid on maturing securities for an extended period of time after the date on which it starts to raise the key interest rates, and in any case as long as it is necessary to maintain favourable liquidity conditions and a broad degree of monetary accommodation.

With regard to extraordinary measures, the Governing Council of the ECB has indicated that it intends to continue reinvesting the main payments of maturing securities purchased as part of the asset purchase programme (APP) for a long period of time after the end of the net asset purchases and, in any case, for the time necessary to maintain favourable liquidity conditions and a large degree of monetary accommodation.

1.1.2 FINANCIAL MARKETS

The average three-month Euribor rate stood at -0.31% in December 2018.

The the Eurozone monetary conditions index, which jointly considers the evolution of real interbank interest rates and real exchange rates revealed a lower easing of overall monetary conditions in November, mainly due to the interest rate. Bonds by issuer category showed the following dynamics in Italy in November 2018:

- for government bonds, gross issues amounted to €29.9 billion (€38.7 billion in the same month of the previous year), while net issues amounted to 7.2 billion (-14.2 billion in the same month of the previous year);
- with reference to corporate bonds, gross issues totalled €8.5 billion (€17 billion in the same month of the previous year), while net issues totalled 2.4 billion (+11.3 billion in the same month of the previous year).

In December 2018, the Dow Jones Euro Stoxx (the index of the 100 main Eurozone securities by capitalisation) fell by 11.9% year-on-year, the Nikkei 225 fell by 8% and the Standard & Poor's 500 fell by 3.8% year-on-year. The price/earning figure for the Dow Jones Euro Stoxx in the same month averaged 13.5.
The main European stock market indices declined almost across the board in December: the Cac40 (French index) fell by 11% year-on-year, the London Ftse100 by 9.5%, the Dax30 (German index) by 17.5%, the FTSE MIB fell by 16.1%. The main New Economy markets also fell, albeit in a less marked manner. TecDax (German Tech Index) fell 1% YoY, CAC Tech (French Technology Index) fell 10.1% YoY, and the Nasdaq fell 1.3%.
The major international banking indices saw sharp reductions. The S&P 500 Banks fell 15.7% year-on-year, the Dow Jones Euro Stoxx Banks fell 32.1% and the FTSE Banks fell 30.3%.
In December 2018, the capitalisation of the Eurozone equity market fell by 4.8%compared to the previous month and 12.8% year-on-year. In absolute terms, total capitalisation stood at €6,068 billion, compared to €6,376 billion in November 2018.
Within the Eurozone, Italy's capitalisation was 8.9% of the total, France's 32.5% and Germany's 26.4% (at the end of 2007 the figures were 12%, 22.4% and 28.9%, respectively).
In December, with a specific reference to Italy, the total capitalisation of the equity market was €542 billion, down by €13 billion from the previous month and €87 billion compared to the previous year.
In December 2018, the capitalization of the banking sector fell to 82 billion (down 34.1 billion on an annual basis). In December 2018, the impact of the banking sector on total capitalisation was 17.6%.

1.2 THE BANKING SYSTEM ([2])

1.2.1 BANK FUNDING

According to initial estimates, in December 2018, customer deposits in all banks in Italy, consisting of deposits of resident customers and bonds, fell by 0.6% compared to a year earlier.
Bank funding from resident customers totalled €1,717.2 billion, of which €1,024.5 billion was deposits from customers and €524.5 billion was bonds.
A divergence between short and medium/long-term sources can be seen. Deposits from resident customers rose by 2.2% in December 2018, an increase of €31.9 billion in absolute terms on an annual basis.. Total deposits reached €1,483 billion in December 2018.
The annual variation in bonds was downward by 15.3%, a decrease of €42 billion in absolute terms on an annual basis. The total figure for bonds stood at approximately €234.6 billion.
Deposits from abroad increased in December 2018. In particular, deposits in Italian banks amounted to approximately €318.6 billion, 8.1% up on the previous year's figure. The proportion of deposits from abroad in total funding stood at 13.1%, compared with 12.4% 12 months before. The net flow of funds from abroad between December 2017 and December 2018 rose by approximately €23.8 billion.
In December 2018, net inflows from abroad amounted to approximately €97.9 billion, an upward trend of 10.4%.
The harmonised statistics from the European System of Central Banks show that the average rate of bank funding from customers was 0.66% in December 2018. The Euro deposit rate applied to households and non-financial companies was 0.38%, outstanding bonds 2.34% and repurchase agreements 1.00%.
On the secondary market for government securities, the Rendistato, i.e. the figure for the sample of securities with a residual maturity of more than one year traded on the Italian Stock Exchange (MOT), stood at 2.19% in December 2018, up by 1.05% on the figure for the previous year. Gross return on the CCT secondary market was 2.13% in November 2018 (0.17% in November 2017). The average BTP yield was 3.06% (1.65% in November 2017). Finally, the annualised gross annual return of the BOT increased between November 2017and November 2018 from -0.45% to +0.20%.

([2]) Source: ABI Monthly Outlook

1.2.2 LOANS

The dynamics of bank loans accelerated in December 2018. Based on initial estimates, total loans to Italian residents stood at €1,731.8 billion, up 1.6% year-on-year.

The annual variation in loans to private sector Italian residents is up by 2%. The aggregate amounted to €1,472.5 billion in December 2018.

Loans to households and non-financial companies stood at €1,329 billion in December 2018. Estimates based on data published by the Bank of Italy show that the annual variation in loans to households and businesses was a 2.2% increase.

According to official Bank of Italy data, lending to non-financial companies grew by 1.1% in November 2018. Total loans to households rose by 2.7%. The dynamics of loans to households remained solid, both in terms of mortgages for house purchase and consumer credit.

According to the results of the Bank of Italy's survey of the Italian housing market, in the third quarter of 2018 the share of operators reporting downward pressures on property prices continued to decline, while the share of those showing price stability increased. The incidence of agents reporting unchanged conditions of demand continued to grow, but at the expense of perceived improvement; the timescales of sales increased, while the average discount margin fell back to the average values of last year.

Both the portion of purchases financed by mortgage loans and the relationship between the loan and the value of the property are high: the loan-to-value ratio for property is 75%. Market operators' expectations for the real estate market have remained favourable on all horizons, with an improvement in the short-term horizon.

Analysis of the distribution of bank lending by sector of economic activity shows that in November 2018 manufacturing, mineral extraction and services accounted for approximately 56.3% of the total, whereas manufacturing activity alone accounted for 25.1%. Financing for trade and for the hotel and catering business accounted for about 21.8% of the total, the construction sector for 12.7% and agriculture represented 5.4%. The residual sectors represented approximately 3.9%.

The number of business bankruptcies has declined on an annual basis: data published by the Cerved rating agency shows that in the third quarter of 2018, the number of companies leaving the market as a result of bankruptcies and other insolvency proceedings fell, continuing a trend that has been evident since late 2014. The number of entrepreneurs going into voluntary liquidation also fell: this figure had been fluctuating in the first half of the year. According to Cerved's records, 2,170 companies went bankrupt in the third quarter of 2018, down significantly from the same period of 2017 (10.8%). As a result, the number of bankruptcies recorded in the first nine months of the year stood at 8,137, down by 6.9% compared with the 8,737 companies that ceased trading in the same period of 2017. This decline was across all sectors, but with differences between regions: between January and September, bankruptcies rose 8.5% year-on-year in Calabria, 3% in Sicily and 0.6% in Abruzzo.

According to the Bank Lending Survey of October 2018, the third quarter of 2018 saw a slight relaxation in the criteria for offering loans to businesses. The criteria for home loans to households remained unchanged. For both businesses and households, the margins applied to average loans continued continued to reduce, while margins for riskier loans increased slightly.

For the current quarter, intermediaries expect lending policies to remain roughly unchanged.

Business demand for financing continued to grow. Low interest rates, fixed investment spending, refinancing operations, restructuring or debt renegotiation contributed to the increase in loan applications. Household demand for loans increased modestly, reflecting the favourable outlook for the housing market. Intermediaries believe loan demand will continue to expand over the current quarter.

In particular, there has been an increase in the growth in demand for corporate financing linked to investment. The rise in demand for financing for mergers, incorporations and corporate restructuring operations amounted to 40% (compared to 0% in the second quarter of 2018). Demand for corporate financing for stocks and working capital (which rose by 40% in the previous quarter) fell by 20%, while the demand for financing for debt restructuring (which rose by 30% in the second quarter of 2018) rose by 20%.

SI-ABI reports show that in December 2018 the rate for loans in Euro to households for house purchases - which summarises the performance of fixed and variable rates and is also influenced by the change in loan composition according to the type of loan - stood at 1.94%. Three quarters of total new loan disbursements are fixed-rate loans: in the last month the share of the flow of fixed-rate loans was 75%. The average rate on new Euro loans to non-financial companies was 1.39%. Finally, the weighted average rate of total loans to households and non-financial companies stood at 2.55% in December 2018.

1.2.3 INTEREST RATE EVOLUTION

The spread between the average lending rate and the average borrowing rate to households and non-financial companies was 189 BPS in December 2018. On average, this differential amounted to 190 BPS (BPS was 202 in 2017).

The difference between the average rate on interest-bearing assets denominated in Euro vis-à-vis households and non-financial companies and the average rate in Euro on customer deposits represented by households and non-financial companies stood at 1.63 percentage points in December 2018. The average spread in 2018 was 1.54 percentage points (1.52 percentage points in 2017). The difference in December 2018 is the result of the 2.29% value of the average interest rate on interest-bearing assets with households and non-financial companies, and the 0.66%figure for of the average cost of funding from households and non-financial companies.

1.2.4 ASSETS UNDER ADMINISTRATION AND MANAGEMENT

Of the total securities held in custody by Italian banks - amounting to approximately €1,165.7 billion in December 2018 - approximately 23.7% is held directly by consumer households (a 5.2% decrease over the year), 22.2% by financial institutions (down 0.2%), 43.8% by insurance companies (up 2.5% over the year), 5.6% by non-financial companies (down 3.1%) and approximately 2.9% by public administrations and family businesses. Non-residents' securities represent approximately 1.8% of the total.

Bank asset management in the third quarter of 2018 amounted to approximately €122 billion, a year-on-year increase of 1,6% (down €1,8 billion Euro compared to the second quarter of 2018).

Overall, the individual portfolio management assets of banks, investment firms and UCITS management companies in Italy amounted to approximately €842,5 billion in September 2018, an annual increase of 0,4%. Assets administered by 'SIM' investment firms, amounting to approximately €12.5 billion, fell by 15% year-on-year, while those of 'SGR' asset management companies, amounting to €708 billion, recorded an annual increase of 0.5%. In December 2018, the assets of open-ended Italian and foreign funds decreased to around €950 billion.

25.2% of these assets are Italian funds and the remaining 74.8% are foreign funds.

In particular, compared to December 2017, equity funds fell by €12 billion, bond funds by €43 billion, balanced funds fell by €1 billion, flexible funds funds by €6 billion, hedge funds by €0.5 billion, while money market funds increased by €2 billion.

With particular regard to the composition of assets by fund type, it should be noted that in the last year, the share of balanced funds rose from 9.8% in December 2017 to 10.3% in December 2018, flexible funds rose from 23.8% to 24.7%, bond funds fell from 40.8% to 38.9%, money funds rose from 3.2% to 3.6%, and hedge funds remained unchanged at 0.4%. The share of equity funds rose from 21.9% to 22.1%.

Also in December 2018, net inflows from open-end funds was negative by €1.6 billion; the figure was negative by €3,4 billion in the previous month (positive by €71 million for the whole of 2018).

1.2.5 HOUSEHOLD FINANCIAL ASSETS

An analysis of the latest available data on household financial assets in Italy shows that this aggregate stood at €4,244 billion in the third quarter of 2018, down by 2.4% on an annual basis. The main trends of its components can be summarised as follows.

On the rise:

- the trend in banknotes, coins and bank deposits (both on demand and time deposits) showed an upward trend of 2.9%. The share of this aggregate in total household financial assets was 32.5% (up from 30.8% a year earlier);
- Life insurance, pension funds and employee severance indemnities rose by 2.3%. The share of this aggregate was 22.9% (23.8% in the same period a year earlier).

In decline:
- Bonds continued their downward trend (down by 13.3%) in both the bank component (down 38%) and the public component (down 8%). This aggregate's share of total household financial assets was 6.9% (7.8% in the previous year).
- shares and equity investments, down 11.7% year-on-year, make up 21.6% of total financial assets (down from 23.8% a year earlier).
- Mutual fund shares decreased by-0.8% year-on-year and accounted for 12% of household financial assets (up slightly from 11.8% in the same period of the previous year).

1.3 THE BUSINESS PLAN

On 21 December 2018 the Board of Directors approved the 2019 – 2023 Strategic Plan, which sets out the guidelines and plan of action for the coming years.
The Plan was developed on the basis of a macroeconomic scenario that envisages moderate growth in the Italian real economy and a recovery in interest rates from 2020 onwards. It is based on the following three strategic guidelines:
- creation of value for shareholders through a partial recovery of profitability by 2021, compared to the cost of capital required by the market;
- distribution of value to the Bank's various stakeholders through the distribution of dividends to shareholders, new loans to individuals and businesses, investment in personnel, collaboration with various suppliers and the payment of taxes to support the public sector, for a total value of €9 billion to be distributed over the course of the plan;
- strengthening of the territorial presence through an increase in market share in terms of jobs and productivity.

In support of these guidelines, the Bank has identified the following six pillars on which to achieve the results envisaged in the Business Plan:
- Retail - "core business" growth engine: an increase in market share in Triveneto, the development of cross-selling and simplification of the base offer for retail revenues, producing growth mainly in the 2019-2021 period, with a higher fees;
- Corporate - focused and selective development: increasing the customer base and indirect sales channels (Vicenza, Padua). Corporate loans increasing in the 2019-2021 period, with greater focus on target sectors;
- Private - relaunch with a dedicated model: increase in market share through new private centres and new in administered assets consultants with a 360° business model;
- Workout - focus on asset quality and cost of risk: an increase in recovered loans, a decrease in the deterioration rate and extraordinary transactions for the sale of the NPE ratio falling from 8.7% in 2018 to 5.9% in 2021, with an increase in coverage for non-performing loans (bad debts and unlikely to pay);
- Finance - efficient management of financial risks: asset allocation focused on low volatility classes, strengthening the ALM model, progressive improvement in the NSFR, with funding mix less dependent on ECB loans;
- Head Office - organisation - technology - people: workforce efficiency in relation to the distribution model, automation of processes and digitalisation. Progressive cost reduction.

The main assumptions underlying the plan are the growth of traditional business and the strengthening of services offered:
- increase in the customer base and consequent increase in market share;
- development of administered assets, with particular focus on indirect funding and commission revenues;
- increase in borrowing costs due to rising rates, end of TLTRO programme and issue of new instruments:
    - Issue of Additional Tier 1 (AT1) instruments in 2019;
    - Issue of Tier 2 (T2) subordinated instruments in 2023;
- reduction of non-performing loans through disposals and active management, with a containment of the Cost of Risk over the course of the plan;
- efficiency of operating costs, with a progressive reduction in cost/income ratio;
- progressive capital increase with a constant payout ratio over the course of the plan.

Estimates over the period of the plan foresee an increase in profit driven by the development of operating income (an increase in the customer base and in assets under administration) and by a reduction in operating costs (driven by a reduction in personnel costs and a decrease in other administrative expenses).

Loans are expected to increase, while profitability is projected to be in line with the average projected trend for the banking sector.
The implementation of the NPL strategy envisages a decline in non-performing loans with a gross NPL ratio that will down from 8.7% at the end of 2018 for the entire term of the plan, with stabilisation of the Coverage Ratio;
Direct deposits are expected to grow further, along with indirect funding.

1.4 SIGNIFICANT EVENTS DURING THE YEAR

Shareholders' Meeting

On 14 April 2018, the Shareholders' Meeting approved, *inter alia*, the remuneration policies for 2018 as described in the Remuneration Report, a proposal for a remuneration plan pursuant to Article 114-bis of the Italian Consolidated Finance Act (T.U.F.) in accordance with the 2018 Remuneration and Incentive Policies, which regulate in particular the correlation between incentives and results with a view to sustainability over time.
The Remuneration Plan was approved by the Committee of Independent Directors on 8 March 2018 and was approved by the Board of Directors on 23 March 2018. The most significant aspects of the plan are as follows:

- it concerns incentives that accrued in 2018, half of which are to be paid in 2019, a quarter in 2020, and the final quarter in 2021. The share of the incentive to be paid in shares is only disbursed when the performance targets have been met;
- the plan applies to personnel whose work has a "significant" impact on the Bank's risk profile;
- the incentive is paid in Bank shares if 25% (twenty five per cent) of the incentives exceed €15,000 (fifteen thousand) net in the year.

The shareholders' meeting also approved amendments to the Rules of the ordinary and extraordinary shareholders' meeting. The proposed amendments are in line with the provisions of the Consolidated Finance Act (T.U.F.), including with regard to the new developments arising from the listing of the Bank's shares on the Hi-MTF market in September 2017.
In particular, the amendments concern:

- the date of registration of voting rights: holders of the voting rights recorded on the accounts of custodian banks at the end of the seventh Hi-MTF trading day prior to the meeting may attend and vote at the meeting;
- shares deposited with third party banks: the entitlement to exercise rights must reach the Bank three days prior to the shareholders' meeting, or the entitlement must be given by the holder of the rights upon entry to the shareholders' meeting;
- the introduction of an electronic census of the entry and exit of shareholders from the venue of the Shareholders' Meeting;
- the notice of meeting setting out the rules and deadlines for the early transmission of proxies (shareholders' associations);
- a full reading of the documents in the Shareholders' Meeting, which takes place only if explicitly requested by the Shareholders' Meeting.

Loyalty bonus

Following the mandate granted to the Board of Directors by the Shareholders' Meeting held on 23 February 2015, as a result of the fulfilment of the conditions established in the merger agreement between Volksbank and Banca Popolare di Marostica, the free increase in share capital of €2,554,036 was finalised with the issue of 638,509 ordinary Volksbank shares with no indication of nominal value, and a consequent increase in the share capital from €199,439,716 to €201,993,752, divided into 50,498,438 ordinary shares with no indication of their nominal value.
It should be recalled that agreements concluded at the time of incorporation of the Banca Popolare di Marostica Group provided for the free allocation of a maximum of 797,079 newly issued shares, at the rate of 0.117 ordinary Volksbank shares, for each Volksbank share allocated in in a share swap to the shareholders of Banca Popolare di Marostica, who kept the shares allocated to them in a share swap continuously for a period of 36 months from the date of effect of the merger. This entitlement to free allocation of shares does not apply to shareholders who have sold, or partially sold, the shares received in exchange during the 12 months following the date of effect of the merger, and is reduced

proportionally for shareholders who, having maintained them in full in the first twelve months, then sold part of the shares in the period between the twelfth and thirty-sixth months following the date of effect of the merger.
The total number of shares issued in return for the free capital increase corresponds to 1.3% of the share capital of Volksbank after the capital increase.
The free capital increase does not alter Volksbank's net assets or modify the Bank's capital ratios.

Issue of Tier2 subordinated instruments

During the year, Volksbank issued Tier II Sub-ordinated Bonds pursuant to the provisions of Part II, Title I, Chapter 4, Articles 62, 63 and 77 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26/06/2013 on prudential requirements for credit institutions and investment firms ("CRR") and Bank of Italy Circular No. 285 of 17 December 2013, "Application in Italy of Regulation (EU) No. 575/2013 (CRR) and Directive 2013/36/EU (CRD4)", Part II, Chapter I.
For details of the individual instruments in place at 31 December 2018, see the Explanatory Notes:, Part B, Balance Sheet Information, Section 1.4 of Liabilities: "Breakdown of subordinated debt/securities".

Assignment of non-performing loans

In the second half of the year, Volksbank completed the transfer without recourse of several non-performing positions denominated in Euro.

Assignment of non-performing loan portfolio	**2018**
Number of non-performing positions assigned	504
Gross value of bad debts (€)	172,956,039
Arrears interest on bad debts (€)	14,777,718
Total bad debts (€)	**187,733,757**

The assignment provides no guarantee by the assignor of the solvency of the assigned debtors, or of any guarantors thereof, on any grounds, and therefore no guarantee of the total or partial collection of the assigned receivables is given. As a result of the assignment, the receivables have been derecognised from the balance sheet as of the date of execution. The price paid by the buyers was €30.8 million.

Volksbank decided on a pool financing operation in favour of Waltherpark S.p.A. for the redevelopment of a large area in the Bolzano Centre, located directly on the axis connecting Walther to the railway station between Via Alto Adige, Piazza Verdi and Via Garibaldi.
With the contribution of the David Chipperfield Architecture Firm, a mixed-destination complex was designed, consisting of a shopping centre, offices, parking spaces and a hotel, together with a mobility plan and urban green areas. In total, the project involves an area of more than 60,000m², of which approximately 35,000m² is for commercial use, 16,500 for residential use, 5,700 for hotel use, 3,000 for offices, with approximately 550 parking spaces and 220 lock-up garages.
The Project is undertaken within the framework of the planning procedure established in Article 55 *quienquies* of Provincial Law No. 13/97 on the basis of a "Programme Agreement with the Bolzano City Council", subjected to public consultation in March 2016 (and approved by a large majority) and subsequently ratified and signed off by the City Council, the Provincial Government and WaltherPark S.p.A.
The Programme Agreement governs the architectural design, including intended use and the mobility plan, the purchase of land and all framework conditions such as town planning and the development plan.
WaltherPark has already acquired the land and private properties needed to complete the project. Under the terms of the Programme Agreement, the company will complete the purchase of ownership of the public land required to implement the project:

- preliminary purchase and sale agreement concluded in November 2017;
- following consignment of the new service station, conclusion of the final sale agreement by the first quarter of 2019.

The loan totalled €290 million, of which approximately €80 million was provided by Volksbank. The remainder of the loan is divided among the other pool banks.
Disbursement will take place in three credit lines to ensure support for the purchase of land and the financing of investment and project costs (land, construction costs, ancillary costs). The loan is due to expire in the first half of 2024, with the project scheduled for completion in 2023.
First-degree mortgages, corporate guarantees and other guarantees typical of projects of this type are provided. The operation is also financed through its own funds by the WaltherPark company’s group of reference.

1.5 OPERATING PERFORMANCE

1.5.1 RESULTS

Presentation of economic results

A reclassified income statement is presented below to facilitate reading of the results for the year. As provided in Consob communication No. DEM/6064293 of 28 July 2006, a description of the reclassifications and aggregations made is provided below:

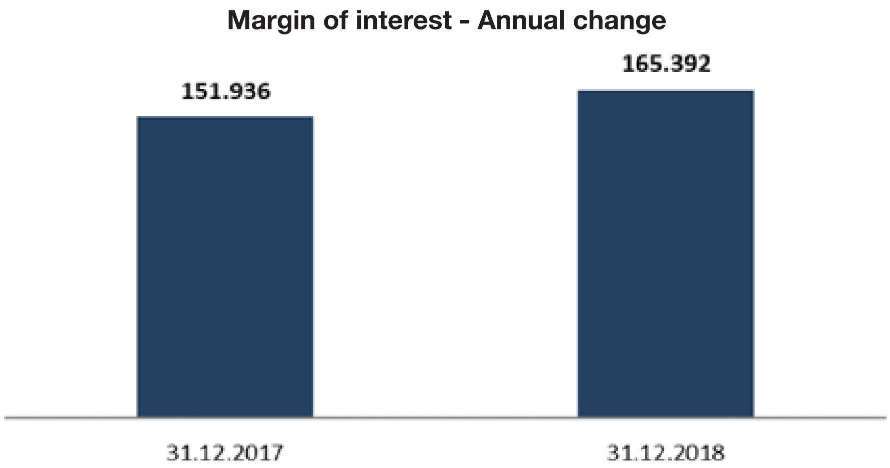
- the item “Dividends and gains (losses) from investments valued at equity” consists of the income statement item “Dividends and similar income” and the item “Gains (losses) on equity investments”;
- the item “Net result of financial assets and liabilities at fair value” includes the "Net result of trading”, "Gains (losses) on the sale or repurchase of financial assets at fair value with an impact on overall profitability" and the “Net result of other financial assets and liabilities at fair value with an impact on the income statement";
- the item “Other operating income/expenses” includes “Gains (losses) on the disposal or repurchase of financial liabilities” and “Other operating income/expenses”;
- the item "Administrative expenses" shows the balance of item 160 b) of the income statement net of taxes and charges relating to the banking system, which are included in a specific item of the reclassification;
- the item “Value adjustments to tangible and intangible assets” includes the income statement items “Adjustments/write-backs on impairment of tangible assets” and “Adjustments/write-backs on impairment of intangible assets”;
- the item “Net adjustments to loans and other financial transactions” includes “Gains (losses) on the sale or repurchase of financial assets valued at amortised cost” and “Net adjustments/write-backs on credit risk of financial assets valued at amortised cost”, both limited to components relating to financial assets that constitute loans;
- The item “Net adjustments to other assets” includes "Gains (losses) on the sale or repurchase of financial assets valued at amortised cost" and “Net adjustments/write-backs on credit risk of financial assets valued at at fair value with an impact on overall profitability”, both limited to components relating to financial assets that do not constitute loans and "Gains/losses from contractual amendments without write-downs“.

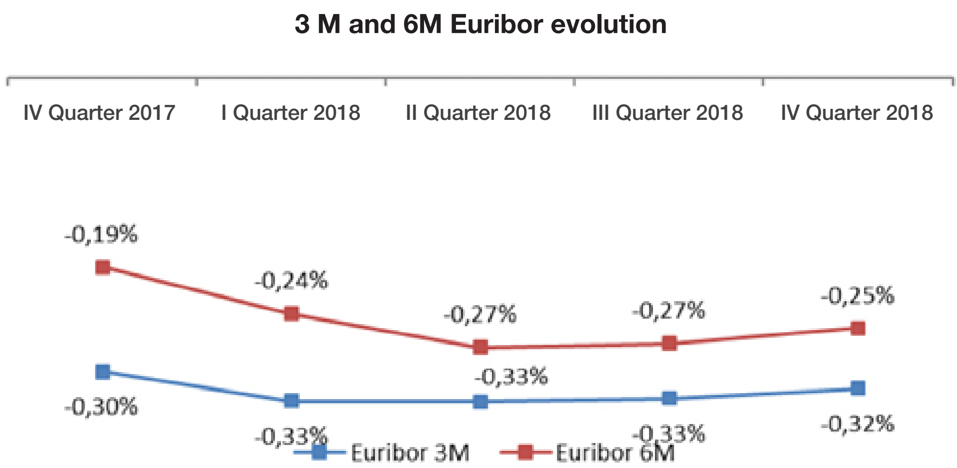
Overall trend in results

Reclassified income statement	31.12.2018	31.12.2017	Changes	
(€ thousands)			**Ass.**	%
Net interest	165,392,239	151,935,670	13,456,569	8.9%
Dividends and profits (losses) of investments valued at equity	3,146,695	4,442,215	(1,295,520)	-29.2%
Financial margin	**168,538,934**	**156,377,885**	**12,161,049**	**7.8%**
Net fees	89,111,956	88,205,894	906,062	1.0%
Net result of financial assets and liabilities at FV	(1,544,061)	14,459,545	(16,003,606)	-110.7%
Other operating income/expenses	19,345,637	21,420,899	(2,075,262)	-9.7%
Other operating income	**106,913,532**	**124,086,338**	**(17,172,806)**	**-13.8%**
Net operating income	**275,452,466**	**280,464,223**	**(5,011,757)**	**-1.8%**
Personnel expenses	(98,330,910)	(99,771,207)	1,440,297	-1.4%
Administrative expenses	(74,457,899)	(68,263,026)	(6,194,872)	9.1%
Value adjustments to tangible and intangible assets	(10,098,527)	(8,379,058)	(1,719,469)	20.5%
Operating expenses	**(182,887,336)**	**(176,413,291)**	**(6,474,045)**	**3.7%**
Operating income	**92,565,131**	**104,050,932**	**(11,485,801)**	**-11.0%**
Net adjustments to loans and other financial transactions	(38,926,362)	(54,918,350)	15,991,987	-29.1%
Net adjustments to other assets	735,802	(7,401,525)	8,137,327	-109.9%
Net provisions for risks and charges	(4,132,648)	(2,741,226)	(1,391,422)	50.8%
Gains (losses) on disposal of equity investments	2,176,467	305,619	1,870,848	612.1%
Gross profit (loss) from current operations	**52,418,389**	**39,295,450**	**13,122,939**	**33.4%**
Taxes on income from current operations	(12,111,841)	(10,304,206)	(1,807,634)	17.5%
Levies and charges relating to the banking system net of taxes	(6,049,829)	(4,713,764)	(1,336,065)	28.3%
Profit (Loss) for the year	**34,256,720**	**24,277,480**	**9,979,240**	**41.1%**

Volksbank ended 2018 with a net profit of €34.3 million. This result was achieved in a phase characterised, as was the previous year, by particular uncertainty due the persistence of financial market volatility, the maintenance of interest rates at historical minimums and the particularly high cost of risk.
Net operating income fell to €275.5 million. Operating income stood at €92.6 million.

As described in more detail in the section on significant events during the year, charges related to ordinary contributions to the deposit guarantee scheme and the National Resolution Fund also had a significant impact of €6.0 million ([3]).
Net interest was €165.4 million in 2018, with net commissions of €89.1 million. Dividends and profits from equity investments valued at equity amounted to €3.1 million, net financial profit is negative by €1.5 million and other operating income/expenses stood at €19.3 million.
Interest was conditioned by the persistence of a historically low interest rates, which is associated with a still fragile business cycle. In this context, lending volumes have grown, despite the monitoring of risk assumption. Interest income from customers stood at €177.5 million, while interest paid on loans to customers and outstanding securities in issue stood at €26.4 million.



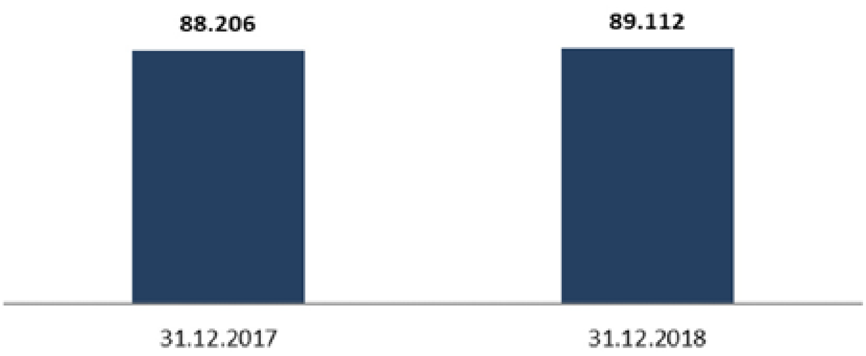


The item dividends and profits (losses) of equity investments valued at equity includes, in addition to the dividends resolved during the year, losses recorded by the subsidiaries Voba Invest S.r.l. which is in liquidation, and Valpolyella Alta Società Agricola S.r.l. Dividends received from equity investments and non-consolidated equity investments and profits/losses from equity investments measured at equity totalled €3.1 million.

(3) This sum includes the contribution to the deposit guarantee scheme, the single resolution mechanism and the National Resolution Fund.

Net commissions of €89.1 million in the year represent 32.4% of net operating income. The most significant components include management, brokerage and consultancy services amounting to €29.8 million, income from collection and payment services, amounting to €8.1 million, income from maintenance and management of current accounts (€41.3 million) and commission on other services (€16.5 million).

Net commission - Annual change



The net result of financial assets and liabilities measured at fair value was negative by €1.5 million. In particular, trading activity had a positive net result of of €2.8 million, the sale of instruments measured at fair value had an impact on overall profitability of €1.6 million, and the negative result of the valuation of instruments at fair value had a negative impact on the income statement of €6.0 million. This was due almost entirely to the valuation of non-performing loans classified at fair value with a balancing entry in the income statement.

In 2018, the maintenance of interest rates at record lows made it necessary to identify sectors that could deliver a positive or satisfactory return. Adequate portfolio diversification, consistent with past practice, but with a prevalence of Italian stocks, has led to positive performance.

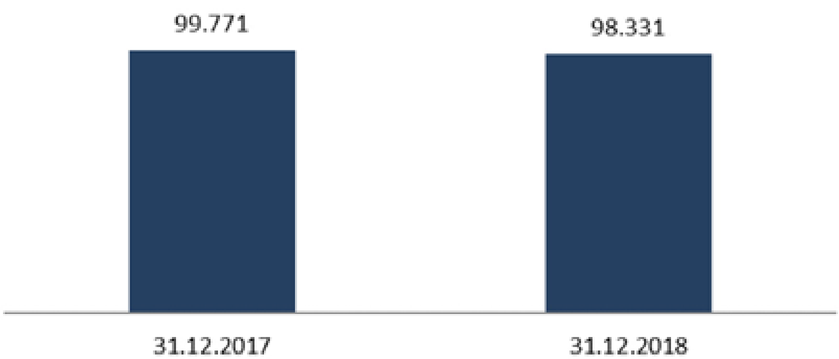
The diversification of the bond portfolio and investment in equity-based funds are further balanced with alternative investment products in order to optimise the risk/return profile.

The "other operating income/expenses" item was €19.3 million, benefiting in particular from fast processing fees and recoveries of expenses from third parties.

The other operating income totalled €106.9 million. Operating income stood at €275.5 million.

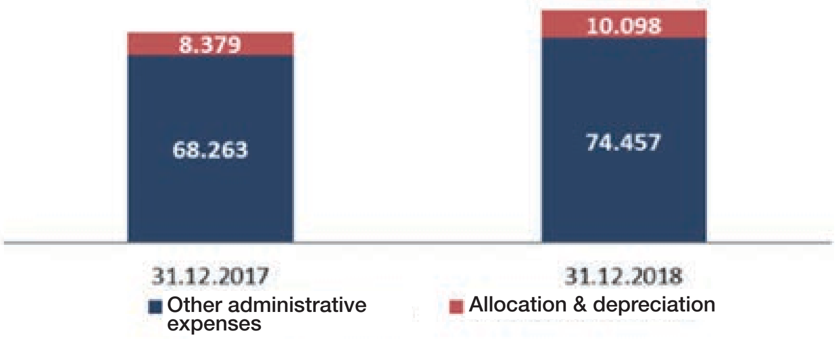
Operating costs amounted to €182.9 million and included personnel costs of €98.3 million, a slight decrease compared to the previous year.

Staff costs - Annual change



Other administrative expenses amounted to €74.5 million, mainly consisting of IT service charges payable to the SEC consortium amounting to €12.4 million, professional fees of €9.3 million, rent expenses of €4.4 million and maintenance costs of €5.1 million.

Operating expenses - other costs



Value adjustments to tangible and intangible assets came to €10.1 million. These include, *inter alia*, €4.1 million relating to the amortisation of properties, €3.3 million relating to the depreciation of movable and immovable property and plant, and €1.0 million relating to the amortisation of the client relationship recorded in the accounting of the merger with Banca Popolare di Marostica.
Net impairment losses on loans and other financial transactions amounted to €38.9 million. The amount recorded during the year is mainly attributable to adjustments to non-performing loans. Constant monitoring of the correct assessment of credit risk, in a context of continuing economic stagnation, has enabled the Bank continue to strengthen its controls, which have also been affected, in addition to the adjustments made during the year, by the impact of the first-time application of IFRS 9 ("FTA"), and the result of the application of the sales scenario to portfolios for which the realisation of cash flows through sale is applicable.
Total provisions for impairment accounted for 4.7% of gross lending (compared to 6.3% at 31 December 2017). The coverage rate for bad debts increased to 55.4%, compared with 53.7% at 31 December 2017, up mainly due to the increase in the said provisions, and taking into account the effects of the sale in the second half of the year of 504 non-performing positions, for a gross value of €173.0 million, which were already significantly written down. The coverage of probable defaults reached 26.1%, compared to 25.7% a year earlier. For past due loans the coverage rate was 7.9% compared to 8.1% twelve months earlier, while for performing loans the write-down percentage was stable at 0.89%, compared to 0.75% at the end of 2017.

Coverage of non-performing loans	31.12.2018	31.12.2017
Coverage of bad debts	55.54%	53.70%
Coverage of unlikely to pay positions	26.09%	25.71%
Overdue Exposure Coverage	7.90%	8.13%
Performing exposures Coverage	0.89%	0.75%

Net impairment losses on other assets, amounting to €0.1 million, mainly concern the component for the change in credit risk due to the change in the fair value of financial assets at fair value, with an impact on overall profitability.
Net provisions for risks and charges amounted to €4.1 million. Profits from the sale of investments amounted to €2.2 million.
The item "taxes" item was negative by €12.1 million, with a tax rate of 22.3%.
The charges relating to ordinary contributions provided for in Directives 2014/59/EU - Recovery and Resolution of Credit Institutions and Investment Firms and 2014/49/EU - Deposit Guarantee Schemes ("DGS") and the Bank Recovery and Resolution Directive (BRRD) amounted to €6.0 million net of taxes.
Net profit for the year was €34.3 million, compared with €24.3 million in 2017.

1.5.2 STATEMENT OF FINANCIAL POSITION

Statement of financial position

To facilitate reading the balance sheet, the reclassified statement of financial position is shown below. Reclassification only involved the aggregation of balance sheet items. In particular, note as follows:

- Cash and cash equivalents is included in the residual item Other asset items;
- financial assets constituting loans to banks and loans to customers, are entered separately regardless of the respective accounting portfolios they are allocated to;
- financial assets that do not constitute loans are entered separately, distinguishing between financial assets measured at amortised cost, financial assets measured at fair value through profit or loss and financial assets measured at fair value with an impact on overall profitability, net of the reclassification to Loans to banks and Loans to customers;
- tangible and intangible assets are aggregated into a single item;
- payables to banks at amortised cost are entered separately;
- the total sums due to customers at amortised cost and of outstanding securities are aggregated into a single item;
- "Provisions for risks and charges" groups funds designated for a specific use (employee severance benefits, provisions for risks and charges, provisions for commitments and financial guarantees issued) into a single item;
- Reserves are indicated in an aggregate manner, net of any own shares.

Reclassified asset items	**31.12.2018**	**31.12.2017**	**Change**	
(€ thousands)			**Ass.**	**%**
Loans to banks	48,929	109,746	(60,817)	-55.4%
Loans to customers	7,275,467	6,961,712	313,755	4.5%
- at amortised cost	7,227,655	6,961,712	265,943	3.8%
- at fair value with an impact on the income statement	47,812	-	47,812	n.a.
- at fair value with an impact on overall profitability	-	-	-	n.a.
Financial assets measured at amortised cost other than loans	1,212,245	822,972	389,273	47.3%
Financial assets at *fair value* with impact on the income statement	242,210	11,531	230,679	2000.5%
Financial assets at *fair value* with impact on overall profitability	829,144	1,090,652	(261,508)	-24.0%
Equity investments	5,745	5,793	(48)	-0.8%
Tangible and intangible assets	254,699	258,791	(4,092)	-1.6%
Tax assets	174,705	169,106	5,599	3.3%
Non-current assets and groups of assets held for sale	12,923	-	12,923	n.a.
Other asset items	219,495	207,632	11,863	5.7%
Total assets	**10,275,562**	**9,637,936**	**637,626**	**6.6%**

Reclassified liability items	**31.12.2018**	**31.12.2017**	**Change**	
(€ thousands)			**Ass.**	**%**
Payables to banks at amortised cost	1,418,187	1,150,659	267,528	23.2%
Financial liabilities to customers at amortised cost	7,683,420	7,350,397	333,023	4.5%
- amounts due to customers	6,985,200	6,396,871	588,329	9.2%
- outstanding securities	698,220	953,526	(255,306)	-26.8%
Financial liabilities held for trading	1,429	2,030	(601)	-29.6%
Financial liabilities measured at fair value	-	1,050	(1,050)	-100.0%
- amounts due to customers	-	-	-	n.a.
- outstanding securities	-	1,050	(1,050)	-100.0%
- other financial liabilities measured at fair value	-	-	-	n.a.
Tax liabilities	31,254	33,832	(2,578)	-7.6%
Liabilities associated with assets held for sale	-	-	-	n.a.
Provisions for risks and charges	20,729	17,923	2,806	15.7%
Other liabilities	285,340	208,675	76,665	36.7%
Shareholders' equity:	835,203	873,369	(38,166)	-4.4%
- Capital	183,440	180,886	2,554	1.4%
- Earnings reserves	632,893	667,524	(34,631)	-5.2%
- Valuation reserves	(15,387)	682	(16,069)	-2356.9%
- Result for the period	34,257	24,277	9,980	41.1%
Total liabilities and shareholders' equity	**10,275,562**	**9,637,936**	**637,626**	**6.6%**

Due to and from banks

Interbank relations	31.12.2018	31.12.2017	Change	
(€ thousands)			Ass.	%
Loans to banks	48,929	109,746	(60,817)	-55.4%
Payables to banks	1,418,187	1,150,659	267,528	23.2%
Net position of banks	***(1,369,258)***	***(1,040,914)***	***(328,345)***	***31.5%***

With regard to treasury activity, the net liquidity position in the interbank market at year-end was negative at €1,369.3 million, compared with €1,041.0 million at the end of 2017.

Direct deposits

Direct deposits by customers totalled €7,683.4 million, up by €332.0 million (4.5%) on the figure for the year ended 31 December 2017 (€7,351.4 million).

Direct deposits	31.12.2018	31.12.2017	Change	
(€ thousands)			Ass.	%
Savings and current account deposits	6,002,816	5,640,041	362,775	6.4%
Repurchase agreements on securities	369,899	172,758	197,141	114.1%
Outstanding securities	567,460	838,736	(271,276)	-32.3%
Deposit certificates	-	9,909	(9,909)	-100.0%
Subordinated liabilities	130,760	105,930	24,830	23.4%
Other deposits	612,484	584,073	28,411	4.9%
Total	**7,683,419**	**7,351,447**	**331,972**	**4.5%**

A breakdown of this figure shows an increase in forms of on-demand funding, consisting of current accounts and demand deposits (up by €362,8 million or 6.4%), which account for 78,1% of direct funding, while there was a reduction (down €256.4 million or 26.9%) in funding on maturity, mainly consisting of outstanding securities.
Other payables increased to €612.5 million (up 4.9%). Repurchase agreements, which stood at 369.9 million at year-end, were up compared to the end of 2017 (€197.1 million).

Indirect deposits

Indirect deposits by private customers stood at approximately €3,450 million at 31 December 2018, up 1.3% compared with €3,405.2 million in the previous year (up €44.8 million).

Technical forms of indirect deposits	31.12.2018	31.12.2017	Change	
(€ thousands)			Ass.	%
Assets under administration – third party products	2,327,816	2,213,676	114,139	5.2%
Assets under administration - third party securities and own shares	1,122,011	1,191,509	(69,499)	-5.8%
Total	**3,449,826**	**3,405,186**	**44,640**	**1.3%**

Indirect deposits under administration of third party products amounted to €2,327.8 million, up 5.2% (€114.1 million) compared with the previous year.
Indirect deposits under administration of third party securities and own shares stood at €1,122.0 million, a decrease of 5.8% compared with €1,191.5 million at the end of 2017 (down €69.5 million).
Indirect deposits, net of the Bank's shares held by customers, amounted to €2,892.1 million, up 4.2% compared to the same aggregate at the end of 2017 (€2,775.6 million; +116.5 million).

Loans to customers

Loans to customers totalled €7,227.7 million, up 3.8% compared to 31 December 2017, which amounted to €6,961.7 million (up €265.9 million).

Technical forms of use	31.12.2018	31.12.2017	Change	
(€ thousands)			**Ass.**	**%**
Current accounts	1,168,899	1,131,600	37,299	3.3%
Advances and loans	467,870	406,278	61,592	15.2%
Mortgages	5,118,812	4,707,166	411,646	8.7%
Trade receivables	**6,755,581**	**6,245,044**	**510,537**	**8.2%**
Repurchase agreements	-	-	-	n.a.
Receivables represented by securities	87,144	168,760	(81,616)	-48.4%
Non-performing loans	370,806	542,485	(171,679)	-31.6%
Other	14,122	5,423	8,699	160.4%
Other loans to customers	**472,072**	**716,668**	**(244,596)**	**-34.1%**
Total	**7,227,653**	**6,961,712**	**265,941**	**3.8%**

Short-term technical forms (current accounts, active repurchase agreements and other transactions) amounted to €1,183.0 million, up 3.9% (€46.0 million) compared to €1,137.0 million at the end of the previous year. Medium and long term technical forms, primarily represented by mortgages and personal loans, increased by 7.3% to €6,044.6 million (€440.0 million) compared to the previous year.

With regard to the breakdown of trade receivables, it should be noted that the technical forms of loans comprise 70.8% of net loans, up from 67.6% at 31 December 2017.

Current accounts represent 16.2% of net loans to customers, stable compared with 16.3% in the previous year.

Gross non-performing loans stood at €662.5 million, down 31.0% compared with €959.5 million in the previous year. The ratio of gross non-performing loans to total gross loans to customers was 8.7%, down from 12.9% in the previous year.

Receivables	31.12.2018	31.12.2017	Changes	
(€ thousands)			**Ass.**	**%**
A) bad debts				
gross amounts	407,836	614,893	(207,057)	-33.7%
value adjustments	(226,513)	(330,216)	103,703	-31.4%
net carrying amounts	**181,323**	**284,677**	**(103,354)**	**-36.3%**
% Coverage	-55.5%	-53.7%		
B) unlikely to pay				
gross amounts	248,054	334,507	(86,453)	-25.8%
value adjustments	(64,705)	(85,994)	21,289	-24.8%
net carrying amounts	**183,349**	**248,513**	**(65,164)**	**-26.2%**
% Coverage	-26.1%	-25.7%		
C) past due exposures				
gross amounts	6,659	10,118	(3,459)	-34.2%
value adjustments	(526)	(823)	297	-36.1%
net carrying amounts	**6,133**	**9,295**	**(3,162)**	**-34.0%**
% Coverage	-7.9%	-8.1%		
D) Subtotal non-performing exposures (a+b+c)				
gross amounts	662,549	959,518	(296,969)	-30.9%
value adjustments	(291,744)	(417,033)	125,289	-30.0%
net carrying amounts	**370,805**	**542,485**	**(171,680)**	**-31.6%**
% Coverage	-44.0%	-43.5%		
E) performing loans - stage 1				
gross amounts	6,156,732	6,467,784	(311,052)	-4.8%
value adjustments	(28,818)	(48,557)	19,739	-40.7%
net carrying amounts	**6,127,914**	**6,419,227**	**(291,313)**	**-4.5%**
% Coverage	-0.5%	-0.75%		
F) performing loans - stage 2				
gross amounts	673,698	-	673,698	n.a.
value adjustments	(31,908)	-	(31,908)	n.a.
net carrying amounts	**641,790**	**0**	**641,790**	**n.a.**
% Coverage	-4.7%	n.a.		

G) Subtotal performing loans (e+f)				
gross amounts	6,830,430	6,467,784	362,646	5.6%
value adjustments	(60,726)	(48,557)	(12,169)	25.1%
net carrying amounts	**6,769,704**	**6,419,227**	**350,477**	**5.5%**
% Coverage	-0.89%	-0.75%		
H) performing exposures represented by securities - stage 1				
gross amounts	87,400	-	87,400	n.a.
value adjustments	(256)	-	(256)	n.a.
net carrying amounts	**87,144**	**0**	**87,144**	**n.a.**
% Coverage	-0.29%	n.a.		
I) performing exposures represented by securities - stage 2				
gross amounts	-	-	-	n.a.
value adjustments	-	-	-	n.a.
net carrying amounts	**0**	**0**	**0**	**n.a.**
% Coverage	n.a.	n.a.		
J) Subtotal performing loans consisting of securities (H+I)				
gross amounts	87,400	-	87,400	n.a.
value adjustments	(256)	-	(256)	n.a.
net carrying amounts	**87,144**	**0**	**87,144**	**n.a.**
Total loans to customers measured at amortised cost (D+G+J)				
gross amounts	7,580,379	7,427,302	153,077	2.1%
value adjustments	(352,726)	(465,590)	112,864	-24.2%
net carrying amounts	**7,227,653**	**6,961,712**	**265,941**	**3.8%**
- of which forborne performing	73,731	94,604	(20,873)	-22.1%
- of which non-performing forborne	107,910	99,073	8,837	8.9%

Net bad debts decreased by 36.3% to €181.3 million, compared with €284.7 million in the previous year. The coverage ratio was 55.5%, compared with 53.7% in the previous year. Net bad debts accounted for 2.51% of total net loans, down from 4.09% in the previous year.

Net unlikely to pay positions amounted to €183.3 million, down 26.2% from €248.5 million in the previous year. The coverage ratio was 26.1%, up from 25.7% in the previous year. The ratio of net probable defaults to net loans was 2.54%, down from 3.57% in the previous year.

Net past-due exposures stood at 6.1 million, down from 9.3 million in the previous year. The percentage of write-downs was 7.9%, down from 8.1% in the previous year. The balance of past-due exposures decreased for the fifth consecutive year.

Net non-performing loans stood at €370.8 million, down 31.65% from €542.5 million at the end of 2017. The percentage of write-downs was 44.0%, up from 43.5% in the previous year. Net non-performing loans accounted for 5.13% of net loans, down from 7.79% in the previous year.

Net performing loans stood at €6,769.7 million, up 5.46% compared with €6,419.2 million in the previous year. The estimate of collective impairment of performing receivables resulted in an adjustment of €60.7 million, up from €48.6 million in 2017. The percentage of write-downs was 0.89%, up from 0.75% in the previous year.

This section presents some key *asset quality*indicators:

Asset quality	**31.12.2018**	**31.12.2017**
Gross non-performing loans/gross uses	8.74%	12.92%
Net non-performing loans/net loans	5.13%	7.79%
Gross bad debts/gross loans	5.38%	8.28%
Net bad debts/net loans	2.51%	4.09%
Gross unlikely to pay/gross loans	3.27%	4.50%
Net unlikely to pay/net loans	2.54%	3.57%

Financial assets

Financial assets	31.12.2018	31.12.2017	Change	
(€ thousands)			Ass.	%
Financial assets valued at FV with an impact on the income statement	290,022	11,531	278,491	2415.2%
- financial assets held for trading	3,258	11,531	(8,273)	-71.7%
- FV-designated financial assets	0	0	0	n.a.
- financial assets compulsorily valued at FV	286,764	0	286,764	n.a.
Financial assets valued at FV with impact on OCI	829,144	1,090,652	(261,508)	-24.0%
CA-rated securities that do not constitute loans	1,212,245	822,972	389,273	47.3%
Total	**2,331,411**	**1,925,155**	**406,256**	**21.1%**

The following dynamics are observed in the financial assets segment:

- financial assets designated at fair value through profit or loss (€290.0 million) are made up of €3.3 million in financial assets held for trading, almost entirely consisting of debt securities, €286.8 million financial assets compulsorily measured at fair value, represented by €182.8 million in capitalisation agreements, €47.9 million in UCITS units, €7.8 million in equities and €47.8 receivables that not pass the SPPI test;
- financial assets designated at fair value with an impact on overall profitability of €829.1 million are made up of €767.0 million in debt securities and €62.1 million in equity securities;
- securities measured at amortised cost that do not constitute loans amount to €1,212.2 million, up 47.3% compared to €823.0 million at the end of 2017, and are fully composed of debt securities.

Equity investments

At 31 December 2018, equity interests were as follows:

Name	Location	% shareholding	% availability of votes
A. Wholly controlled subsidiaries			
1.Voba Invest S.r.l. in liquidation	Bolzano	100.00%	100.00%
2.Valpolyella Alta Società Agricola S.r.l.	Bolzano	100.00%	100.00%
3.Quartiere Brizzi S.r.l.	Bolzano	100.00%	100.00%
B. Jointly controlled subsidiaries			
-	-	-	-
C. Companies subject to significant influence			
1.Casa di Gestione Villa S. Anna S.r.l.	Merano	35.00%	35.00%
2.Tre S.r.l.	Trento	30.00%	30.00%

Voba Invest S.r.l. in liquidation

The company, which has its registered office in Bolzano, has a share capital of €30,000, fully paid up, and 100% owned by Volksbank. On 14 June 2011, the subsidiary Voba Invest S.r.l. went into liquidation. Efforts to liquidate residual assets and liabilities continued. continued during the year.

Valpolyella Alta Società Agricola S.r.l.

The company, incorporated on 17 March 2009, has its registered office in Bolzano. Its subscribed and paid-up share capital amounts to €10,000 and is entirely held by Volksbank.

Valpolicella Alta Società Agricola S.r.l. has as its exclusive object the agricultural activities indicated in Article 2135 of the Italian Civil Code. The company currently owns two vineyards located in the municipalities of S. Ambrogio Valpolyella (VR) and Trezzolano (VR).

Quartiere Brizzi S.r.l.

The company, which has its registered office in Bolzano (BZ), is involved in the real estate business, in particular the purchase, sale, exchange, restructuring and leasing of land, buildings, prefabricates, infrastructure and properties in general. The company is currently developing a real estate project to build a residential complex in the centre of Verona. Volksbank holds 100% of the company's share capital.

Casa cure Villa S. Anna S.r.l.

The Company, based in Merano (BZ), operates in the administration of private healthcare facilities. Its corporate object is to provide excellent health services with the primary objective of safeguarding health. This object is pursued through:

- raising awareness and fostering the professional development of its medical, paramedical and administrative team in a context of enhancement of interpersonal relationships;
- care, training and constant updating of the skills of its medical team;
- maximum attention to the selection of high level professionals - in particular medical and paramedical teams;
- the maintenance of adequate levels of investment to ensure adequate equipment and facilities.

Volksbank holds a 35.00% stake in the company.

Three S.r.l.

The Company, based in Trento, operates in the real estate business, with particular regard to the purchase, sale, exchange, restructuring and leasing of land, buildings, prefabricates, infrastructure and properties in general. The company is currently developing a real estate project in Cles (TN).
Volksbank holds a 30.00% stake in the company.

Physical assets

Property, plant and equipment totalled €136.0 million, down €3.6 million (2.6%) from €139.6 million at the end of 2017. During the year, expenses for capitalised improvements totalling €0.5 million were recorded. The other increases of €3.0 million were mainly due to purchases of electronic equipment. Amortisation of €7.1 million was recorded overall.

Intangible assets

As part of the incorporation of the Banca Popolare di Marostica Group, customer-related intangible assets, known as client relationship, were identified. These related to the enhancement of assets linked to asset management, including the placement of insurance contracts as well as funding through the management of core deposits. At year end, this item amounted to €19.1 million, after depreciation of €1.0 million.
Goodwill was €99.6 million, unchanged from the previous year. Goodwill, which is not subject to amortisation, is tested for impairment at each balance sheet date. For more information on the impairment testing of goodwill, see Section 6 – "Intangible Assets" of the explanatory notes.
There were no significant investments in intangible assets during the year. Depreciation and amortisation totalled €1.2 million.

Shareholders' equity

At year-end, the share capital amounted to €202.0 million, divided into 50,498,938 ordinary shares with no indication of par value. During the year, 638,509 shares totalling €2.6 million were issued by way of loyalty bonuses. For more information on this change, see the specific section on significant events during the year.
Shareholders' equity, including profit for the period of €34.3 million, stood at €835.2 million. Own funds stand at €857.9 million.

Total own funds	**31.12.2018**
(€ thousands)	
Primary Tier 1 Capital (CET 1)	727,860
Class 1 capital (TIER 1)	727,860
- TIER 2 instruments	130,000
- Transitional regime - Impact from T2	-
- Items to be deducted from TIER 2	-
Total class 2 capital	130,000
Total own funds	**857,860**

The ratio of primary Tier 1 capital ("CET 1") to total risk-weighted assets (Common Equity Tier 1 Ratio) was 11.2%, down from 11.9% at 31 December 2017. The ratio of Own Funds to total risk-weighted assets (Total Capital Ratio) was 13.2%, down from 13.6% in the previous year.

Total own funds	**31.12.2018**	**31.12.2017**
(€ thousands)		
Common Equity Tier 1 Ratio	11.2%	11.9%
Total capital ratio	13.3%	13.6%
Risk-weighted activities (RWA)	6,471,938	6,032,971

For further information, see the changes in shareholders' equity table and the illustrative tables of regulatory capital contained in the Notes to the Financial Statements.

1.6 RATING

Standard & Poor's

On 30 October 2018, S&P Global Ratings confirmed Volksbank's long-term rating at "BB+" with a "stable" outlook. At the same time, it also confirmed its short-term credit rating as "B". These levels were assessed in the previous opinion. According to the Agency, Volksbank benefits from good positioning in the Trentino-Alto Adige region, which traditionally has higher than average GDP per capita and low levels of unemployment. S&P also pointed to the solidity of the bank's funding profile, concentrated on retail funding, as an additional strength.
S&P believes that Volksbank will be able to maintain an asset quality above the average of the Italian banking system without any impact on its capitalisation, and at the same time expects non-performing exposures to decrease as a percentage of the loan portfolio.
On the other hand, S&P's rating is affected by limited diversification and market coverage, a return that needs to be strengthened and the still modest internal generation of capital.

DBRS

On 11 June 2018, DBRS Ratings Limited (DBRS) confirmed its overall assessment of Volksbank, or "Issuer Rating" at BBB ("low"), while on 13 December 2018 it upgraded the ratings of "Senior Long-Term Debt and Deposit" and "Short-Term Debt and Deposit" to level R-2 (high). The rating trend was increased to June from "negative" to "stable".

According to the Agency, the confirmation of the overall rating reflects the Bank's solid market share in the relevant territory, i.e. the Trentino-Alto Adige region, its stable capitalisation, and adequate liquidity profile. The assessment also takes into account the low level of profitability and the still significant amount of non-performing credit. The change in the outlook takes into account the reduction in non-performing loans achieved in 2017 and expectations of action to further improve asset quality and maintain an adequate level of capitalisation. The improvement in long and short-term deposits reflects the entry into force in Italy of the European Bank Recovery and Resolution Directive.

PHYCH

On 13 June 2018, Fitch Ratings confirmed the "Long-Term Issuer Default Rating (IDR)" at level BB+ and the "Viability Rating (VR)" at bb+. The long-term trading trend is considered "stable".
According to the agency, the assigned rating reflects the profile of a properly managed and operating regional bank with a business model that is not very diversified compared to that of larger domestic players and some of its direct competitors. It also reflects an appropriate risk appetite and an appropriate level of capitalisation, as well as the soundness of the plans it has put in place to improve the quality of assets and diversification of funding.

1.7 CORPORATE GOVERNANCE AND REMUNERATION POLICIES

1.7.1 THE ARTICLES OF ASSOCIATION OF THE LIMITED COMPANY

Banca Popolare dell'Alto Adige has been a public limited company since 12 December 2016, the date on which the minutes of the conversion shareholders' meeting of 26 November 2016 were recorded.
The company resulting from the transformation is the property of a widespread shareholder base of almost 60,000 shareholders, characterised by significant fragmentation of share ownership and by traditionally high levels of participation in corporate events.
Each share is gives an entitlement to one (1) vote at the Shareholders' Meeting.
For the purposes of voting at the Shareholders' Meeting, the law allows for forms of aggregation between shareholders. Typically, depending the specific nature of the associated interests, voting rights may be organised through the following institutions:

- an association of shareholders, which exercises the voting proxies obtained from its members;
- a shareholders' (voting) agreement, with a vote agreed by a majority of the parties to the agreement;
- a (vote) holding company, with the vote decided by the Board of Directors of the holding company.

Irrespective of the forms of aggregation that may be implemented by shareholders, persons with voting rights - excluding directors, statutory auditors and employees of the Bank and its subsidiaries - may exercise up to 200 proxies, without prejudice to their right to intervene as legal representatives of a shareholder who is a minor, an incapacitated natural person, or shareholder that is a legal entity.
The statutory limitation on the exercise of voting rights for shares exceeding 5% of the share capital, as reinstated in Article 6, paragraph 2 of the Articles of Association, expired on 26 March 2017.
The notice of the Shareholders' Meeting, which according to the Articles of Association must be issued at least 20 in advance, is issued by the Bank with the more favourable term for the shareholder of at least 30 days in advance. The Shareholders' Meeting is held, in accordance with the provisions of the law and the Articles of Association, normally in a single call both in ordinary and extraordinary session and, in a single convocation, is validly constituted regardless of the part of the share capital present in the ordinary session, while in an extraordinary session it is validly constituted when at least 1/5 of the voting rights are present or represented, i.e. 10,099,688 votes, which is one fifth the subscribed and paid-up share capital of €201,993,752 divided into 50,498,438 shares.
The Articles of Association allow multiple convocations at the discretion of the Board of Directors. In such cases, particular constituent and deliberative quorums apply and a strengthened quorum is required for the matters indicated in Article 16, paragraph 3.

The Shareholders' Meeting adopts resolutions openly, by a majority of the established voting rights, with the exception of the appointment of corporate bodies, which takes place by list voting in accordance with the procedures established in the Articles of Association: Article 21 for the Board of Directors and Article 33 for the Board of Statutory Auditors.
Corporate bodies are serve for three year terms, with the terms of office under way in 2018 expiring:

- for the Board of Directors, upon the approval of the financial statements for the year ended 31 December 2019;
- for the Board of Statutory Auditors, upon the approval of the financial statements for the year ended 31 December 2018.

Lists of candidates for the election of directors and statutory auditors are validly submitted, in accordance with legislation, including regulations and articles of association governing the matter, with a signature authenticated by a notary or signed in the presence of an BPAA employee authorised to receive it, of shareholders who, together, hold voting rights equal to at least one per cent (1%) of the share capital. The minimum shareholding requirement for candidatures is 504,984 Banca Popolare dell'Alto Adige shares.
In order to compile lists of candidates, shareholders are required to consult the articles of association, which are available on the website www.volksbank.it, and the documentation posted thereon on the renewal of corporate bodies.
For the purposes of the criterion for drawing from the lists of candidates for the formation of the Board of Directors or for the formation of the Board of Statutory Auditors, the list that obtains the highest number of votes at the Shareholders' Meeting is considered the "majority" list, while the second and third most voted lists for the election of the Board of Directors or the second most voted list for the election of the Board of Statutory Auditors are deemed to be the "minority" when they have obtained a vote of at least one per cent (1%) of the share capital.
For further information, see the articles of association posted on the website at www.volksbank.it.

1.7.2 THE SIZE PROFILE AND GOVERNANCE MODEL OF THE BANK

According to the Supervisory Authority, Banca Popolare dell'Alto Adige is classified as an "intermediate" bank, i.e. a bank with assets of between €3.5 billion and €30 billion. The bank is a regional bank with a popular and cooperative cultural matrix and a retail commercial profile dedicated to families and small and medium-sized enterprises, with a wide range of services and products for raising funds and granting credit. The Bank has a distribution network consisting of 170 branches as at 31 December 2018, operating in the provinces of Bolzano, Belluno, Padua, Pordenone, Trento, Treviso, Venice and Vicenza.
For further information, see paragraph 1.8 "The Distribution Model".
The transformation into a public limited company on 12 December 2016 did not alter the corporate governance structure. The Bank adopts the so-called "traditional" corporate governance model with a Board of Directors, responsible strategic supervision and management oversight, and in a Board of Statutory Auditors, responsible for ensuring the that the company is administered correctly.
In early 2019, the Bank initiated the banking supervision procedure for the establishment of the corporate structure for the Banking Group following the acquisition of the controlling stake in the finance company Voba CB Srl. Voba CB is a Special Purpose Vehicle company for the management of "assets" in guarantee bank bonds, pursuant to Article 7-*bis* of Law no. 130/1999 and its relevant implementing regulations, which the Bank plans to undertake as part of its market funding activity.

1.7.3 THE SHAREHOLDERS' MEETING

Banca Popolare dell'Alto Adige is owned by a widespread shareholder base of around 58,500 shareholders, characterised by a significant fragmentation of share ownership.
Each share entitles the holder to one (1) vote at the Shareholders' Meeting.
For the purposes of voting at the Shareholders' Meeting, the law permits forms of aggregation of shareholders. Typically, depending on the specific nature of the relevant interests, voting rights may be organised through the following institutions:

- an association of shareholders, which exercises powers with voting instructions issued shareholders;

- a shareholders' (voting) agreement, with a vote agreed by a majority of the parties to the agreement;
- a (vote) holding company, with the vote decided by the Board of Directors of the holding company.

Regardless of any forms of aggregation arranged by shareholders, persons holding voting rights entities - except directors, statutory auditors and employees of the Bank and its subsidiaries - may exercise up to 200 may exercise up to 200 proxies.

In practice, a Shareholders' Meeting is usually convened with prior notice of at least thirty (30) days, well within the term set in the Articles of Association, which establish a limit of at least twenty (20) days prior notice. In accordance with law and the Articles of Association, both in ordinary and extraordinary meetings are convened in a single call. In such cases, an ordinary Shareholders' Meeting is validly constituted regardless of the portion of the share capital is present, while in an extraordinary Shareholders' Meeting con only be constituted with the participation of 10,099,688 voting rights. The high number of voting rights required for the valid constitution of an extraordinary Shareholders' Meeting reflects concerns that an adequate quorum be reached and the importance of establishing proxies and correct organisation in the interests of shareholders for the orderly management of the company.

The Articles of Association allow for multiple convocations at the discretion of the Board of Directors. In such cases, a quorum is required both for the constitution of the meeting and for the adoption of resolutions, and a reinforced quorum is required for the matters indicated at Article 16, paragraph 3.

The Shareholders' Meeting adopts resolutions openly, by a majority of the established voting rights, with the exception of the appointment of corporate bodies, which takes place by list voting in accordance with the procedures established in Article 21 of the Articles of Association, for the Board of Directors, and Article 33 for the Board of Statutory Auditors.

Corporate bodies serve for three year terms. Their terms of office commencing in 2017 and expire:

- in the case of the Board of Directors, upon the approval of the financial statements for the year ended 31 December 2019;
- in the case of the the Board of Statutory Auditors, upon the approval of the financial statements for the year ended 31 December 2018.

Lists of candidates for the election of directors and statutory auditors are validly submitted, in accordance with the legislation, including regulatory and statutory provisions governing the matter, with a signatures authenticated by a notary or signed in the presence of an Bank employee authorised to receive it, of shareholders who, together, hold voting rights equal to at least one per cent (1%) of the share capital. The minimum shareholding requirement is 504,984 Banca Popolare dell'Alto Adige shares.

In order to compile lists of candidates, shareholders are required to consult the articles of association, which a re available on the website www.volksbank.it, and the documentation posted thereon on the renewal of the Board of Directors and the Board of Statutory Auditors.

For the purposes of the criterion for drawing from the lists of candidates for the formation of the Board of Directors or for the formation of the Board of Statutory Auditors, the list that obtains the highest number of votes at the Shareholders' Meeting is considered the "majority" list, while the second and third most voted lists for the election of the Board of Directors or the second most voted list for the election of the Board of Statutory Auditors are deemed to be the "minority" when they have obtained a vote of at least one per cent (1%) of the share capital.

For further information, see the articles of association posted on the website at www.volksbank.it.

1.7.4 THE ADMINISTRATION AND CONTROL MODEL

Corporate organisation and governance, application of supervisory measures

Quality of organisational and corporate governance design is an essential requirement for ensuring that the Bank is managed in a sound and prudent manner, that it is capable of generating profitability, and that it can foster the confidence of its economic partners in its entrepreneurial actions. Based on an assumption of sound and prudent management, the Bank of Italy has established the general principles and application lines for enhancement of governance structures, with particular attention to the rules of operation on the areas of:

- financial structure and the relationship with its owners;
- configuration and functioning of the corporate bodies;

- requirements for company representatives and the role of directors;
- organisational architecture and monitoring of internal controls and risk management;
- management of conflicts of interest.

The Bank's operating rules are based on its articles of incorporation and company law, and are set out in its Organisational and Corporate Governance Design, which is the set of control documents governing the Bank's governance according to the guidelines and supervisory provisions, as updated from time to time.

The Board of Directors and Board Committees

The Board of Directors is responsible for strategic supervision and oversight over corporate management and is required to ensure effective management of the risks to which the Bank is exposed in the course of its business.

Strategic supervision and risk management are functions exercised by the Board as a whole. They involve (i) the determination strategic corporate policies and objectives, and (ii) verification of their implementation. These duties cover:

- the organisational, administrative and accounting structure of the Bank and its internal control system;
- its commercial model and business and financial plans;
- risk objectives and related governance policies with a view to an integrated understanding of corporate risks and their reciprocal interconnection and with the Bank's external environment;
- operations and measures of strategic importance.
- The monitoring of corporate management concerns:
- measures for implementing strategic guidelines and their related risk objectives;
- ensuring the adequacy of the organisational, administrative and accounting structure and the internal control system;
- decision-making powers over current activities delegated by the Board.

From the outset, the **Executive Director** is responsible for the day-to-day management of the company and for the execution of resolutions adopted by the Board. The Executive Director is also responsible for individual legal acts, while the Credit Committee is has responsibility for certain categories of instruments in the granting of credit. Delegated offices supervise business with executive powers in accordance with the guidelines and objectives established by the Board, to which they report.

Pursuant to Article 20 of the Articles of Association, the Board of Directors may consist of a minimum of nine and a maximum of twelve directors, elected by the Shareholders' Meeting for a period not exceeding three years. Directors may be re-elected. The number of directors to be elected is determined by the Shareholders' Meeting in the year preceding their appointment, on the proposal of the outgoing Board of Directors.

The Board proposes a number of directors that is deemed appropriate for the Bank's strategic supervision and management, in accordance with the supervisory instructions and procedures described in Circular No. 285 - Title IV, Chapter 1 (Corporate Governance), Section IV (Composition and appointment of corporate bodies).

Without prejudice to the requirements established by law, the Supervisory Authority, the Articles of Association and the resolutions of the Shareholders' Meeting, directors must possess skills that are relevant to the sector and to the Bank's operations and size.

The quality of the Board as a whole is a function of the diverse and balanced combination of competence, professional experience and skills of individual directors, who are in all cases required to contribute to resolutions on all aspects of the Board's remit with autonomy of judgement and an ability to analyse and evaluate.

Directors are required to act in an informed manner and make collective decisions, each with full autonomy of judgement.

The chairman is required to ensure the effective functioning of corporate governance and the effectiveness of the Board discussions so that the decisions that the Board takes are the result of a genuine dialectic process, based on the informed and reasoned contribution of all directors.

Executive directors are organised into Board committees which are vested by the Board of Directors with executive mandates for the granting of credit.

Non-executive directors shall participate in the Board's resolution process with specialist expertise, in particular in the analysis of the risk associated with major decisions.

Independent directors are non-executive directors who have been formally assessed as meeting the independence requirements established from time to time by the Supervisory Authority and by the Articles of Association. They participate in Board discussions on potential conflicts of interest with an authority and autonomy that is not influenced by relations with the Bank or persons connected with the Bank.
For further reference, see the Articles of Association and the document entitled "Qualitative composition of the Board and theoretical skill sets" on the Bank's website at www.bancapopolare.it.
The following collegial bodies are established as committees of the Board of Directors:
- the Credit Committee
- the Committee of Independent Directors
- the Risks Committee

The Credit Committee ("CC"), as provided for in Article 31, paragraph 2 of the Articles of Association, exercises the executive powers granted annually by the Board of Directors with regard to the granting of credit and instructs the Board in relation to customer positions that exceed the established limits. The CC consists of three to five executive directors appointed by the Board of Directors, who are appointed from year to year, and the Executive Director with an effective vote. The CC is governed by its own Regulations. The Committee meets on a weekly basis. Minutes are compiled of its deliberations and it reports the Board of Directors, providing aggregated data, at the earliest opportunity.

The Committee of Independent Directors ("CID")established pursuant to Article 28, paragraph 2, letter (l) of the Articles of Association, acts as a consultative and advisory body to the Board of Directors, with a mandate to minimise Banking risks arising from resolutions that involve a potential conflict of interest, with particular regard to (i) transactions with persons who may exercise influence over Board decisions (the so-called "Persons connected with the Bank"), (ii) in determining the system of remuneration and incentives for personnel whose work has a significant impact on the Bank's risk profile (the "Remuneration Policies"), (iii) determining the theoretical requirements that candidate directors must meet (the "Optimal Composition of the Board") and selecting and appointing personnel that are most appropriate for the Bank's risk profile. The CID consists of three non-executive directors that meet the relevant independence requirements. The Committee is governed by specific Regulations and operates according to company regulations that transpose the supervisory regulations governing the transactions indicated in this paragraph.

The Risk Committee ("CR"), established pursuant to Article 30 of the Articles of Association, is a sub-committee of the Board of Directors dealing with matters of risk assessment and the internal control system. The CR has advisory, investigative and proactive powers in support of the Board's decision-making process. The Committee is composed of five non-executive directors, the majority of whom are independent.
The Committee is governed by specific Regulations governing its characteristics and duties, pursuant to the provisions of Supervisory Circular No. 285.
The Board of Directors (elected by the Shareholders' Meeting on 1 April 2017).

Board of Directors	
Number of components	11 Directors (*)
Number of meetings in 2018	24
Gender balance	9 M - 2 F
Average age	49 years
Average years in office	11 years
Directors drawn from minority lists	no minority lists were submitted
(*) 12 until 30 April 2018	

Credit Committee	
Number of Members	4 Executive Directors
Number of meetings in 2018	28

Committee of Independent Directors	
Number of Members	3 Independent directors
Number of meetings in 2018	21

Risks Committee	
Number of Members	5 Non-executive directors, of whom 3 are independent
Number of meetings in 2018	21

The Board of Statutory Auditors

The Board of Statutory Auditors is responsible for supervising compliance with legislation governing the activities of Banca Popolare dell'Alto Adige and the proper administration and adequacy of the Bank's organisational, administrative and accounting structure. The Board of Statutory Auditors is required to report to the Bank of Italy matters of which it becomes aware in the exercise of the mandates provided for in Article 34 of the Articles of Association, where such facts may constitute an irregularity in the management of the Bank or, in general, an infringement of the rules governing proper banking conduct.
The incumbent Board of Statutory Auditors was elected by the Shareholders' Meeting of 9 April 2016 for the three-year term 2016-2018. Its mandate expired with the approval of the financial statements for the year ended 31 December 2018.

Board of Statutory Auditors	
Number of Members	3 Standing Auditors, 2 Alternate Auditors
Number of meetings in 2018	26
Gender balance	5 M - 0 F
Average age – Standing Auditors	51 years
Average years in office – Statutory Auditors	11 years
Auditors drawn from the minority lists	no minority lists were submitted

1.7.5 THE REFORM OF Article 26 of the Consolidated Banking Act

Article 26 of the Italian Consolidated Banking Act provides that persons performing administrative, management and control functions at banks must be suitable for the performance of their duties and grants the Minister for the Economy and Finance a mandate to identify, by means of a decree adopted following consultation with the Bank of Italy, the requirements and eligibility criteria to be met by such persons, the limits on the number of positions they may hold in third party companies, the grounds on which they may be temporarily suspended from office and the duration of any such suspension, and the cases in which the requirements and eligibility criteria also apply to the heads of the main corporate departments in major banks.
As indicated in the said Article 26 of the Consolidated Banking Act, the implementing legislation of the Ministry of Economy and Finance applies to appointments as of the date of its entry into force. Until that date, the previous provisions pursuant in Article 26 of the Consolidated Banking Act continue to apply, with the relevant implementing rules established by Ministerial Decree No. 161/1998.
On 4 August 2017, the Ministry of Economy and Finance published the draft regulations on requirements for bank executives for public consultation. Article 26 of the Consolidated Banking Act established 22 September 2017 as the deadline for sending comments to the email address: dt.direzione4.ufficio2@tesoro.it.

The main changes in the draft decree, compared to the previous Ministerial Decree no. 161/1998, are inspired by the guidelines of the European Central Bank (Guide to fit and proper assessments - May 2017) and propose some new parameters for the suitability of corporate representatives, including:

- new criteria for propriety, independence, and independence of judgement, in addition to good repute requirements;
- greater professionalism and competence, based on the principle of proportionality in relation to the size of the Bank;
- an exhaustive indication of the criteria of independence, under penalty of forfeiture of office;
- stricter criteria for assessing the commitment of company representatives, including their availability and the time they intend to dedicate to their mandate and stricter limits the holding of multiple positions;
- a review of the criteria for adequacy of the Board's collegiate composition.

In general terms, the draft legislation significantly reinforces the standards for company representatives, partly by raising the existing requirements, but above all by introducing new aspects (propriety, competence, collective composition, independence of judgement, availability of time, limits on the number of positions held).

When finally approved, the legislation does not complete the implementation of the new Article 26 of the Consolidated Banking Act, as the timescales and methods of verification by the Supervisory Authority must be established by the Bank of Italy under its own regulations.

1.7.6 THE INDEPENDENT AUDITORS

On 20 April 2010, the shareholders' meeting of Banca Popolare dell'Alto Adige resolved to grant the auditing firm BDO Italia S.p.A. a mandate to audit the financial statements for the three-year period 2010-2012. On 27 April 2011, the Shareholders' Meeting resolved to extend the statutory auditor mandate to BDO Italia S.p.A. Milan, to cover accounting control of the financial statements for the six-year period 2013-2018.

In the second half of the year, Volksbank commenced the procedure for the selection of the new independent auditors pursuant to Articles 13 and 16, paragraph 2, and 17 of Legislative Decree No. 39/2010, as amended by Legislative Decree No. 135/2016, for the years 2019-2027, in accordance with Article 16 of Regulation (EU) No. 537/2014.

On the conclusion of this activity, the Board of Statutory Auditors, also in its capacity as the Internal Control and Audit Committee, will communicate the duly justified recommendation for the award of the audit mandate to the Bank's Board of Directors, indicating the two firms selected, together with its preference of the two, for submission to the Shareholders' Meeting.

1.7.7 REMUNERATION POLICIES

On 18 November 2014, the Bank of Italy supplemented its Supervisory Provisions for banks with a new chapter on remuneration and incentive policies.

The European Banking Authority ("EBA") also published an update of its remuneration guidelines (the "Guidelines") on 21 December 2015.

On 26 October 2018, the Bank of Italy published the XXV update to its Circular No. 285 to adapt the Italian regulatory framework to the EBA guidelines.

Since 2015, the Bank has conducted an annual review of its Remuneration Policies in order to ensure compliance with the applicable legislation.

Finally, the Shareholders' Meeting of 14 April 2018 approved the text of the Remuneration Policies approved by the Board of Directors on 23 March 2018.

In particular, changes in current remuneration policies include a bonus and incentive system anchored to the long term performance of "key personnel" who have a greater impact on Bank risk. Therefore, in accordance with the principles laid down by the European legislator and in the Bank of Italy regulations, the remuneration policies applied by Volksbank provide for:

- the payment of a portion of variable remuneration in financial instruments
- the deferment over time of part of the variable remuneration

- a prohibition (for a fixed period)on the sale of the said financial instruments
- a series of *ex post* correction mechanisms, in the event that the performance assumptions underlying the remuneration prove to be incorrect or, in more grave cases, where the conduct of beneficiaries was negligent or fraudulent (the so-called 'malus' and 'claw-back' mechanisms).

1.7.8 MANAGEMENT OF CONFLICTS OF INTEREST AND RELATED-PARTY TRANSACTIONS

The Regulations governing "Risk activities and conflicts of interest with related parties" sets out, in a single body of regulations:

- prudential limits on risk activities by an individual related party;
- restrictions on exposure to all related parties considered as a whole: the method of determination of an exposure limit is set out in the Risk Appetite Framework; the threshold established in this manner updates the "Credit Strategies";
- procedures for the identification, approval and execution of transactions with related parties and internal rules to ensure the transparency and substantive and procedural propriety of transactions, together with procedures for the fulfilment of public disclosure obligations, financial reporting requirements, and any other reporting requirement established by applicable legislation, including regulatory provisions;
- monitoring of operations in which an employee or external contractor has an interest that is different to that of the Bank;
- internal policies for controls on risk activities and conflicts of interest involving related parties;
- the responsibilities of the corporate departments involved.

The Regulations govern transactions with related parties and establish the procedures that the Bank must adopt in compliance with Consob (the Italian Stock Exchange Supervisory Commission) and the Bank of Italy regulations to identify and monitor transactions with related parties and ensure compliance with prudential limits for risk activities in relation to such transactions. This safeguard is designed to capture, on the basis of Bank's specific characteristics, the risk that any proximity of certain parties to the decision-making centres could compromise the objectivity and impartiality of decisions on the granting of loans and other transactions with such parties, with possible distortions in the resource allocation process and the consequent exposure of the Bank to risks that are not adequately measured, to the potential detriment of depositors and shareholders

The Regulations define and formalise procedures for the management, communication, control and reporting of the execution of transactions:

- undertaken by the Bank with related parties, in order to ensure the transparency and substantive and procedural propriety of such transactions and to establish the procedures for the fulfilment of the relevant reporting obligations, including those established by law and by applicable regulations (CONSOB Regulations);
- with affiliated entries (related parties and parties in turn related to them), undertaken by the Bank in order to ensure compliance with prudential limits for risk activities and the substantive and procedural propriety of such transactions (Bank of Italy requirements), implementing the most restrictive requirements, procedures and definitions of those separately established in CONSOB and Bank of Italy Regulations.

In guarantee of procedures for authorisation, disclosure and reporting to the supervisory bodies, the Bank uses IT systems for the automatic acquisition and reporting of agreements and transactions with the counterparties identified in the Regulations.

1.7.9 THE ORGANISATION AND MANAGEMENT MODEL

The Volksbank Organisational Model, which was initially adopted on 22 December 2005, meets the specific requirements established in Legislative Decree 231/2001. With its adoption, Volksbank affirms and disseminates its corporate culture, which is based on:

- lawfulness, since no unlawful conduct, even if undertaken in the interest or for the benefit of the company, can be considered consistent with the policy adopted by the company;
- preventive and ongoing control, which must guide all decision-making and operational phases of the company's activities.

The Organisational Model pursuant to Legislative Decree 231/2001 is kept constantly up date in order to comply with ongoing legislative developments and changes in the company's organisational structure. The Model consists of a set of protocols which, by identifying 'at risk' activities (i.e. activities in the context of which the offences provided for in Legislative Decree 231/2001 could be committed) and specifying the relevant countermeasures, involve all those who work in the interest, for the benefit, or otherwise on behalf of the Bank in order to:

- create awareness among such personnel that in the event of a violation of the legislation cited in the Model, the person who committed the offence, as well as the company, may be subject to sanction;
- stress that Volksbank does not tolerate unlawful conduct, of any kind and for any purpose whatsoever, since such conduct (even if the company is apparently in a position to benefit from it) is in all cases contrary to the ethical principles on which it is based and with which it unconditionally intends to comply;
- strengthen and improve control, monitoring and sanction mechanisms to prevent any offences from being committed.

The Organisational Model constitutes a set of binding internal company regulations. It ensures that the company is protected against offences based on the administrative responsibility of entities. In relation to each of such offences, it:

- indicates the sanctions imposed by the legislator (fines and, where applicable, disqualifications);
- identifies conduct deemed to carry a risk of the commission of an offence, and indicates the areas/activities in which there is is a risk that an offence could be;
- sets out the obligations and/or prohibitions on conduct applicable to persons that operate in Volksbank.

All company personnel (from top management down) are required to be familiar with the Volksbank Organisational Model and to comply with its requirements, together with the requirements established in the Code of Ethics. Specific training was provided to personnel during 2018. Any breach of the Model is sanctioned in the manner and under the terms indicated in the Model.

The Supervisory Board pursuant to Legislative Decree 231/01

The task of supervising the operation and observance of the Model and of verifying that is kept up to date, is entrusted to the Supervisory Board, which is established by resolution of the Board of Directors. The Supervisory Board performs its autonomously and independently of operational management and all company departments.The Board is made up of:

- the Head of the Compliance Office;
- the Head of the Internal Audit Office;
- the Head of the Risk Management Office;
- the Head of the Corporate and Legal Affairs Office;
- a legal professional (criminal lawyer) with specific expertise and experience, who is external to the company.

In 2018, the Supervisory Board met every six months to assess information flows received regularly from company departments, which, with a high degree of detail, assisted it in its duty of monitoring compliance with the Organisational Model, assessing its effectiveness, and ensuring that it is kept up to date.

The Supervisory Board did not detect any violations of the Volksbank Organisational Model in 2018. It reported on the results of its activities to the Board of Directors on a half-yearly basis and made recommendations to ensure the widest understanding and dissemination of the Organisational Model to all persons concerned.

1.8 THE DISTRIBUTION MODEL

1.8.1 INTEGRATED APPROACH TO CUSTOMERS, MULTICHANNEL APPROACH AND MULTICHANNEL STRATEGY APPLICATION

The distribution model is based on the concept of integrated multichannel distribution, establishing constant dialogue with the customer through all available channels, including innovative channels and a service (information, advice, contact and sale of products) that is integrated across the various channels.
The distribution network is focused on providing advice and assistance to customers using specific segmentation criteria which assigns the relevant service and consultancy models, the appropriate specifically trained personnel, and specialised advisory centres for specific customer segments. In March 2018, the regional structure was replaced by a functional structure with the creation of two Business Lines, BL Retail and BL Corporate-Private, with the clear objective of improving the quality of relationships and specialisation of the services provided to the various customer segments.
The Retail Business Line is responsible for the Retail and Small Business segments and is mainly provided through branches. The retail customer is managed by a consultant who identifies and meets client requirements, including through an integrated Customer Relationship Management ("CRM") system.
Highly valued private customers and corporate entities are served by consultants operating from the Corporate-Private Business Line centres.
Consultancy is provided according to specific service standards ("SLAs"), which include, *inter alia*, an annual interview structured and supported by specific consulting applications.
The multichannel nature and automation of services is progressively freeing up customers' time, enabling them to benefit from consultancy services.
The specific commercial initiatives are undertaken with a view to differentiating the Bank's service provision from that of its competitors, *inter alia*, by maximum exploitation of the Bank personnel, who constitute the real added value of the Bank's service. Closeness to customers enables the Bank to identify and meet their requirements continuously. Volksbank intends to continue in this vein, to foster the development of a demand-driven service provision.
The implementation of the revised multichannel strategy continued during 2018 as part of the Bank's 2017-2021 business plan This approach includes four equally important distribution channels (branch, online banking, contact centre and mobile consultant). Customers choose the channel to use according to their needs and preferences. The new channels are as important as the branch in terms of customer relationships, operations and management. The services provided by the Contact Centre are continuously being extended to take account of customer requirements. The consultants who operate from the Contact Centre mainly come from branches in order to guarantee clients a professionally qualified service. The "mobile consultant" channel is currently being studied.
Also during the year, the New Distribution Model project was launched within BL Retail. The principal objective of the Model is to redesign the Bank's territorial structure and to use of digital channels to operate more closely to the various customer segments over the coming years. This model, which envisages the centrality of the Head Branch as a point of reference for a territory larger than that which is currently served by individual branches and specialised offices in the world of residential properties and insurance, will be tested in 2019 on two 'pilot' areas, in order to verify its applicability and sustainability, before being extended to the entire Bank. The impact of this new view of the relationship, including digital relationships with the territory, will be particularly strong for the retail world and will lead to the emergence of a new method of service provision, which will be increasingly based on multi-channel services, while maintaining the centrality of the client-consultant relationship.

BRANCHES	31.12.2018	31.12.2017
Territorial branch distribution		
Trentino Alto Adige	**75**	**78**
- Bolzano	58	60
- Trento	17	18
Veneto	**92**	**96**
- Belluno	20	20
- Treviso	21	22
- Venice	14	15
- Vicenza	31	33
- Padua	6	6
Friuli Venezia Giulia	**3**	**3**
- Pordenone	3	3
Total	**170**	**177**

1.8.2 THE TERRITORIAL NETWORK AND COMMERCIAL ACTIVITY

THE COMMERCIAL NETWORK	31.12.2018	31.12.2017
Traditional branches	170	177
Corporate Consultancy Centres	10	2
Private Consultancy Centres	7	7
ATMs	199	204
POS	9,903	9,100

The Retail Business Line mainly serves customers in the Retail and Small Business segments in the branches. In 2018 this line underwent a process of rationalisation in order to achieve a more efficient cost structure.
The Corporate-Private Business Line serves highly valued private and corporate customers, which due to their needs and characteristics require more in-depth and specialised consultancy. Both of the Commercial Directors are part of the management team.

- The commercial network consists of geographic territories with specific customer segmentation:
- BL Retail: composed of six areas divided into individual territorial markets;
- within individual areas, the geographic market is divided into market areas (leaders) and branches, and in some cases separate offices.
- BL Corporate-Private: composed of 3 Private Centres and 3 Corporate Centres distributed throughout the Bank's territory. These centres provide specialised consultancy services for private and corporate clients.

1.8.3 THE CLIENTÈLE

Private Customers

Nearly 239,000 private customers, 30,000 corporate customers and 7,000 clients of other types were served in Volksbank branches and consultancy centres.

CUSTOMERS	31.12.2018	31.12.2017
Number of customers		
Individuals	238,614	233,290
Corporates	30,029	29,083
Others (public administration, associations, etc.)	6,744	6,097
Total	**275,387**	**268,470**

Integrated multichannel service provision is a key part of the commercial strategy. Customers are provided with virtual channels through which most transactions can be executed. The Bank offers its clients various solutions: from the Contact Centre to "mobile" (smartphone and tablet) services, to the direct b@nking and the in-branch kiosk. Customer care is ongoing: the customer is contacted by a consultant for after-sales support, particularly for some more complex products to ensure that the service sold to the customer has created the desired added value.

Business customers

Corporate customers are monitored in a targeted and frequent manner. These clients are invited to an interview with their consultant at least once a year. At these meetings, the customer's current situation is analysed and an opportunity is created for a discussion on future plans. The "Rating Report" is also provided to the customer and discussed. Measures can then be taken to improve the rating.
The objective of this interview is to identify the needs of the company from a 360° perspective: from financing to risk hedging, to payment and collection systems.
During 2018, the sectoral specialisation of Corporate Consultants continued, in order to offer clients more focused and professional advice. For example, specialisations were developed in tourism, metalworking and agri-food. At the territorial level, a number of consultants were identified and received ongoing specialised training.

1.9 BANKING BUSINESS

1.9.1 BANKING PRODUCTS

The following projects were developed during 2018:
- Continuous monitoring and analysis of the product range and optimisation of the product catalogue;
- Introduction of new products in response to inputs received from the commercial network in particular;
- Strategic projects (e.g. multichannel, home mortgage, digital payments, etc.);
- Digitalisation of sales and after sales processes;
- Expansion of service provision on online and mobile channels;
- Support and assistance for the commercial network;
- Regulatory Workshops (Compounding, Usury, EU Mortgage Credit Directive, EU Payment Services Directive ("PSD2")).

From a regulatory standpoint, a Product Oversight Governance ("POG") policy has been developed and approved. The policy imposes very strict criteria for the sale of new products with a view to greater protection for retail customers.
With respect to technological development, from the perspective of a better user experience, there has been a change in online user behaviour increasingly towards mobile use on smartphones, to the detriment of the more traditional use of personal computers. For this reason, in 2018, particular attention was paid to the customer experience of mobile banking and efforts focused on speeding up and simplifying the use of the Volksbank smartphone app. With the new biometric access function (fingerprint or facial recognition) the app has become more attractive and the number of times the app was accessed doubled within a few months.
In terms of loans, several initiatives were taken to facilitate our customers within the territory. With regard to companies in particular, we have offered customers €50 million line of credit of EIB funds, the beneficiaries of which have obtained favourable tax and financial terms. For the victims of the bad weather in our territories, a line of credit has been established for loans under special conditions.
With respect to insurance products, the year 2018 ended with a positive result that saw commission continue to grow compared with 2017, exceeding the €8 million mark for the first time. The year was characterised by intense work, mainly focused on the new European IDD regulations and the ensuing regulations issued by IVASS, the Italian Insurance Companies Supervisory Authority. The Policy defining the Product Oversight Governance for the distribution of insurance products was developed and, in addition, work was done on the adaptation of operating systems, both with regard to the new logic of questionnaires for analysis of customer requirements (formerly adequacy questionnaires) and to the new contractual and mandatory pre-contractual documentation. Training in insurance products ensured that

employees providing insurance consultancy receive the certifications required by law. A hundred employees completed the training process enabling them to obtain authorisation for insurance placement for the first time.

1.9.2 PROVISION OF INVESTMENT SERVICES

2018 saw the commencement of preparatory activities for the implementation of the more immediately applicable provisions of MiFID directive (e.g. transaction reporting, ***ex-ante*** cost and charges transparency, product governance) while at the same time the progressive adaptation of the less immediately applicable "MiFID II" legislation (Directive 2014/65/EU) such as ***ex-post*** cost and burden transparency and periodic adequacy assessment continued. The legislative deadline for implementation of this legislation is in year 2019.
The process of providing investment services, particularly in the field of advisory services, was further consolidated, commencing with the identification of customer requirements and the determination of their investment profile. This work resulted in a specific recommendation aimed at meeting both overall requirements (portfolio advice) and specific (single objective) needs.
In this respect, the new ESMA-compliant MiFID questionnaire for natural persons and the introduction of the new MiFID ESMA-compliant MiFID questionnaire specifically for legal entities were decisive.
The Bank provides investment advice at various levels of depth (light, full, plus) through its branch network, while for high value customers, consultancy is provided through dedicated centres. The difference between the various levels of depth relates to the greater structuring of the portfolio models offered, as well as the products that they include.
Our primary objective of supporting our customers in making rational and informed investment decisions through simple and sustainable solutions has been further enhanced: particular attention has been paid to asset management products (in conjunction with capital protection insurance products) in response to conditions which are difficult to interpret and which can therefore be met with products characterised by high levels of diversification and varying risk/return profiles, and with a view to providing clients with 360 degree advice in response to their needs.
To this end, the collaboration with Depobank (formerly Nexi) continued in 2018. This company periodically checks the composition of the model portfolios proposed to our clients and monitors the individual financial products that they include.
Meetings continued during the year with the various fund houses in order to assess the quality of financial instruments and identify any new services and products that could enhance our offer.
Given the Bank's desire to provide our customers with investment solutions characterised by sustainability, the range of products on offer was expanded during the year with the inclusion among the products available of further products that enrich the traditional range of products but above all improve the quality of the portfolios of the "ethical" line which, designed for customers who are attentive and interested in this important strategic area for the Bank.

In order to develop further technical and specialist knowledge, MiFID II certification training was conducted throughout the year for of the approximately 750 network consultants authorised to provide all investment services to clients, as required by legislation.
In addition to the "mandatory" courses for financial consultants required under MiFID2, it was decided to extend the training reserved for financial consultants to internal training/classroom sessions provided over several days by the Wealth Management and Control Service. These courses are structured at two levels (basic and advanced) depending on the employee's level of knowledge of economic/financial matters.
Again in relation to training, with a view to improving the skills and knowledge of financial consultants on the range of products offered to better meet customer investment needs, training sessions were organised during the year that included our leading asset management partners in collaboration with the Wealth Management and Control Service.
Finally, while 279,799 treasury shares were traded on the Hi-MTF segment for an equivalent value of €3,711,483.60 two bonds of our own issue were traded on the Hi-MTF order-driven bond segment.

1.9.3 OWNED PORTFOLIO MANAGEMENT

All major global equity indices were negative in 2018, but losses were especially heavy in the old continent. The causes can be identified in several events and/or factors that have led the markets to react negatively.
The commercial tensions provoked by the United States, the uncertainties associated with BREXIT, the continuing low inflation and, last but not least, the end of QE by the ECB were decisive for the negative performance of the stock markets.
In the case of Italian government bonds, albeit belatedly given general election and the subsequent establishment of the new government, spreads on BTP bonds increased significantly, first in June and then with the budget law in the autumn. The initial difficulties in the dialogue with the EU Commission mainly on the budget proposal have gradually been overcome, as a result of which there has been a reduction in the tension on the spreads for private and corporate debt, but they are at historically very low levels.
The world money market is characterised by the upward policy of the US Federal Reserve, which decided on four increases in 2018, and the ECB's end-of-expansion policy. In Europe, the ECB started phasing out QE as early as the second half of 2018.. Despite these two factors, the interest rate curve in Europe fell slightly (on average around 10 BP) and flattened, as expectations for the deteriorated economy dropped significantly.
The Bank's proprietary portfolio had an average holding of around €2.1 billion. The share of securities classified as HTC (held to collect) was strengthened with the aim of stabilising income statement volatility. Given the instability in the target market, the portfolio duration was reduced to below 4 years. Towards the end of the year, market opportunities arose that enabled further portfolio growth with a view to strengthening coupon components. The share of equity securities, almost entirely classified as FVOCI, remained stable at 3% of the Bank's entire investment portfolio.

1.10 GOVERNANCE ACTIVITIES

1.10.1 LIQUIDITY AND FUNDING MANAGEMENT

The "strategic plan" and the "liquidity and funding operating plan" were based on the constant scheduling of forms of refinancing, the development of the proprietary securities portfolio, and the planning of customer flows.
The flows in question contribute to the definition of the liquidity requirement during the year and consequently guide decisions regarding the execution of transactions on the market. The solid refinancing base consisted of the growth in direct funding from customers, the placement of a Tier 2 subordinated security with a nominal value of €25 million and the sale of ABS securities with a nominal value of €260 million. Sources of new cash were well above requirements, and consisted of redemptions of institutional "Schuldschein" bonds for the sum of €2 million and the redemption of €186 million under plans to amortize securities relating to securitisations placed on the market. The remaining liquidity requirements for the year, such as the gradual increase in the proprietary securities portfolio by around €291 million and the outflow relating to the payment of the year-end tax maturities, were refinanced by participation in the ECB's MRO and LTRO auctions and by repo transactions with banks.
The amount of "eligible securities" not yet pledged as collateral remained substantial and was further supplemented by purchases of securities issued by the Italian government, as well as other eligible assets as collateral granted to the Eurosystem.
The market environment, dominated by difficulties in forming a government and the discussions on financial manoeuvres and the public deficit, continued to be challenging in 2018. Volksbank's tried-and-tested maturity coverage system and the soundness of the Bank's situation ensured easy access to the interbank market.

1.10.2 MANAGEMENT OF PERFORMING LOANS

The performing loans department is responsible for the process of disbursing and managing the performing loan portfolio according to the principles of sound and prudent management.

Credit risk management, both in the commercial network and in the relevant credit rating analysis offices, follows unique Volksbank standards throughout the territory of reference. The focus remains on maintaining the unity of being a single and unified Bank, across the 2 Business Lines of its commercial network (BL Retail and BL Corporate-Private).
In broad terms, the agreed credit portfolio is equally divided across the various territorial units of the 2 Business Lines. The primary target of reference remains medium to small customers. This includes, in particular, small and medium-sized enterprises, but also private enterprises, for which the aim is to take on the role of the bank of reference.
With a view to remaining a bank rooted in and on the territory, the "special loans" sector provides companies with better and easier access to credit by taking advantage of the opportunities inherent in subsidised loans with interest rate subsidies in accordance with the "Sabatini bis" Law or loans provided through revolving funds. In this context, cooperation has continued with finance companies in support of economic development (for example, Veneto Sviluppo) and the various credit guarantee/underwriting consortia with which the relative agreements were concluded. These bodies manage various concessional instruments for the development of regional companies. In this respect, the Bank collaborates with Finanziaria Internazionale (which manages the "Trentino Alto Adige Strategic Fund") on the "Minibond" product. With "Minibonds" the range of products offered has expanded to become partners of reference for the more structured SMEs. For selected clients, the Bank grants pooled loans with other banks, both as a passive participant in the pool and as an active arranger of the pool.

1.10.3 PERSONNEL

Employees and contractors

The Bank's employees are the most important resource available to the Bank. They require special attention and specific management that takes account of all of their diverse characteristics; they determine the company's results and are a real competitive factor because they give substance to the specific qualities and values that reflect the tradition and code of ethics of Volksbank as a regional bank.
The primary objective of Personnel Management Service and its processes is to implement a strategy that enables individual employees to develop and consolidate their professional and personal skills. These skills are also developed through ongoing and progressive employee training; each employee is part of a is professional project that stimulates the evolution of their role, establishes a fruitful and lasting collaborative relationship over time, and supports and accelerates the Bank's transformative strategy.
The Human Resources Department of the Bank has designed a job rotation model that, with internal rotation and with new recruitment, ensures the necessary resources to:

- consolidate branches located in the various provinces
- strengthen internal promotion and promptly replace staff who have left and those who are absent for a an extended period (maternity, accident or illness)
- exchange experience and professionalism between internal offices and commercial network, based on structural criteria and policies.

To achieve this goal, specific training pathways have also been defined, which reflect both company strategy and the employee's professional development.
An annual discussion with each employee also serves to:

- evaluate performance and behavioural factors
- identify the training requirements of their role
- analyse the potential of each individual employee.

The growth pathway is professional, cultural and human in nature and is designed to guide employees into positions of greater responsibility.
At the end of 2018, Volksbank had 1,327 employees (compared to 1,366 at the end of 2017). This reduction in the number of staff, which is in line with the targets set in the industrial plan, was due to the recruitment of 14 new staff and the cessation of 53 employees (13 of them with retirement packages).

In 2018, 5 new members of the commercial network were recruited and 6 new staff with specific skills in internal services served to increase the level of professionalism.

Considering the working hours of employees on part-time employment contracts (258, an increase on the 245 in 2017) and the exclusion from the count of employees and contractors on maternity or unpaid leave, the level of "full-time equivalent" contractors (FTE) in service at the end of 2018 stood at 1,217, again a decrease compared with 2017 (1,243).

The Bank continued its reorganisation of the commercial network, which affected the number of branches and managers, and of its internal services, by optimising the activities of the Bolzano head office and the Marostica offices, in continuity with the process of structural integration defined prior to the merger. The following table shows the number of employees active in internal services and branches, broken down by province, compared with the preceding year:

Data by province	31.12.2018		31.12.2017	
	Number of persons	%	Number of persons	%
Bolzano – internal services and branches	673	50.6%	692	50.7%
Trento	82	6.2%	82	6.0%
Belluno	82	6.2%	82	6.0%
Venice	74	5.6%	78	5.7%
Treviso	104	7.8%	109	8.0%
Vicenza	282	21.3%	296	21.7%
Padua	20	1.5%	17	1.2%
Pordenone	10	0.8%	10	0.7%

An appropriate generational mix helps to strengthen and maintain the best skills within the Bank. Employees over 50 years of age made up 32% of the workforce in 2018, a slight increase compared to 2017 (29%).

The average age of employees is around 46.

Employees can be divided into the following 3 generational categories:

- baby boomers (born 1946 to 1964) made up 21%
- generation X (born 1965 to 1980) made up 60%
- generation Y (so-called millennials, from 1981 to 2000) made up 19%.

A new supplementary agreement was signed with the trade unions in November 2017, and an accessory agreement was concluded on 21 December 2018 which includes an option to contribute to a so-called "Ethical Time Bank":

- for employees, to accumulate leave for personal holidays;
- for managerial staff, to open a "time savings account" for holiday entitlements in excess of the statutory yearly minimum.

Integration Policies

Volksbank attaches great importance to gender policies, both in terms of recruitment and creating mixed work teams. The percentage of women employees is currently 43%. Of these, 29 occupy managerial positions, 8 in headquarters and 21 in the network.

In Italy, participation in the world of work by people with disabilities is governed by law.

Volksbank believes it is essential to give disabled people an opportunity to collaborate, to enable them to make a real contribution and not simply to comply with the law. In this context, it sees its role as part of the local community.

Work-life balance

Volksbank is committed to ensuring a work-life balance.

The Bank has promoted the "Family/Work Audit" project since 2011. The Bank obtained its first "Family Audit" certification in 2014 and in 2017 a regular "Re-Audit" programme was successfully launched to conduct the Family Audit every three years.

As part of the Re-Audit, existing measures have been confirmed and new measures are adopted for the next three years to further strengthen reconciliation between family and work life within the Bank.

Amongst other initiatives, we could mention the introduction of flexible hours as of April 2018 for all employees in both the commercial network and internal offices.
All the planned measures will be progressively implemented and serve to confirm that the Bank is very attentive to the needs of the family.
Furthermore, KiTas (a social cooperative or "Tagesmütter"), is a kindergarten located at the Bank's registered office, is developing positively from year to year and was in full use at the end of 2018.
As in previous years, in 2018 the Bank agreed new part-time contracts, which enable employees with children to reconcile working with family commitments. This effort is also intended for fathers and all employees, who have taken responsibility for home care of family members.
At the end of 2018, 19 employees were on maternity or parental leave; another 12 were absent for an unpaid leave period granted under the Company Supplementary Agreement to parents until the end of their children's 5th year.

Personnel training and development

In 2018, 86,154 hours of training were provided to employees, which corresponds to an average of 65 hours per employee: an indicator of the efforts made to qualify and reinforce the skill base of employees.
The professional development of commercial network staff focused mainly on technical - banking training, offering in-depth courses in the areas of finance, securities, loans and banking products, particularly for newly recruited staff.
In addition, a total of 1,727 hours of on-the-job training were provided, giving valuable support to employees directly at the workplace.
During 2018, the focus was on optimising and increasing the efficiency of training in accordance with the Bank's statistics and objectives. This is the case with specialist training and management events: the focus was on those areas that indicators, surveys and discussions with employees have revealed to be requiring attention.
An increasingly important role has been played by self-learning in its various forms. This type of training now makes up 56% of total training hours. With e-learning modules, Lync sessions, videos and other forms of multimedia learning, it has been possible to take advantage of the opportunities that have arisen at the technical level in terms of time and cost efficiency.
Finally, a specific course was designed for new employees, which included classroom sessions on corporate strategy, personality development, public speaking, presentation techniques, project management and individual coaching.
The programme involved 21 employees for a total of 945 training hours.
The aim was to identify not only the technical expertise, but also the degree of harmony between staff and the Bank of the future, given that these young employees will be the Bank of tomorrow.
The focus of the initiative was to gain an understanding the digital mindset, cognitive flexibility and employability, not only in current positions in the bank, but also in terms of the future.
The direct managers of these employees received targeted training on coaching techniques to follow them and reached agreement with them on a project related to bank strategy. In addition, a mentoring and peer coaching programme has been set up for them, with an exchange of feedback between the mentor and the manager of the employee on areas of development.
During 2018, the Bank continued to focus on the professional development of managerial staff with a view to raising awareness and fully adopting the new steering model in line with the Volksbank strategy and vision. On the basis of this model, a Development Centre was developed involving 30 employees (management and employees with potential). In 2017, an individual training programme was launched to cater for individual needs, while in 2018, an 18-month group training programme was launched.
The training modules conducted in 2018 focused on the Bank's strategy, team building, design thinking and human-centred design.
The Bank will continue to develop and harmonise the basic skills of management staff (feedback, coaching) and the role of manager in the training of its personnel.

IVASS certification

In 2018, 877 employees (97% of commercial network staff) were registered with IVASS (the Insurance Companies Supervisory Authority) and are therefore authorised to provide advice and sell insurance products. In total, approximately 25,000 hours of training were provided for IVASS purposes.

MiFID II certification

In 2018, 754 employees (84% of commercial network staff) were certified for MiFID II purposes and thus were able to provide advice and sell financial products. In total, approximately 24,200 hours of training were provided, approximately5,300of which was provided in the classroom and 18,900 through e-learning.

MCD Certification

In 2018 a training course in the area of loans was launched, as required by the Bank of Italy's implementing provisions on the "Transparency of banking and financial transactions and services". A total of 709 employees were registered on the course, which which consists of approximately 5,700 training hours and must be completed by 19 March 2019, the date of final entry into force of the new legislation.

Annual dialogue with each employee

Meetings with employees are held annually and are an important management tool.
The evaluation form introduced in 2016 was still in use in 2018. The form provides a basis for a more objective assessment of the professional performance and potential of individual employees. In this process, dialogue between the reviewer and the employee continues to be of prime importance. All activities assigned are discussed and commented on, including aspects that can be improved.
The annual interview with the employee is an important tool for setting mutual expectations, developing strengths and identifying areas for improvement, and requires personal commitment from both sides. In 2018, as in previous years, efforts were made to develop managers' skills to improve and refine the conduct of the meeting with the employee by means of workshops and "training rooms".

External training

Volksbank also proposes and encourages participation in external training events, such as courses, seminars and workshops (promoted, for example, by the Italian Banking Association), to offer opportunities for specialist in-depth study, but also for comparison with other entities, which can be the source of new stimuli and reflections that enhance the Bank's wealth of knowledge.

1.10.4 WORKOUT CREDITS MANAGEMENT

The organisational structure of the Management is designed to ensure an adequate process for the oversight and management of non-performing loans and is divided into the Abnormal Loan Analysis Service, the Bad Debts Service and the active Workout Service with support from the Portfolio Management/Reporting Service.
The Management has adopted a policy that regulates the criteria and methods for applying value adjustments by codifying the rules that, depending on the impaired loan, the original technical form and the type of guarantee supporting it, establish the minimum percentages to be applied for determining loss forecasts. Monitoring of such situations is ongoing and related to the evolution of the individual position.
The Abnormal Loan Analysis Service has stepped up its work in the prevention and management of receivables, increasing support for the network and favouring the adoption of good-natured recovery measures. In this regard, 331 positions involving companies and individuals with a value totalling €44 million were classified as performing or recovered from probable default.

The Bad Debts Service continued its core business of proactive portfolio management by recovering positions classified as non-performing by extrajudicial or judicial means. The approach provides for "in house" management with the collaboration of external lawyers if it is necessary to take legal proceedings.
For smaller exposures, for which no property guarantees exist, a collaboration has commenced with a leading servicer operating in Italy.
Ordinary procedures enabled recovery of approximately €90 million, an increase of approximately €20 million compared to 2017.
With a view to optimising portfolio management, two 'without recourse' assignments were completed in 2018. The sale of approximately predominantly unsecured 400 positions for a gross book value of approximately €40 million, was completed by means of a multi-originator transaction.
The second assignment resulted in the disposal of a portfolio of secured NPLs consisting of approximately 100 positions for a gross book value of approximately €140 million.
The Portfolio/Management Service also implemented quality periodic reporting and IT procedures in support of management procedures.
The active Workout Service has constantly intervened in support of the exploitation of property assets to safeguard problematic positions managed by the Abnormal Loan Analysis Service and by the Bad Debts Service.

1.10.5 TECHNOLOGICAL AND ADMINISTRATIVE SERVICES AND PROCESS INNOVATION

Banca Popolare Volksbank uses the services of the IT outsourcer SEC Servizi S.p.A. of Padua for the management, evolution and innovation of the entire IT system supporting all banking processes, both branch and internal.
SEC Servizi offers advanced multi-channel solutions and centralised back-office services which are capable of ensuring adequate levels of service and constant evolution and innovation of the products and services offered by the Bank..

Future Branch – Expansion of the cash recycler with touchscreen to rationalise cashier counters

The rationalisation of the cashier counters continued in 2018, as the cash recycler touchscreen arrived at 67 branches. In these branches, the role of a fixed cashier is no longer necessary as an automated till with a multi-operator machine is used by all branch employees.
The data available vindicates this operating model: in these branches, the rate of use of Evolved ATMs for cash payments is the highest ever, averaging 70% of cash payments.
The Bank aims to develop clinical solutions based on Tablets, Evolved ATMs, Kiosk E-Post and Cash-Recyclers with Touchscreens.

Tablets

In addition to consolidating the signature of counter transactions on tablets and bank contracts, over the course of 2018 the tablet signature was rolled out to almost all branch processes, the completion of this ongoing work is scheduled for late 2019.
This function brings significant benefits to customers and banks:
- the operational risk of missing signatures on contracts is reduced (avoiding any subsequent requirement to obtain missing signatures)
- certainty and immediacy is obtained in filing contracts (the client immediately gets a copy of the contract in their internet banking and can consult it at any time)
- physical contract in branches and central offices is reduced, with corresponding cost savings
- a contribution is made to environmental protection by reducing paper and toner consumption

Tablet signing is the result of an analysis of the most convenient methods of use for customers and employees. A "deferred signature" function has been implemented for tablets which, in the case of joint contracts (e.g. husband and wife, companies with 2 or more legal representatives, etc.) enables all signatory customers to attend the branch at different times, independently of each other. The agreement is valid with the signature of the last of the co-beneficiaries.

This development was particularly complex and involved months of checks and testing, but feedback from users shows that it is a highly valued and often used function. As a result, tablet use in Volksbank increased further in 2018 to around 1.398 million uses and around 298,000 signed agreements on FEA, and is set to increase further in 2019.
Credit agreements and all forms currently available from the Bank's Intranet were also migrated to tablets in 2018. In 2019, current operations will be definitively refined in order to reduce the use of paper contracts to a residual percentage.

Future Branch – Desk Scanners

The installation of the "desk scanner" for each workstation that began in 2016 concluded in 2017 resulted in significant reductions in the Bank's internal mail volumes. These devices and the constant increase in customers' use of tablet signatures of contracts and documents enabled a reduction in staff assigned to document filing. The introduction of a new cheque processing function has enabled further savings in courier costs.

E-post kiosk

The availability of bank documents at the kiosk (e-post), introduced in autumn 2014, was further expanded in 2018. Almost all the documents that the Bank sends to the customer can now be viewed and printed in the kiosk.
The e-post service generally favours customers: in some regions, more than 80% of customers without internet banking agree to view their documents in the kiosk and do not wish to receive them by traditional mail.

Extension of Evolved ATMs

The installation of evolved ATMs which accept bank and cheque payments continued in 2018. This service is increasingly appreciated by customers. At the end of the year, 133 Evolved ATMs were Issued in 130 different locations. Where installed, on average 60% of banknote payments are made using these machines. Volksbank is therefore continuing with these investments which are designed to rationalise resources and automate banking service.
At the end of 2018 46 cash-recycling Evolved ATMs were activated. This functionality enables cash payments to be made by customers without being handled by bank staff. It is estimated that this has avoided the counting of around €120 million.
In 2018, the project to provide branches with larger volumes of cash transfers with the new "S200" machine. This machine, a "Glory" Cash Recycler, is designed for self-service deposit and payout of recycled banknotes, and as a further innovation has an option to select different banknote denominations. At this point 6 machines have been installed (3 in BZ, 1 in Marostica, 1 in Bressanone and 1 in Merano). In 2018, the machine functionalities were consolidated by developing, in collaboration with the supplier Auriga, customised software that meets client/branch requirements that emerged during the verification phases of branch operations. Customer appreciation is good, particularly for large sums, which are processed more quickly by this type of machine than the use of a cash-in ATM, and the option to exchange banknotes outside banking hours is very much appreciated (this is currently possible 21 hours a day. The service is expected to be 24/7 in 2019).

Modernisation of Branch Infrastructure

The hardware infrastructure of the branches was modernised in 2018, continuing the project that commenced in 2016. Cash Recycler equipment continued to be installed at branches in 2018. This speeds up cashier operations and make cash management safer by reducing the risk of robbery. This modernization also meets the requirements of the security service, which requires that cash be traceable through modern machinery, especially in branches with large cash turnovers.
In 2018, the modernisation of network components commenced, with the replacement of network switches and progressively firewalls with more high-performance equipment. This project will continue in 2019.
The WAN (a geographic network interconnecting offices, SEC offices and all branches) has also evolved in terms of speed and available bandwidth, given the growing demand for online services. These upgrades will continue in the coming years.

In 2018, some laptops that had passed their life cycle were replaced and the distribution of Microsoft Surface PRO devices increased. With the activation of indirect sales channels, the use of these devices is expected to increase in 2019.

Upgrading of central infrastructure

The current configuration consists of a primary data centre in Bolzano and a disaster recovery centre in Marostica, as required by law. With the creation of a second data centre in the facilities available in Marostica, the response times of the systems for the offices in Marostica have improved on the one hand, while on the other a backup centre has been created in the event of a breakdown in of one of the two centres. As of 2019, it will be possible to reduce the costs of third party suppliers that provided a backup for the data centre.
In terms of central infrastructure, supervisory systems and defences against cyber attacks were also refined and expanded in 2018. These investments must be maintained and increased over time, given the ongoing increase in these risks.
New high-capacity mass storage equipment was introduced in 2018. Furthermore, a significant investment was made in replacing a large part of the Farm in order to continue to provide a high level of service, which is always ahead of the new requirements for the systems in use.

Regulatory Requirements

A large part of the application evolutions in 2018 concerned adjustments required to comply with new regulations. Once again, there have been new legislation and adjustments in the areas of anti-money laundering, adequate verification, usury, compound interest, reports and balance sheets, and FATCA and CRS regulations for the prevention of international tax evasion. Thee new Anacredit reporting was activated in 2018. The "dematerialised" management of cheque processing, which was activated in 2017, was fully implemented in 2018. In 2018, all new MiFID II rules were refined, completing the interventions to the various procedures affected. Finally, the new privacy provisions laid down by the GDPR were brought into force in the various registries concerned.

1.10.6 ONGOING PROJECTS

PSD2

On 23 December 2015 the EU Directive 2015/2366 of the European Parliament and of the Council on payment services in the internal market (so-called PSD 2 - Payment Services Directive 2) was published, and was implemented by Member States on 13 January 2018.
The main aims of the legislation are harmonisation within the European retail payments market, increased competition between operators and between products and channels, and increased attention to the new instruments made available by the rapid technological development that increasingly characterises the market for new retail payment products.
The Bank has completed the first phase of the project (intervention for foreign operations in January 2018) in line with regulatory deadlines.. A second phase of the project is underlay to meet the most innovative requirements introduced by the standard. These are designed to increase security for remote access and to open account access to third parties with the consent of the owner. This second strand of the project, concerning the security and access component, is being developed in accordance with the established deadlines (September 2019 and intermediate deadlines). These developments will give the Bank the opportunity to pursue a number of opportunities, including the creation of new services through partnerships with third parties.

GDPR

Since 25 May 2018, Regulation (EU) No 2016/679 has been applicable in all Member States of the European Union. It establishes uniform levels of protection for the personal data of European Union citizens, laying down the obligations incumbent on data controllers (companies and public bodies) and the rights that any data subject (natural person) can

exercise to control the management of their personal data, at a time marked by the digitalisation of information and the rapid circulation of such data.
Confidentiality and the protection of information, all information, has always been a cornerstone of the Bank's actions, an ethical principle that cannot be changed over time, even in the face of changing technologies and regulations. In particular, with regard to IT risk, the Bank guarantees high efficiency in its hardware and software systems, in accordance with specific regulations issued by the Bank of Italy. All processing operations carried out within the Bank are protected, both during the design and introduction of new products, services and/or technologies and during their operation in the Bank's day-to-day business with its customers and any third parties involved.
In 2018, the Bank adapted its technical and organisational measures to the requirements of Regulation (EU) No 2016/679 in two phases: the first involved analysing and assessing the risks inherent in the processing of personal data and the second involved implementing concrete measures to comply with the legislation. The Board of Directors, in its capacity as Data Controller, has produced guidelines for the organisational model for privacy and data protection and has appointed a Data Protection Officer (DPO). It also strengthened the internal structures responsible for overseeing the security (physical and IT) of personal data and has overseen the implementation of all measures provided for by the legislation. These include the provision of up-to-date information to data subjects and the active management of consents in the Bank's information system and institutional website. This means that the Bank processes the personal data of its customers, by default at each stage of its banking service, in accordance with the consent that each data subject has given (or amended or denied) for each purpose of processing.
All Bank employees undergo regular training and refresher courses in matters of privacy, because they are the persons materially authorised by the Data Controller (the Bank) to process personal data and therefore play the most important role in all legislation.

AnaCredit

The European Central Bank (ECB) approved Regulation (EU) 2016/867 on the collection of granular credit and credit risk data (the "AnaCredit Regulation") on 18 May 2016. The Regulation aims to establish a database on loans granted by the Eurozone banking system. On the basis of this legislation, Eurozone national central banks will collect harmonised and granular information from resident banks and foreign branches on loans and guarantees relating to counterparties identified as legal entities.
In order to establish the necessary infrastructure to ensure constant reporting as required in the legislation, the Bank has launched a specific project in collaboration with its IT services centre.
Application was released within the established deadlines. Some optimisations in data input verification remain to be completed.

Branch digitalisation

In recent years, the Bank has launched several initiatives for the automation and digitalisation of the Bank's branches and distribution channels, both internally and in collaboration with its IT services centre. In particular, the following lines of action were pursued during the first half of 2018:

- a plan to digitalise cheques was completed. This enables the Bank to transmit flows electronically to other banks, automating the check management processes and unifying them throughout the banking system, thus reducing the frequency of courier transports;
- plans to introduce cash recyclers and to replace traditional ATM devices with Evolved multi-function ATMs continue. These enable the recycling of cash and a reduction in the need feed cash to ATM machines (cash-in and cash-out functions);
- dematerialisation initiatives continue in branches, with the objective of making more documents available in electronic format. The use of advanced electronic signature ("AES") is also being extended to the most frequent operations.

Extension of the value chain

This project has introduced a new innovative method for project management in order to extend the value chain, optimise existing products and services, and supplement services provided with innovative solutions in the "home dream" environment.
The working group used customer-centric tools and methodologies to identify the customer's real needs and expectations.
The reflections resulting from the interviews with customer focus groups were used to present the most representative behavioural aspects of the Bank's customers through the construction of the following qualitative tools:

- an "empathy map": a visual map that represents what the customer perceives emotionally when interacting with our product, service or brand. It is designed to gain a better understanding of the customer's point of view (what the user thinks, listens, says, sees and feels);
- "Personas": archetypal aspects representing a recurrent behavioural pattern among customers, designed to represent the needs, aspirations, behaviour and attitudes of a particular customer segment towards a product, service or brand;
- "Customer Journey": chronological and progressive reconstruction of the user's interaction with the product, service or brand, in order to identify and highlight choices and touchpoints with the customer;
- "Service blueprint": diagram representing the entire ecosystem involved in the delivery of a specific product or service, mapping the main interaction flows between the various levels of the Bank (customer, touchpoint, front-end, back-end, support processes, etc.), in order to provide an overview of user interactions and the impact that each of them has on the various levels.

During the final phase of the project – the Prototyping phase – a raw prototype of one of the possible new services that Volksbank hopes to offer in the "home dream" environment was created.
This path has enabled the Bank to understand the customer from a quantitative as well as qualitative standpoint. Many product and service design ideas were developed, as well as developments of existing products based on real customer needs. These will gradually be implemented during 2019. This means building greater value for Volksbank's offering today and improving return rates while also optimizing the impact on internal processes.
The objective of this innovation process is to implement new solutions and gain an understanding of how to activate new products and services that appeal to customers.

New omnichannel service model

The Bank aims to increase the level of its omnichannel offer, with a view to offering a seamless user experience, regardless of the touchpoint used (physical or digital). The ultimate goal is to offer the same products, services and level of support, on all currently active touchpoints, whether physical or digital, and to set the priorities for interventions on the basis of the real needs of customers.
In a dedicated project, the current model for the delivery of products and services was mapped through the various channels and the target omnichannel model was identified on the basis of customer needs. The mapping was performed using Personas and Journey Map techniques to track the delivery process ("as-is" and "to-be") of the Bank's main services on the various channels, and the interaction between them. A list of strategic actions and areas for action needed to close the gaps compared to the ideal model was then defined on the basis of the results of this first phase of the project. The relevant plan, with technical, commercial and organisational activities, defines priorities and outlines a three-year development path, taking account of developments in the Bank's IT infrastructure.

New distribution model

A rethinking of the distribution model is a key initiative for the Bank's path to transformation over the next 3-5 years.
The project site is oriented towards understanding the digital propensity of customers and assessing the implications on the distribution model in the short and medium term. To this end, the importance of the Bank's presence on the territory and the level of dissemination of digital channels among the various customer segments were analysed. The findings that emerged were then validated through quantitative analysis, in order to rethink the delivery of products

and services by exploiting new channels to increase engagement with the customer and gain greater knowledge of customers in order to optimise the sales channels.
On the basis of the analyses that were conducted, a new optimal service model was defined that adapts the Bank's strategy for the distribution of products and services, with objective of responding to the expectations of existing customers and finding new customers through a rethinking of the strategy for the use of the channels and for their integration.. The model also takes account of the geographical diversity of the Bank's various areas of operation, proposing general guidelines that are tailored to the Bank's specific characteristics.
The first phase of the project was successfully completed with the approval of the new model by the Board of Directors in December 2018.

In a second design phase that began at the beginning of 2019, the new distribution model will be tested through a pilot project in two selected and limited territorial areas. Using a pilot project will enable the Bank to assess the effectiveness of the model, identify the measures required for improvement, define a plan for the gradual implementation of the distribution model over the rest of the Bank's perimeter, ensuring a customer experience that is consistent in all areas covered.

The new model will enable the Bank to make the current model efficient, operationally and economically, and to create new business opportunities for itself through the full exploitation and control of a distribution model focused on real needs.

Data platform

The project, which is at the launch stage, aims to develop a modern data architecture, i.e. a data platform capable of storing, managing, analysing and developing large quantities of data and offering relevant insights through the selective collection of data from both internal and external sources.
State-of-the-art data architecture can provide real and complete customer knowledge, make internal processes involving data searches and knowledge of the customer more efficient and faster, collect, homogenise and process large amounts of data in order to make Volksbank's service provision more effective, provide useful information to enable data-driven business logics, and create business intelligence tools for consulting near real time data.
The analysis is preliminary to the development of predictive logic for improvement of the commercial service provision and of the user experience.
The main objectives that will pursued in 2019 are:

- Ownership of data, operational independence, and internal efficiency in the management of the Data Platform and data analysis.
- Aggregating various data sources (primarily SEC data but also external data).
- Developing new customer engagement capabilities (with a focus on Business and Credit & Risk environments).

1.10.7 SPONSORSHIPS AND DONATIONS

Sponsorships

Volksbank's sponsorship activity financially supports events, activities or organisations for certain advertising and/or economic benefits in accordance with a specific marketing plan, in order to achieve specific image and/or commercial objectives.
Sponsorships promote the image and popularity of the company, but also tend to consolidate a bond with the customer and constitute a strategic means of facilitating the establishment of new relationships.
In 2018, Volksbank invested a total of €721,000 in sponsorships.
The sectors that have benefited from its sponsorship range from sport, culture, social affairs and training. Support for youth sections of sports associations is particularly important.
In 2018 Volksbank sponsored approximately 160 associations. The investment was approximately 76.6% in athletic activities, while the remaining 23.4% benefited cultural, social and environmental associations.

Sums managed directly by the branches in support of local small/medium-sized enterprises can be added to this total. In 2018 this totalled €271,000.

Sponsorships in 2018	Amount	% of total
(in €)		
Sports	551,831	76.6%
Culture	66,900	9.2%
Social	33,606	4.7%
Other	68,190	9.5%
Total	**720,527**	**100.0%**

Donations

Volksbank also supports the territory through donations in to entities worthy of support. Usually donations are intended for the common good and can also be provided to cultural institutions. The company has traditionally been in direct contact with the local bodies which receive the donations for their catchment area Donations totalled approximately €164,000 in 2018. The recipient institutions include parishes, voluntary secular associations and local institutions.

1.10.8 BANCA POPOLARE DI MAROSTICA FOUNDATION ● VOLKSBANK

The Banca Popolare di Marostica Volksbank Foundation aims to promote and support initiatives with cultural, educational, training, recreational, social and healthcare, worship or scientific research objectives for the benefit of the civil and social fabric in the area where the former Banca Popolare di Marostica, now incorporated into Volksbank, operated.
Total donations from the Foundation in 2018 amounted to approximately €300,000.

1.11 OTHER INFORMATION

1.11.1 INFORMATION PURSUANT TO BANK OF ITALY/CONSOB/ISVAP DOCUMENTS No. 2 OF 06.02.2009 and No. 4 OF 03.03.2010

On 6 February 2009, the Bank of Italy/Consob/ISVAP issued document No. 2 on the application of IAS/IFRS, in order to recommend the inclusion in financial reports of information on a going concern basis, the financial risks borne by the company, audits of the possible existence of asset impairments and uncertainties regarding the use of estimates.
The importance of making every effort to assess the applicability of the assumption of a "going concern" and the related financial statement disclosures was further highlighted in document No. 4 of 3 March 2010 issued by the same authorities, which stresses the need to ensure a high degree of transparency in disclosures on the valuation of goodwill and other intangible assets with an indefinite useful life, on equity investments, the valuation of equity securities classified as "available for sale", and the classification of financial liabilities backed by special contractual clauses.
With regard to the going-concern principle, the Directors have not detected in operating performance or in the evolution of their financial position any situations that could jeopardise the company's ability to continue operating normally. The Directors therefore believe that the capital and financial structure is suitable to guarantee business continuity in the near future. On the basis of this reasonable expectation, the financial statements as at 31 December 2018 were therefore prepared on a going concern basis.
With respect to the reporting of financial risks, these were analysed both in the report on operations and in Chapter E of the explanatory notes entitled: "Information on risks and related hedging policies".
On the occasion of its preparation of its year end financial statements, Volksbank performed an audit of the possible impairment of its assets, including goodwill, equity investments recorded in the balance sheet and equity investments available for sale. A description of the methods of conducting the audit and the resulting results is specifically provided in the explanatory notes, which deal with the assets individually.

With regard to uncertainties concerning the use of estimates as part of the process of producing the financial statements, a specific paragraph entitled "Uncertainties linked to the use of estimates" is provided in the explanatory notes to Part A – "Accounting policies, A. 1 – General Part".
Finally, with regard to the classification of its financial payables, it should be noted that there is no medium/long-term liability to be classed as "current" due to the forfeiture of an acceleration clause or failure to comply with the contractual clauses governing the liability.

1.11.2 DISCLOSURE OF STRUCTURED CREDIT PRODUCTS AND EXPOSURE TO SPECIAL PURPOSE ENTITIES

On the basis of the recommendations made in 2008 by the Financial Stability Forum (now the Financial Stability Board) and by the Bank of Italy (communication No. 71589 of 18 June), the following information is provided on the exposures as at 31 December 2018 to those financial products that the market considers to be high-risk, such as, in particular, Collateralised Debt Obligations ("CDOs"), real estate mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), other special-purpose entities ("SPEs") and leveraged finance.

Exposure to Special Purpose Entities

Special Purpose Entities (SPEs) are entities set up on an ***ad hoc*** basis to achieve a specific objective, normally the securitisation of receivables and operations for the issue of Covered Bonds.
For securitisation transactions, reference is made to special-purpose vehicles incorporated pursuant to Article 3 of Law No. 130 of 30 April 1999, which place on the market the debt instruments issued to finance the purchase of the securitised loans. These receivables are used to guarantee the repayment of liabilities issued by the vehicle company.
Covered Bond transactions, governed by Law 130 of 30 April 1999, are issues of debt securities by credit institutions specifically guaranteed by a portfolio of assets identified and separate from the issuer's assets. These assets are sold by the issuer to a duly incorporated special-purpose vehicle.
It should be noted that the company holds a senior tranche of the HIPOCAT 15.1.50 TV security, which is recorded among instruments held to maturity ("HTM") valued at €0.5 million and relating to the securitisation of receivables.

Structured product exposures

As at 31 December 2018, the main positions in structured credits issued by third parties were corporate bonds, in addition to a number of corporate minibonds.
Total exposure to covered bonds, in terms of book value, amounted to €68,5 million, all classified at fair value with an impact on comprehensive income ("HTCS"), a limited exposure compared to the total portfolio represented by debt securities (amounting to approximately 2.9%).
Structured securities, which have a carrying amount of €71.5 million (equivalent to 3.0% of the total portfolio), are classified at fair value with an impact on overall profitability ("HTCS") of €53.8 million and at amortised cost ("HTC") of €17.7 million. All these instruments have a residual maturity of ten years or less.

1.11.3 EXPOSURES TO SOVEREIGN DEBT SECURITIES

In accordance with the recommendations of the European Securities and Markets Authority (ESMA) in document No. 2011/226 of 28 July 2011, and Consob in communication DEM/11070007 of 5 August 2011, the company's exposure to sovereign debt, consisting mostly of Italian government debt securities, is reported. As stated in the ESMA document, "sovereign debt" relates to bonds issued by central and local governments and government bodies, as well as loans granted to them.

Exposure to sovereign debt securities – by maturity

(€ thousands)

	2019	2020	2021	2022	2023	Over 2023	Total
FVTPL	-		-	-	2,079	-	2,079
HTCS	87,818	189,021	33,995	76,533	35,894	35,196	458,457
HTC	-	90,166	49,174	118,529	216,043	653,965	1,127,876
Total	**87,818**	**279,187**	**83,169**	**195,062**	**254,016**	**689,161**	**1,588,412**

A breakdown by accounting category and issuing country is shown below.

Exposure to sovereign debt securities – by issuing country

(€ thousands)

	FVTPL	HTCS	HTC	31.12.2018
EU countries				
- Italy	-	408,377	1,127,876	1,531,235
- Germany	-	50,081	-	50,081
- The Netherlands	2,079	-	-	2,079
Non-EU	**-**	**-**	**-**	**-**
Total portfolio	**2,079**	**458,457**	**1,127,876**	**1,588,412**

There are no additional exposures in sovereign debt securities. 56.6% of the total exposure held has a residual maturity of less than 5 years.
At 31 December 2018, the sensitivity to the change of 1 bps in the credit spread of the Italian Republic for government bonds classified among "Financial assets measured at fair value with an impact on overall profitability" was approximately €100,000, with an implicit spread-duration of approximately 2.5 years. There are no government securities classified as "Financial assets designated at fair value through profit or loss".

1.11.4 ATYPICAL OR UNUSUAL TRANSACTIONS

With reference to Consob Communication No. 6064293 of July 28, 2006, there were no atypical and/or unusual transactions during the 2016 financial year. Atypical or unusual transactions are understood, in accordance with Consob Communications No. DAC/98015375 of 27 February 1998 and No. DEM/1025564 of 6 April 2001, as transactions that are not part of normal business operations and which, due to their significance and/or importance, the nature of the counterparties, the method of determining the transfer price and the timing of the event, may give rise to doubts as to the correctness and completeness of the information in the financial statements, conflicts of interest, the safeguarding of the company's assets and the protection of shareholders.

1.11.5 INFORMATION ON PUBLIC DISBURSEMENTS PURSUANT TO ARTICLE 1, PARAGRAPH 125 OF LAW 124 OF 4 AUGUST 2017 (the "ANNUAL LAW ON COMPETITION")

Law 124 of 4 August 2017, the "Annual On Competition" (hereinafter also Law 124/2017) introduced in Article 1, paragraphs 125 to 129, certain measures aimed at ensuring transparency in the system of public funding.
In particular, the law provides, *inter alia*, that companies must provide in the notes to the financial statements for the year ended 31 December 2018 - and in any consolidated notes - information on "grants, contributions, remunerated assignments and in any case economic benefits of any kind" (hereinafter for brevity "public grants") received from public administrations and other persons indicated in Article 1, paragraph 125 of the said law. Failure to comply with the publication obligation will result in the return of the sums received to the paying agents.
In order to avoid the accumulation of insignificant information, it is stipulated that the publication obligation does not exist if the amount of public disbursements received is below €10,000.

Notwithstanding the clarifications provided by the Council of State in its opinion No. 1149 of 1 June 2018, the law in question poses certain doubts as to interpretation and application, in particular its objective scope of application, for which reference was also made to the guidelines emerging from the trade associations (Assonime). In particular, in view of the criteria that inspired the law and the guidelines that emerged, the reporting obligations should not include the following:

- fees for services provided by the company in the context of the performance of professional services, services and supplies, or other duties that come within the typical business of the company.

In fact, these are sums received that do not relate to the field of donations/public support policies;

- tax concessions accessible to all companies that fulfil certain conditions, on the basis of predetermined general criteria which are also the subject of specific declarations;
- granting of subsidised loans to its customers, as this involves the disbursement of others' funds (e.g. interest payments by public administration) and not of the Bank's own resources as intermediary.

In addition, since August 2017, the National State Aid Register has been in operation at the Directorate-General for Incentives for Companies at the Ministry of Economic Development, in which State aid and *de minimis* aid for each company must be published by the entities granting or managing the aid. For individual aid to the Bank, please refer to the section entitled "Transparency of the Register", which is publicly available.
This stated, without prejudice to the foregoing with regard to what is available in the National Register of State Aid, in accordance with the provisions of Article 1, paragraph 125, of Law No. 124 of 4 August 2017, the following is an account of sums received during the 2018 financial year by way of "subsidies, contributions, remunerated assignments and economic benefits of any kind".

Company	**Type of contributions**	**Granting Authority**	**Sums received in 2018**
(in €)			
Banca Popolare dell'Alto Adige SpA	Staff training support (*)	FONDIR	33,949
Banca Popolare dell'Alto Adige SpA	Kindergarden Contribution (**)	Autonomous Province of Bolzano	32,890
Total			**66,839**

(*) This is aid for the training of personnel sought in 2016 and paid in 2018. It should be noted in this regard that the contributions listed in the National State Register refer to contributions granted on a date as of October 2017 for which no disbursement was made in 2018.
(**) This is a provincial contribution to childcare at the company's premises.
Note in this regard that the above table, in line with the provisions of the law in question, does not indicate economic benefits below the threshold of €10,000. This threshold is understood to refer to the total benefits received by the same authority in 2018, whether the benefit was granted by a single act or whether the disbursement took place in a number of payments.

1.12 BUSINESS OUTLOOK

The outlook for the world economy remains conditioned by a high level of uncertainty, with economic projections subject to downside risks. Global trade tensions, which have recently weighed on expectations, have relaxed slightly, but they remain a factor of attention. China's economy may slow more than expected, while global financial markets and many emerging markets are vulnerable to sudden changes in risk expectations and growth expectations.
In Europe, economic activity grew moderately in the second half of the year, partly as a result of the slowdown in global trade. Uncertainty has affected confidence and production in some member states, partly as a result of some temporary domestic factors, such as falling car production, social tensions and political uncertainty. As a result, GDP growth in both the Eurozone and the European Union fell to +1.9% in 2018, compared with +2.4% in 2017.

Economic growth in early 2019 was moderate, but the fundamentals remain solid. The European economy is expected to grow for the seventh consecutive year in 2019, with positive figures in all member states, albeit to varying degrees. The growth trend is expected to be more moderate than in recent years, with more uncertainty.
In particular, the European economy should continue to benefit from a progressive improvement in the labour market, favourable conditions for access to financing, and a moderately expansionary fiscal policy. GDP growth in the Eurozone is expected to rise by 1.3% in 2019 and by 1.6% in 2020. EU-wide GDP growth is expected to rise by 1.5% in 2019 and 1.7% in 2020.
Consumer price inflation in the Eurozone, taking into account oil price forecasts for 2019 and 2020, is expected to rise by 1.4% in 2019 and rise slightly to +1.5% in 2020. For the Union as a whole, values are expected to rise by 1.6% in 2019 and by 1.8% in 2020.
In Italy, the economy remained at moderate levels of weakness in the last quarter of the year, after a third quarter in which the contraction in domestic demand led to a decline for the first time in three years. After a modest phase in October, industrial production contracted significantly in November, in line with that recorded throughout the Eurozone. In addition, SME manufacturing contracted, and business confidence contracted further in the last quarter, indicating that private sector activity remained weak.
At the same time, the deteriorating economic outlook also weighed on consumer confidence in the fourth quarter. Considered with unemployment growth in October and November, this suggests continued weakness in consumer spending. Furthermore, concerns about the health of the Italian banking sector, which have re-emerged following the Government's intervention in support of Banca Carige and the ECB's warnings about the deterioration of Banca MPS' capital position could also be a factor of uncertainty in 2019.
The Italian economy is expected to continue to grow at very moderate levels throughout 2019, partly due to the cooling of domestic demand. The gradual reduction in employment growth, due to less flexible recruitment rules, combined with modified productivity growth, will contribute to a slowdown in consumer spending, while higher interest rates, reduced growth in employment and a less favourable tax regime will lead to a slowdown in companies' investment plans. Moreover, the still unstable political backdrop and renewed financial turbulence, combined with the high public debt burden and still fragile banking system, will lead to uncertainty as to the economy's prospects. Italy is expected to grow by 0.7% in 2019 and 0.8% in 2020.
For Volksbank, the evolution of the macroeconomic scenario towards a continued situation of negative market rates combined with low GDP growth could lead to higher credit spreads, while uncertainties in domestic and international markets could have a less favourable impact on operating income.
In terms of lending to customers and the soundness of businesses, the Bank is faced with a macroeconomic scenario characterised by significant uncertainty which, while on the one hand it may involve greater attention when granting loans, on the other hand may be offset by a careful selection of customers, including on the basis of the geographical areas of reference and the sectors most affected by development policies.
The stock of non-performing loans is estimated to have declined further since 2018, due to both the internal workout activity and further disposals.
A slowdown in the economy could penalise investor sentiment, with effects on indirect funding commission.
The Volksbank business plan provides, *inter alia*, for strengthening and diversification of the range of savings products offered to customers, with a gradual focus on sustainability issues. Digital development may allow the gradual strengthening and enhancement of the offer.
Volksbank aims to further strengthen its position as a leading regional financial operator in its catchment area.

1.13 SIGNIFICANT EVENTS OCCURRING AFTER THE REPORTING DATE

In accordance with the special regulations issued by the Bank of Italy, significant events occurring after the end of the financial year are illustrated in Part A, Section 3 of the Explanatory Notes to the Financial Statements.

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

1.14 Report on corporate governance and ownership structure

ISSUER PROFILE

Banca Popolare dell’Alto Adige SpA was born out of a merger of three South Tyrolean cooperative banks. Those banks date back to the “Savings and Loan Banks” established at the end of the nineteenth century in Bolzano, Bressanone and Merano. Of these, the first to be established was the Istituto di Risparmio e Prestiti di Merano. On 1 August 1992, Banca Popolare dell’Alto Adige was created by the merger of the cooperative banks of Bressanone and Bolzano. In July 1995, the Banca Popolare di Merano was added. On 1 April 2015, Banca Popolare dell’Alto Adige merged with Banca Popolare di Marostica, and on 5 October 2015, with the Banca di Treviso, given that, as a result of the merger with Marostica, it acquired the controlling stake of more than 90% of the Banca di Treviso's share capital.
The share capital of the Banca Popolare dell’Alto Adige of approximately €202 million is distributed among more than 58,000 shareholders, most of whom are also customers.
By incorporating the Banca Popolare di Marostica Group, Banca Popolare dell’Alto Adige is emerging in the north-east of Italy with a territorial presence and a model of efficiency and profitability that gives it a new competitive edge in the market. At the same time, the Bank maintains and strengthens its vocation of supporting the development of local economies according to a unified logic of social responsibility towards customers, shareholders, employees and regional communities.
Banca Popolare dell’Alto Adige adopts the traditional management and control model, the essential and defining aspects of which are described in this report.
The Administration has always been committed to encouraging the widest possible participation by shareholders in the life of the company and, in particular, to facilitating their direct participation at Shareholders’ Meetings.

INFORMATION ON OWNERSHIP STRUCTURE
(pursuant to Article 123 bis of the Italian Consolidated Finance Act on 31/12/2017

a) Capital structure

The share capital of Banca Popolare dell’Alto Adige SpA is represented exclusively by registered ordinary shares without indication of the par value.
Banca Popolare dell’Alto Adige S.p.A. shares are traded on the order-driven segment of the Hi-MTF (MTF meaning Multilateral Trading Facilities, recognised by CONSOB), a market managed and organised by Hi-MTF S.p.A., a company specialising in trading in unlisted bank shares on regulated markets, which has as its objective to ensure greater transparency, liquidity and efficiency.
At 31 December 2018, the share capital amounted to €201,993,752, divided into 50,498,438 ordinary shares with equal rights and obligations.
Shareholders are entitled to normal administrative and financial rights.
There are no financial instruments (convertible bonds, warrants) which give an entitlement to subscribe to newly-issued shares.
The ordinary shareholders' meeting, when approving the financial statements, determines the amount of the dividend due on individual shares. Dividends from shares not collected within five years of the day on which they become due are returned to the Bank.

b) Restrictions on the transfer of securities

The shares are registered and freely transferable in accordance with law.

c) Significant holdings of the share capital

As at 31 December 2018, on the basis of the shareholders’ register, notices received pursuant to Article 120 of the Italian Consolidated Finance Act and other information available to the company, no persons hold directly or indirectly a significant stake in the share capital of Banca Popolare dell’Alto Adige S.p.A.

d) Securities conferring special control rights

There are no securities that confer special control rights.

e) Employee share ownership: mechanism for the exercise of voting rights

There are no employee share ownership schemes.

f) Restrictions on voting rights

There are no restrictions on the right to vote.

g) Shareholder agreements

The Bank is not aware of shareholder agreements pursuant to Article 122 of the Consolidated Finance Act.

h) Change of control clauses

There are such clauses.

i) Indemnities payable to directors in the event of resignation, dismissal or termination of employment following a takeover bid

There are no agreements of this kind.

l) Appointment and replacement of directors and amendments to the articles of association

Articles 21 and 22 of the Articles of Association govern, the appointment and replacement of directors through the list voting mechanism.

The Shareholders' Meeting elects the members of the Board of Directors on the basis of lists.

One or more shareholders who are entitled to vote at the Shareholders' Meeting convened to elect the Board of Directors and who together hold at least 1% of the share capital, or any lower percentage established by law or regulations, may submit a list of candidates.

The lists of candidates, signed by the shareholders who submit them, must be deposited, on penalty of forfeiture, at the registered office of the company at least fifteen days prior to the scheduled date of the Shareholders' Meeting in its first convocation.

The lists must be accompanied by information on the identity of the shareholders that submit them, indicating the number of shares they hold and a certificate attesting to their ownership of such shares pursuant to Article 21, paragraph 1 of the Articles of Association, together with any other information required by legislation, including regulations and Articles of Association.

Each list must be accompanied by a thorough report detailing the personal and professional characteristics of the candidates, together with a declaration by the candidates certifying that they meet the requirements established legal, regulatory and statutory provisions, including the requirements of independence, and their acceptance of the candidature.

Election to the office of director shall take place by the following procedure:

a) If more than one list is submitted, all the directors to be elected, with the exception of those belonging to minority lists, are taken, in the progressive order of their listing, from the list that has received the highest number of votes (the "majority list"). The first name in the progressive order of listing that meets the requirements of residence established in Article 20, paragraph 1 of the Articles of Association, is elected from the second and third lists by number of votes submitted or voted by shareholders who are not connected in any way, even indirectly, with the shareholders who have submitted or voted for the majority list and which have each obtained a number of votes representing at least 1% of the share capital (the "minority lists"). If there is only one minority list as a result of the above vote threshold, the first two names, in the progressive order of listing, that meet the residence requirements established in Article 20, paragraph 1, of the Articles of Association shall be elected from the said list.

b) If only one list has been validly submitted, or no minority list obtains the minimum voting threshold indicated in letter (a) above, all directors are elected from the only list.
c) In that event that, in the case indicated in paragraph 6 above, it is not possible to draw all the directors to be elected from the lists according to the mechanism indicated in letters (a) and (b) above, or if no valid list has been submitted by the established deadlines, the positions that remain to be filled for the formation of the Board of Directors shall be filled from candidates, who possess, *inter alia*, the requirements established in Article 20, paragraphs 1 and paragraph 5, of the Articles of Association, and who proposed directly by the outgoing Board by means of a resolution passed by a majority of the incumbent directors and/or by shareholders at the Shareholders' Meeting: the candidates who have obtained the highest number of votes are elected.
d) In the event of a tied vote between lists or between candidates, the Shareholders' Meeting shall hold a run-off ballot by relative majority.
e) Moreover, in the event that the election of candidates drawn from lists in the manner indicated above does not ensure that the composition of the Board of Directors complies with the provisions governing gender balance as established in Article 20, paragraph 1, of the Articles of Association, the candidate of the most represented gender elected last in progressive order from the list that received the highest number of votes shall be replaced by the first candidate in progressive order of the least represented gender not elected from the same list. If it is necessary to appoint more than one director of a different gender, the replacement procedure must continue until the composition of the Board of Directors is compliant with the applicable provisions on gender balance. If it is still not possible to identify directors with the said characteristics even by applying the above criterion, the replacement criterion indicated above must be applied to the most voted minority lists from which elected candidates have been drawn. If suitable substitutes are not identified by this replacement criteria, the Shareholders' Meeting shall resolve by relative majority on presentation of candidates of the less represented gender.

In the event that one or more directors cease to hold office for any reason during the financial year, they shall be replaced by candidates in the progressive order of listing on the same list who were not elected but remain available and meet the requirements for office, including residence requirements. If the the necessary independence profile of the Board of Directors as provided in Article 20, paragraph 5 of the Articles of Association must be restored, and if the gender balance ceases to pertain when directors cease to hold office, their replacements must belong to the same category or gender as the outgoing directors. Directors may not be replaced by candidates who are seventy or more years of age.

In the event that the Board of Directors cannot replenished by the procedures set out in paragraph 1 above, the Board may proceed to replace directors who have ceased to hold office, provided that the majority of directors have been appointed by the Shareholders' Meeting. Co-optation must take account of the requirements for office, the residence requirements and, if the Board is to be supplemented pursuant to Article 20, paragraph 5 of the Articles of Association, the necessary independence requirements. Co-optation is subject to the provisions of paragraph 5-bis of Article 21 of the Articles of Association.

Co-optation takes place by an absolute majority vote of incumbent directors, rounded up to the nearest unit, and by resolution adopted by the Board of Statutory Auditors.

Directors appointed to the Board according to the procedures set out in paragraph 1 above serve for the remaining term of term of office of those they ave replaced.

Co-opted directors shall remain in office until the next Shareholders' Meeting. They are replaced at the Meeting by a relative majority vote, without list constraints, between individual candidates who have declared their candidacy and documented possession of the requirements established in Article 20 of the Articles of Association at the company's registered office at least 10 days prior to the date scheduled for the Shareholders' Meeting in its first convocation.

Directors appointed to replace those who have ceased to hold office shall serve for the remaining term of office of those who they replace.

Amendments of the Articles of Association may be adopted by an Extraordinary General Meeting. The relevant procedures are set out in Article 13 of the Articles of Association. Pursuant to Article 28, paragraph 2), letter w) of the Articles of Association, the Board of Directors is entitled to adopt resolutions to amend the Articles of Association in order to comply with legislative provisions.

m) Power to increase share capital and authorisations to purchase treasury shares

No powers are delegated to the Board of Directors for capital increases pursuant to Article 2443 of the Italian Civil Code or for the issue of participating financial instruments.
The Shareholders' Meeting of held on 1 April 2017 resolved to authorise the purchase of treasury shares subject to withdrawal following its transformation into a public limited company that should remain unoptioned. For further information, see the minutes of the resolution available on the Bank's website at www.volksbank.it.

n) Management and coordination

Banca Popolare dell'Alto Adige S.p.A. is not subject to management and coordination pursuant to Articles 2497 et seq. of the Italian Civil Code.

ADHERENCE TO CODES OF CONDUCT

Banca Popolare dell'Alto Adige S.p.A. has not adopted the "Code of Conduct" promoted by Borsa Italiana SpA, or any other voluntary self-regulatory codes.
It was considered uneconomic, given the Bank's institutional and dimensional characteristics, to adhere to complex organisational forms which are designed for the model of a joint stock company traded on regulated markets.

4. BOARD OF DIRECTORS

a) Composition

As provided in Articles 20 et seq. of its Articles of Association, the Board of Directors is composed of between nine and twelve directors who are elected - following the determination of their number by the Shareholders' Meeting convened to approve the financial statements for the year preceding their appointment - by the Shareholders' Meeting. The Board proposes the number of directors that it considers appropriate for the strategic supervision and management of the Bank, in accordance with Circular No. 285, Part One, Title IV, of the Banking Supervisory Instructions. However, as a result of transitional Article 43, paragraph 1, of the Articles of Association, until the approval of the financial statements for the year ended 31 December 2019, the Board of Directors is established as being composed of 12 directors.
The incumbent Board of Directors in office was elected by list of at the Shareholders' Meeting of 1 April 2017. The Shareholders' Meeting confirmed all outgoing directors who were in office upon the approval of the financial statements for the year ended 31 December 2016.
The Board of Directors for 2017-2019 three-year period is composed as follows:

- MICHAELER Otmar: Chairman
- CABION Maria Giovanna: Deputy Chairman
- SALVÀ Lorenzo: Deputy Chairman
- † ALBERTI Marcello: Director (until 30 April 2018)
- BERTACCO Lorenzo: Independent non-executive director
- COVI David: Independent non-executive director
- FROSCHMAYR Philip: Non-executive director
- LADURNER Lukas: Director
- MARZOLA Alessandro: Non-executive director
- PADOVAN Giuseppe: Director
- TAUBER Margit: Independent non-executive director
- WIERER Gregor: Non-executive director

b) Role of the Board of Directors

Art. 28 of the Articles of Association provides that:

1) The Board of Directors is responsible for strategic and management supervision and is vested with all powers of ordinary and extraordinary administration of the company for the pursuit of the corporate object, without prejudice to the requirement for specific authorisation in the cases required by law, and without prejudice to acts that come within the competence of the Shareholders' Meeting.
2) In addition to powers that cannot be delegated pursuant to Article 2381 of the Italian Civil Code, the Board of Directors is exclusively competent for decisions concerning:
    a) the determination of general management guidelines and the structure, organisation, strategic objectives and operations of the company, as well as its business and financial plans;
    b) the approval and regular verification, at least once a year, of its organisational structure;
    c) decisions concerning the allocation of tasks and responsibilities within the company's organisational structure and the approval and amendment of its principal internal regulations;
    d) the assessment of general operating performance;
    e) risk management policies, together with assessment of the functionality, efficiency and effectiveness of the internal control system and the adequacy of its organisational, administrative and accounting structure;
    f) definition of the information flow system and ongoing verification its adequacy, completeness and opportuneness;
    g) determination of criteria for the coordination and management of subsidiaries;
    h) the appointment, revocation and determination of the remuneration of the general manager, other members of general management and executives;
    i) the appointment and revocation, following consultation with the Board of Statutory Auditors, of the heads of the corporate control bodies;
    j) the appointment, after obtaining the mandatory opinion of the Board of Statutory Auditors, of the executive responsible for producing the company's accounting documents, who is to be selected from among the Bank's executives and must possess an administrative and accounting track record in credit and financial matters that is acquired through experience in a position of adequate responsibility for an appropriate period of time;
    k) assessment of the consistency of the remuneration and incentives system for directors, employees or contractors who are not linked to the company by subordinate employment contracts with the company's long term strategies, ensuring that the system does not lead to increased corporate risks;
    l) assessment of whether to establish commissions and internal committees with advisory functions, determining their composition, powers and operating methods, in all cases in accordance with applicable principles, including supervisory principles;
    m) the acquisition and disposal of shareholdings, companies and business units, when the relevant transactions are of an amount exceeding 0.1% of the Bank's net assets as stated the latest duly approved financial statements, or concern the acquisition of a shareholding of more than 10% of the shares with voting rights in another company.
    n) the purchase, sale and exchange of real properties and personal rights, and the construction of property units;
    o) the issue of non-convertible bonds and bonds convertible into securities of other companies;
    p) the purchase, cancellation and disposal of treasury shares;
    q) on a mandate from an Extraordinary General Meeting, an increase in share capital and the issue of bonds convertible into company securities, in accordance with the principles established by the Extraordinary General Meeting. Within the scope of this power, the Board of Directors is also expressly granted powers to determine the form, methods and limits for the transfer of newly-issued shares, the rights of shareholders and employees, and the criteria for the allocation of shares to employees, as a result of and in execution of resolutions of the Extraordinary Shareholders' Meeting;
    r) the issue of shares pursuant to Article 8, paragraph 1, of the Articles of Association;
    s) resolutions concerning the approval, withdrawal and exclusion of shareholders;

t) resolutions concerning mergers in the cases indicated in Articles 2505 and 2505 ***bis*** of the Italian Civil Code;
u) the transfer of the registered office within the municipal territory;
v) the establishment and organisation, including for the purposes of assigning powers of signature, of branch offices, branches and representative offices, as well as their transfer and abolition;
w) amendments to the Articles of Association to comply with regulatory provisions;
x) determination of the criteria for the execution of Bank of Italy instructions.

Meetings of the Board of Directors

Pursuant to Article 25 of the Articles of Association:
1) The Board of Directors is ordinarily convened at least once a month and, as an extraordinary measure, whenever the Chairman deems it necessary, when a reasoned request is made by the Board of Statutory Auditors or by at least one third of the members of the Board itself.
2) The meeting are convened by the chairman or by the person acting in the chairman's place, by means of a notice sent at least five days before the date set for the meeting, except in cases of urgency, in which case the Board of Directors is validly convened by means of a notice to be sent at least 24 hours before the meeting. The notice may be produced in any form (paper or electronic) and may be sent by any means of communication that can provide proof of receipt.
3) The notice of meeting must also be sent, in the same form and by the same method, to the statutory auditors .
4) Meetings may also be held by means of teleconference or video conference or by comparable telematic means, provided that the participants in the meeting can be identified with certainty and that they can participate in the meeting and view, receive and transmit documents, and that the procedures for conducting the business of the meeting cannot conflict with the requirement that proper and complete minutes be compiled. Any recourse to such procedures must be indicated in the minutes of the meeting. In such cases, meetings shall be deemed to be held in the place where the chairman and the secretary are present.
5) Meetings shall be chaired by the chairman and shall be validly in session when the absolute majority of incumbent members participate.
6) Specific regulations, approved by the Board of Directors, must govern the procedures for defining what is deemed to be the optimal qualitative and quantitative composition of the Board, the procedures for conducting its business and the Board's self-assessment

24 meetings were held in the 2018 financial year. Directors demonstrated considerable diligence in ensuring their attendance.

Pursuant to Article 27 of the Articles of Association:
1) Minutes of Board meetings must be compiled and resolutions transcribed on the relevant book, which is then signed by the meeting's chairman and secretary.
2) The said book extracts thereof, certified as compliant by the chairman or by the person acting in the chairman's place and by the secretary, constitute proof of the meetings and the resolutions adopted.

c) Delegated bodies

The Chairman

Pursuant to Article 23 of the Articles of Association:
1) The Board of Directors elects from among its incumbent members, by an absolute majority vote, rounding up to the higher unit, the chairman and one or two vice-chairmen, who shall remain in office until the end of their term of office as director.
2) The chairman facilitates the effective functioning of the corporate governance system and the proper conduct the business of the Board of Directors, ensures that Board discussions are effective, that resolutions adopted are the result of adequate dialogue, and that all directors make informed and reasoned contributions. The chairman also ensures that the balance of power among among general managers is maintained and acts as interlocutor for the Board of Statutory Auditors and Board committees. In order to perform these functions effectively, the chairman

has a non-executive role and does not perform management functions, even on a ***de facto*** basis, except as provided below.

3) In cases of urgency, the Chairman, or in his or her absence or impediment a Vice-Chairman, may, on a proposal from the general manager or his or her deputy, take measures which fall within the competence of the Board of Directors or the Executive Committee, if appointed. Decisions taken in this manner must be notified to the body that is normally competent at its first subsequent meeting.
4) The chairman also ensures that:
   a) the Board's self-assessment process is conducted effectively, that its procedures are consistent with the level of complexity of the Board's work, and that and all necessary corrective measures are adopted to address any shortcomings detected;
   b) the Company produces and implements induction programmes and training plans for members of corporate bodies.
5) The deputy chairmen shall replace the President in all the chairman's duties in the event of his or her absence or impediment. If the Board has appointed two deputy chairmen, the chairman shall replaced in order of seniority in the position or if this results in a tie, according to age. In the event of the absence or impediment of the chairman and the deputy chairmen, the relevant functions shall be performed by the director who has served for the longest term of office or if this results in a tie, by the most senior director by age, unless the duties are otherwise by the Board of Directors.
6) In the event that, during the course of the financial year, the chairman or a deputy chairmen case to hold office, the Board, proceeding in accordance with the provisions of Article 22 of the Articles of Association, shall appoint their replacements.
7) The Board of Directors may elect a secretary from among its members or call on the general manager or, on the the latter's proposal, an employee of the company to act as secretary.

d) Executive Committee

Pursuant to Article 29 of the Articles of Association:

1) Where necessary due to operational and dimensional complexities so require, the Board of Directors may delegate powers vested in it which are not assigned by law or by these Articles of Association to its exclusive competence, determining the content, limits and methods of exercising the mandates, to an Executive Committee, composed of between three and five directors. The chairman of the Board of Directors cannot be appointed to the Executive Board, but may attend its meetings without any voting rights.
   In no case shall the establishment of an Executive Committee entail any limitation of the decision-making powers and responsibilities of the Board.
   The Board of Directors appoints the chairman of the Executive Committee and, in the event of his absence or impediment, his replacement, in accordance with the voting procedures described above.
2) The Executive Committee shall meet when deemed appropriate by the chairman.
   Meetings of the Executive Committee may also be held by teleconference, video conference, or more generally, by any means of telecommunications, under the terms established in Article 25 of the Articles of Association for meetings of the Board of Directors.
3) Meetings of the Executive Committee are validly constituted with the presence of a majority of its members. Votes are passed by a majority of its incumbent members. In the event of a tied vote, the resolution is not adopted.
4) The Executive Committee elects a secretary from among its members or call on the general manager or, on the the latter's proposal, an employee of the company to act as secretary.
5) Decisions taken by the Committee are reported to the Board of Directors at its first subsequent meeting.
6) Minutes of Executive Committee meetings must be compiled and resolutions transcribed on the relevant book, which is then signed by the meeting's chairman and secretary.
7) The Executive Committee must report to the Board of Directors and the Board of Statutory Auditors, at least once every quarter, on the powers it has conferred, the general performance of its operations, their foreseeable evolution and the most significant transactions, in terms of their size or characteristics, undertaken by the company and its subsidiaries.

e) Other Executive Directors

No executive director positions exist in addition to the members of the Executive Board, in which - in accordance with applicable supervisory provisions on corporate organisation and governance - the Chairman does not have executive functions.

f) Independent directors

The activities of all directors of Banca Popolare dell'Alto Adige SpA are characterised by independence of judgment. At least three members of the Board are classed as independent director pursuant to Article 147 ***ter***, paragraph 4, and 148, paragraph 3, of the Consolidated Finance Act.

INTERNAL BOARD COMMITTEES

The Executive Committee, the Credit Committee, the Committee of Independent Directors and the Risk Committee are established as subcommittees of the Board of Directors.
It is believed that the current organisational structure of the Bank's administration fully meets the requirement to ensure efficient and effective governance for the Bank, in accordance with criteria of economy and streamlined operation.

a) Credit Committee

As provided in Article 31, paragraph 2 of the Articles of Association, the Credit Committee exercises the executive powers granted annually by the Board of Directors with regard to the granting of credit and instructs the Board in relation to customer positions that exceed the established limits. The Credit Committee consists of three to five executive directors appointed by the Board of Directors, who are appointed from year to year, and the general manager with an effective vote. The Credit Committee is governed by its own Regulations. The Committee meets on a weekly basis. Minutes are compiled of its deliberations and it reports the Board of Directors, providing aggregated data, at the earliest opportunity.
The Credit Committee met 28 times during 2018.

b) Committee of Independent Directors

Established pursuant to Article 28, paragraph 2, letter (l) of the Articles of Association, the Committee of Independent Directors acts as a consultative and advisory body to the Board of Directors, with a mandate to minimise Banking risks arising from resolutions that involve a potential conflict of interest, with particular regard to (i) transactions with persons who may exercise influence over Board decisions (the so-called "Persons connected with the Bank"), (ii) determining the system of remuneration and incentives for personnel whose work has a significant impact on the Bank's risk profile (the "Remuneration Policies"), (iii) determining the theoretical requirements that candidate directors must meet (the "Optimal Composition of the Board") and selecting and appointing personnel that are most appropriate for the Bank's risk profile. The Committee of Independent Directors consists of three non-executive directors that meet the relevant independence requirements. The Committee is governed by specific Regulations and operates according to company regulations that transpose the supervisory regulations governing the transactions indicated in this paragraph.
Independent Directors Committee met 21 times during 2018.

c) Risks Committee

The Risk Committee, established pursuant to Article 30 of the Articles of Association, is a sub-committee of the Board of Directors dealing with matters of risk assessment and the internal control system. The Risks Committee has advisory, investigative and proactive powers in support of the Board's decision-making process. The Committee is composed of five non-executive directors, the majority of whom are independent.
The Committee is governed by specific Regulations governing its characteristics and duties, pursuant to the provisions of Supervisory Circular No. 285.
The Risks Committee met 21 times in 2018.

REMUNERATION OF DIRECTORS

As provided in Article 2389, paragraph 1, of the Italian Civil Code and Article 24 of the Articles of Association, the remuneration of the Board of Directors is established annually by the Shareholders' Meeting, in implementation of the Bank's Remuneration Policies.
The Shareholders' Meeting adopts resolutions on the fixed annual remuneration of directors and the attendance allowance for meetings of the Board and its Committees, while delegating to the Board of Directors the task of defining remuneration for positions held within the Board, in accordance with the remuneration policies approved by the Shareholders' Meeting. Directors are also entitled to reimbursement of expenses for the exercise of their mandate.

GENERAL MANAGEMENT

Pursuant to Article 37 of the Articles of Association, the general management of the Bank is exercised by the General Manager and other members appointed by the Board of Directors by an absolute majority of incumbent directors.
Pursuant to Article 38 of the Articles of Association:

1) Within the limits of the powers conferred upon him and according to the guidelines of the Board of Directors in the exercise of of its oversight function, the general manager exercises executive coordination and control, is responsible for the management of current company affairs, exercises - within the limits assigned to him or her - powers over the granting of credit, expenditure and financial transactions, supervises the organisation and operation of networks and services, and implements resolutions adopted by the Board of Directors, the Executive Committee, if appointed, and resolutions adopted as a matter of urgency in accordance with Article 23 of the Articles of Association.
2) The general manager is the head of the personnel and the the Bank's structure.
3) The general manager reports to the Board of Directors on the exercise of his or her powers.
4) The General Manager independently initiates any legal proceedings as may be appropriate to ensure the recovery of receivables. In such cases, he or she represents the company in legal proceedings and grants a mandate to the legal counsel, signing the relevant powers of attorney to act on the company's behalf.
5) The General Manager makes proposals to the collegiate bodies and takes part in the meetings of the Board of Directors and the Executive Board, if appointed.
6) In the performance of his or her duties, the general manager may avail of the services of other members of general management.
7) In the event of absence or impediment, the general manager may be replaced, in all the powers and duties conferred upon him, by the member of the management immediately subordinate to him in grade and, in the event of a tie between several members, according to their seniority in that grade.

PROCESSING OF COMPANY INFORMATION

The Banca Popolare dell'Alto Adige S.p.A. has adopted adequate procedures which, in compliance with applicable legislation, ensure the proper processing and disclosure to the market of inside information, as provided in Articles 114 and 181 of the Italian Consolidated Finance Act (TUF) and Regulation (EU) No 596/2014 (the so-called "MAR" Directive). The preparation and disclosure to the market of inside information - so-called 'price sensitive' press releases - is coordinated by general management, with the assistance central services responsible for the matter and in particular the manager responsible for preparing the company's financial reports who, pursuant to Article 154-bis, paragraph 2, of the Consolidated Finance Act, certifies by his own declaration that the data contained in press releases corresponds to documents, ledgers and accounting records. After obtaining authorisation from senior management, the corporate and legal department issues the price sensitive press releases in accordance with the procedures established by applicable legislation.

INTERNAL CONTROL SYSTEM

A more detailed description of the individual components of the Internal Control System is contained in this Report on Operations and in the explanatory notes to the financial statements.

RISK CONTROL SYSTEM

The Bank's organisational structure establishes specific roles for offices responsible for the controls governed by the Supervisory Instructions, which fall into the following categories: line controls, or first level controls; risk and compliance controls, or second level controls; and internal audit activities or third level controls.
First level controls
Line controls are designed to verify that operations are carried out correctly. If they are not integrated into IT procedures, they are delegated to the same Business Units - including the back-office structures - which are responsible for execution of the processes, or part of them.
The effective application of controls and their adequacy, in relation to the organisational structure that characterises the various sectors of the Bank's business, is the responsibility of central services, offices and branches within the territory.
Second level controls
The purpose of risk and compliance controls is to define the criteria and methods for identifying and measuring risks and verifying compliance, to check the consistency of the actions of individual production areas with any risk-return objectives assigned, and to monitor current and future capital adequacy.
These controls are performed by organisational units that are separate from units with business functions.
The organisational units responsible for this type of control are:

1) the Risk Management Service;
2) the Compliance Office;
3) the Financial Reporting Officer;
4) the Anti-Money Laundering Office.

a) Risk control service

The Risk Control Service, in its capacity as "Risk Control Function" (risk management), assists corporate bodies in configuring their Risk Appetite Framework (RAF) and risk management policies, and in monitoring the adequacy of their capital and liquidity situation.
It is responsible for the design, development, updating, validation and management of appropriate systems, methodologies and procedures for the identification, measurement, assessment and control of significant risks. It performs second-level controls on the main types of risk, monitoring their exposure in a current and prospective manner.
In particular:

- it develops methodologies, tools and processes for the identification, assessment, measurement and control of risks related to business activities and produces the relevant reports;
- it measures and assesses exposure to significant risks in a reliable, timely, systematic and complete manner and monitors both current and prospective exposure;
- supervises the Internal Capital Adequacy Assessment Process (ICAAP) and liquidity process (ILAAP) and prepares/ updates the recovery plan;
- supports corporate bodies in the design and development of policies for the optimal composition of the credit portfolio in accordance with the limits defined by the Risk Appetite Framework (RAF);
- it supervises controls over the most important positions and the overall risk level of the loan portfolio.

b) Compliance Office

The Compliance Office undertakes consulting and control activities for the purpose of detecting and preventing legal and reputational risks arising from the compliance of company processes and procedures with the provisions of external regulations applicable to the Bank (laws and regulations) and self-regulation (internal provisions).
The responsibility for governance of the entire regulatory framework concerning the Bank's activities, which the Supervisory Regulations assign to the Compliance Office, is understood to be net of the issues already covered, in a specialised manner, by the other corporate functions responsible for second-level controls (Risk Control Function, the Anti-Money Laundering Office, the Financial Reporting Officer).
With regard to the operations it performs, the Office adopts a so-called "widespread compliance" model designed to meet the said regulatory obligations both through the direct supervision of core issues, especially those relating to consumer protection (investment services, transparency, usury, privacy, etc.) and the prevention and management of conflicts of interest (regulations on related parties and affiliated entities, etc.).This is achieved through the collaboration, in relation to their respective areas of competence, with "specialist controls" and "compliance officers" specifically identified within the company structure with the aim of increasing the quality of controls on compliance with regulations.
The compliance process can be summarised in the following phases:
monitoring of new regulatory provisions; consulting; risk assessment (assessment of the degree of risk of non-compliance); testing; training; and reporting.

c) Anti-Money Laundering Office

The Anti-Money Laundering Office, which is part of the Compliance Office, constantly monitors in order to prevent and counteract the risks of involvement in money laundering and terrorist financing operations.
It acts as a qualified centre of competence for the specific sector and is responsible, ***inter alia***, for supervising controls on persons, relationships and transactions undertaken on a daily basis by the business offices, working vigorously to stimulate and raise awareness.
It continuously assesses the suitability of the processes and procedures adopted to ensure adequate oversight of the risks associated with infringement of legislation that is applicable from time to time in relation to money laundering and terrorist financing.

e) Third level controls

Internal Audit activities are designed, on one hand, to monitor, in terms of third level checks and on-site inspections, the regular operations and the evolution of risks, and on the other hand, to assess the completeness, adequacy, functionality and reliability of the organisational structure and other components of the Internal Control System, bringing possible improvements to the attention of corporate bodies, particularly with regard to the Risk Appetite Framework (RAF), the risk management process, and the instruments for measuring and controlling them.
The service, which is a third-level control function of the Bank, supports the Board of Directors, acting as its independent information and control resource, both for the purposes of adequate compliance with the provisions of the Supervisory Bodies and for specific risk control and organisational efficiency/efficacy requirements.
The Service is independent of all the production units and offices that perform control duties. It does not perform any operational and/or management activities in order to avoid conflicts of interest, as its is completely autonomous at the internal organisational level. It operates under its own manager, who reports directly to the Board of Directors.

Internal controls of accounting and financial reporting

The Internal Control System for corporate reporting can be understood as a process that, as it involves multiple corporate functions, can provide reasonable assurances as to the reliability of financial reporting, the reliability of accounting documents, and compliance with applicable legislation.
There is a close and clear correlation with the risk management process, which is the process of identifying and analysing those factors that may compromise the achievement of the company's objectives, in order to determine how

these risks can be managed. In fact, an appropriate and effective risk management system can mitigate any negative effects on the company's objectives, including the reliability, accuracy, reliability and timeliness of accounting and financial information.
In order for the Bank to establish and maintain an adequate system of control over corporate reporting and assess its its effectiveness, a comparative model must firstly be identified to which reference can be made. It must generally be accepted, rigorous, complete and therefore serve as a guide to the proper implementation and evaluation of the control system.
The presence of an adequate system of administrative and accounting procedures and its proper functioning over time is verified according to specific methodologies defined in internal regulations and is achieved partly by the appropriate organisational unit established for this purpose, and partly by the same unit with the support of other corporate functions.
The scope of analysis must also take account of the components of the internal control structure at the company level that affect financial reporting; these controls operate across the individual line business processes.
The next section describes the main characteristics of the existing risk management and internal control systems in relation to the financial reporting process

Identification of risks to financial reporting

Risks are identified primarily through an analysis of the risks that reside alongside the business processes from which financial reporting originates.
This activity involves defining quantitative and qualitative criteria.
Significant processes identified are defined as such if they are associated with material data and information, i.e. accounting items for which there is no possibility of that they could contain errors that could potentially have a significant impact on financial reporting.
Within each significant process, the most significant “assertions” are also identified, again according to assessments based on risk analysis. Assertions in the financial statements consist of the existence, completeness, necessity and valuation of rights, obligations, presentations and disclosures. The risks are therefore associated with the possibility that one or more assertions in the financial statements are not correctly represented, with a consequent impact on reporting.

Assessment of financial reporting risks

Risk assessment is performed both at the overall corporate level and at the level of the specific process. The first category includes, with particular regard to financial reporting, risks of fraud and risks of IT systems functioning incorrectly or of failure to separate functions. At the process level, the risks associated with financial reporting (operational errors, underestimation or overestimation of items, inaccurate reporting, etc.) must be analysed at the level of the activities making up the processes.
An assessment of relevant risks and controls associated with the critical processes of the Financial Reporting Officer is conducted using a risk-based approach, which has as a fundamental prerequisite the precise mapping of company processes.
The potential risk index is a summary assessment of the individual risk event, the occurrence of which could cause direct/indirect economic and financial damage, damage to assets, sanctions, or damage to the company's reputation. It is recognised as part of the process and is independent of existing controls. The risk index is assessed on the basis of the intensity of the potential damage and its frequency, i.e. the number of times the risk may occur. A combination of intensity and frequency gives rise to an indication of an inherent or potential risk.
In the first instance, the focus centres on controls at company level that can be linked to data/information and the relevant assertions, which are identified and evaluated through monitoring of the impact both at the process level and at the general level.
Company-wide controls can prevent or detect any significant errors although they do not operate at the process level. Having adopted a “risk based” approach, the determination of critical processes and, within them, of accounting risks at the process level, guides the analysis and involves the subsequent identification and evaluation of controls, which can mitigate the level of inherent risk and bring the residual risk within acceptable levels.

Assessment of controls in response to identified risks

An assessment of the control system used is based on various elements: virtuous controls; timing and frequency; adequacy; operational compliance; organisational evaluation. An overall analysis of the controls of each risk is defined independently as a synthesis of the process of assessing the level of adequacy and compliance of the controls. These analyses summarise subjective considerations regarding the effectiveness and capacity of controls to control individual risks. The overall assessment of risk management may be broken down into assessments of existence, adequacy and compliance.
The risk assessment process concludes with a determination of the level of residual risk as a value resulting from the application of the overall assessment of controls in relation to the inherent risks.
Information flows with the results of assessments are made available to the administrative bodies on a half-yearly basis in the form of operating reports of the Financial Reporting Officer. These reports include: the results of the determination of the critical scope of analysis, the identification of accounting risks with related final valuation scores, a focus on the deficiencies and points for improvement detected and the relevant mitigation procedures, together with a summary of the adequacy and effectiveness of controls at the company level.

The Financial Reporting Officer is essentially at the top of the system that oversees the formation of financial reporting. In order to pursue his mission, the Financial Reporting Manager has the power to lay down the organisational guidelines for an adequate structure within his remit.
Various company departments contribute to the provision of economic and financial information. Accordingly, the Financial Reporting Officer must establish a systematic and fruitful relationship with these offices.
The Board of Directors is responsible for ensuring that the Financial Reporting Officer has adequate powers and means to perform the tasks assigned to him, as well as ensuring actual compliance with administrative and accounting procedures.
The Financial Reporting Officer is required to inform the Board of Statutory Auditors promptly if any problems of an accounting, asset and financial nature arise.
The model described above is being progressively refined as part of a project that has seen the formalisation of administrative and accounting processes and the relevant controls The subsequent integration of processes and controls into a specific application will enable the system of controls to evolve towards improved management of the company's growing complexity.
The model used during 2018 is believed to provide sufficient guarantees for correct accounting and financial reporting. It should be noted, however, that it is not possible to be certain that dysfunctions or anomalies that could have an impact on accounting and financial reporting cannot occur, even if the internal control systems are established and functioning correctly.

ORGANISATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001

The Organisational Model of the Banca Popolare dell'Alto Adige SpA, which was initially adopted on 22 December 2005, meets the specific requirements established in Legislative Decree 231/2001. With its adoption, the Banca Popolare dell'Alto Adige SpA affirms and disseminates its corporate culture, which is based on:

- lawfulness, since no unlawful conduct, even if carried out in the interest or for the benefit of the company, can be considered in line with the policy adopted by the company;
- preventive and ongoing control, which must guide all decision-making and operational phases of the company's activities.

The Organisational Model pursuant to Legislative Decree 231/2001 is kept constantly up date in order to comply with ongoing legislative developments and changes in the company's organisational structure. The Model consists of a set of protocols which, by identifying 'at risk' activities (i.e. activities in the context of which the offences provided for in Legislative Decree 231/2001 could be committed) and specifying the relevant countermeasures, involve all those who work in the interest, for the benefit, or otherwise on behalf of the Bank in order to: 231/2001) and specifying the relevant countermeasures involve all those who work in the interest, for the benefit or otherwise on behalf of the Bank in order to:

- create awareness among such personnel that in the event of a violation of the legislation cited in the Model, the person who committed the offence, as well as the company, may be subject to sanction;
- stress that Banca Popolare dell'Alto Adige SpA does not tolerate unlawful conduct, of any kind and for any purpose whatsoever, since such conduct (even if the company is apparently in a position to benefit from it) is in all cases contrary to the ethical principles on which the bank is founded and with which it unconditionally intends to comply;
- strengthen and improve control, monitoring and sanction mechanisms to prevent any offences from being committed.

The Organisational Model constitutes a set of binding internal company regulations. It ensures that the company is protected against offences based on the administrative responsibility of entities. In relation to each of such offences, it:

- indicates the sanctions imposed by the legislator (fines and, where applicable, disqualifications);
- identifies conduct deemed to involve a risk of the commission of an offence, and indicates the areas/activities in which there is is a risk that an offence could be committed;
- sets out the obligations and/or prohibitions on conduct applicable to persons that operate in Banca Popolare dell'Alto Adige SpA.

All company personnel (from top management down) are required to be familiar with the Banca Popolare dell'Alto Adige SpA Organisational Model and to comply with its requirements, together with the requirements established in the Code of Ethics. Specific training was provided to personnel during 2017. Any breach of the Model is sanctioned in the manner and under the terms indicated in the Model.

The Supervisory Board pursuant to Legislative Decree 231/01

The task of overseeing the functioning and observance of the Model and and ensuring that it is kept up to date is entrusted to the Supervisory Board (SB). Established by resolution of the Board of Directors, the Supervisory Board has duties and powers that it exercises autonomously, independently of top operating management and all company departments. Autonomy of action and non-subjection to the other company bodies are requirements for the Supervisory Board. Its members are also required meet high standards of professionalism and good repute.
The Supervisory Body of Banca Popolare dell'Alto Adige SpA is composed of the following members:

- the Head of the Compliance Office;
- the Head of the Internal Audit Office;
- the Head of the Risk Management Office;
- the Head of the Corporate and Legal Affairs Office;
- a legal professional (criminal lawyer) with specific expertise and experience, who is external to the company.

The Supervisory Board met regularly during 2017 (four meetings) to assess information flows received periodically from company departments which, with a high degree of detail, assisted it in its duty of monitoring compliance with the Organisational Model, assessing its effectiveness, and ensuring that it is kept up to date.
The Supervisory Board did not detect any violations of the Banca Popolare dell'Alto Adige SpA Organisational Model in 2017. It reported on the results of its activities to the Board of Directors on a half-yearly basis and made recommendations to ensure the widest understanding and dissemination of the Organisational Model to all persons concerned.

INDEPENDENT AUDITORS

The Shareholders' Meeting of Banca Popolare dell'Alto Adige SpA held on 20 April 2010 appointed BDO Italia SpA listed in the Register of Auditors under No. 167911, to audit the Bank's annual financial statements and to carry out a limited audit of the half-yearly financial report for the financial years 2008/2018.

THE FINANCIAL REPORTING OFFICER

Among the various new provisions on responsibilities and obligations in relation to corporate reporting, Law No. 262 of 28 December 2005 on "Provisions for the protection of savings and the regulation of financial markets" introduced the corporate position of "Financial Reporting Officer", which is now governed by Article 154 bis of the Consolidated Finance Act.
In compliance with these regulatory provisions, the Bank has introduced the role of a "Financial Reporting Officer".
The Financial Reporting Officer is responsible for preparing the company's financial reports has been assigned powers and means for the exercise of the duties assigned to him by law. In particular, the Financial Reporting Officer is responsible for establishing adequate administrative and accounting procedures for the preparation of the financial statements and for certifying in a specific written declaration that the company documentation and communications disclosed to the market, together with the relevant corporate reporting, correspond to documented results and accounting records.

DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES/AFFILIATED ENTITIES

The regulations governing "Risk activities and conflicts of interest with related parties" approved by the Board of Directors on 22 June 2012, most recently updated by the Board of Directors on 25 October 2015, establishes in a single set of rules:

- prudential limits on risk activities by an individual related party;
- restrictions on exposure to all related parties considered as a whole: the method of determination of an exposure limit is set out in the Risk Appetite Framework; the threshold established in this manner updates the "Credit Strategies";
- procedures for the identification, approval and execution of transactions with related parties and internal rules to ensure the transparency and substantive and procedural propriety of transactions, together with procedures for the fulfilment of public disclosure obligations, financial reporting requirements, and any other reporting requirement established by applicable legislation, including regulatory provisions;
- monitoring of operations in which an employee or external contractor has an interest that is different to that of the Bank;
- internal policies for controls on risk activities and conflicts of interest involving related parties;
- the responsibilities of the corporate departments involved.

The Regulations govern transactions with related parties and establish the procedures that the Bank must adopt in compliance with Consob (the Italian Stock Exchange Supervisory Commission) and Bank of Italy regulations to identify and monitor transactions with related parties and ensure compliance with prudential limits for risk activities in relation to such transactions. This safeguard is designed to capture, on the basis of Bank's specific characteristics, the risk that any proximity of certain parties to the decision-making centres could compromise the objectivity and impartiality of decisions on the granting of loans and other transactions with such parties, with possible distortions in the resource allocation process and the consequent exposure of the Bank to risks that are not adequately measured, to the potential detriment of depositors and shareholders.
The Regulations define and formalise procedures for the management, communication, control and reporting of the execution of transactions:

- undertaken by the Bank with related parties, in order to ensure the transparency and substantive and procedural propriety of such transactions and to establish the procedures for the fulfilment of the relevant reporting obligations, including those established by law and by applicable regulations (CONSOB Regulations);
- with affiliated entities (related parties and parties in turn related to them), undertaken by the Bank in order to ensure compliance with prudential limits for risk activities and the substantive and procedural propriety of such transactions (Bank of Italy requirements), implementing the most restrictive requirements, procedures and definitions of those separately established in CONSOB and Bank of Italy Regulations.

In guarantee of procedures for authorisation, disclosure and reporting to the supervisory bodies, the Bank uses IT systems for the automatic acquisition and reporting of agreements and transactions with the counterparties identified in the Regulations.

1.15.12 THE BOARD OF STATUTORY AUDITORS

The appointment of the Board of Statutory Auditors

Pursuant to Article 33 of the Articles of Association:

1) For the appointment of the Board of Statutory Auditors, the Shareholders' Meeting shall proceed on the basis of lists submitted by shareholders.
2) Any shareholders who are entitled to vote at the Shareholders' Meeting convened to elect the Board and who together hold at least 1% of the share capital, or any lower percentage established by law or regulations, may submit a list of candidates.
3) The lists of candidates, signed by the shareholders who submit them, must be deposited, on penalty of forfeiture, at the registered office of the company at least fifteen days prior to the scheduled date of the Shareholders' Meeting in its first convocation. The signature of each presenting shareholder must be authenticated by a notary public or made in the presence of a company employee specifically appointed by the Board of Directors for this purpose. Each shareholder may contribute to the presentation of one list only. In the event of non-compliance, the signature shall not counted for any list.
4) The lists must be accompanied by information on the identity of the shareholders that have submitted them, indicating the number of shares they hold and a certificate attesting to their ownership of such shares as indicated in Article 2 of this Article, together with any other information required by legislation, including regulations and Articles of Association.
5) The lists are divided into two separate sections – the first for candidates for the office of standing auditor and the second for candidates for the office of alternate auditor – and must indicate, in progressive numerical order, a number of candidates equal to that of the statutory auditors to be elected. The candidate for Chairman of the Board of Statutory Auditors must be listed first. Each list must be accompanied by exhaustive information on the personal and professional characteristics of the candidates, including details of administrative and control positions held in other companies, together with a declaration by each candidate accepting their candidature and certifying, under their own responsibility, that they are not in a situation of incompatibility, that no grounds exist for their ineligibility, and that they possess the requirements for the offices established by legal, regulatory and statutory provisions. Each candidate may only be included in one list only, on penalty of ineligibility.
6) Lists submitted without complying with the above procedures are deemed not to have been submitted.
7) At the Shareholders' Meeting, shareholders may exercise their vote by selecting one list only, without the right to modify and/or supplement their chosen list or to vote for more than one list.
8) The composition of the Board of Statutory Auditors must ensure a gender balance to the extent required by law, including regulatory provisions, applicable from time to time and, in the absence of an express provision of law, the presence of at least one standing auditor of a different gender to the most represented gender must be guaranteed in all cases.
9) Election to the office of statutory auditor shall take place by the following procedure:
    a) If more than one list is presented, the Chairman, one standing auditor and one alternate auditor are taken, in the progressive order of listing, from the list that obtains the highest number of votes (the majority list).
    b) One standing auditor and one alternate auditor shall be taken from the list that obtains the second highest number of votes (the most voted minority list) - which is not connected in any way, even indirectly, with the shareholders who submitted the most voted list - and on condition that this list obtains votes constituting at least 1% of the share capita. If no minority list reaches the said threshold or only one list is submitted, the Chairman, the Statutory Auditors and the Alternate Auditors shall be taken from the majority list.
    c) In the event of a tied vote between lists or between candidates, the Shareholders' Meeting shall hold a run-off ballot by relative majority.

d) If the Board of Statutory Auditors formed in this manner does not ensure compliance with the provisions of paragraph 8 above concerning gender balance, the last candidate elected from the majority list shall be replaced by the first non-elected candidate from the same list belonging to the least represented gender or, failing that, by the first non-elected candidate from the subsequent lists. If this is not possible, the effective member of the less represented gender shall be appointed by the Shareholders' Meeting with the majorities required by law, without list constraints, to replace the last candidate on the majority list.
e) In the event that no valid list has been submitted by the deadline, all the auditors to be elected shall be appointed, by relative majority without list constraints, from among the candidates proposed directly to the Shareholders' Meeting. In all cases, the observance of the provisions of the previous paragraph 8 regarding gender balance shall remain unaffected.

10) If the Chairman of the Board of Statutory Auditors ceases hold office, the alternate auditor taken from the same list from as the Chairman shall assume the chairmanship until the Board is replenished as provided Article 2401 of the Italian Civil Code.
11) In the event of the premature termination of a standing auditor, the alternate auditor taken from the same list as the auditor to be replaced shall replace the outgoing auditor until the next Shareholders' Meeting. If only one list has been submitted, the alternate auditors shall be appointed in the progressive order of listing.
12) If it is not possible to replace all the standing auditors who have ceased to hold in office with alternate auditors, or if it is not possible to comply with the provisions of paragraph 8 above on the subject of gender balance, the Shareholders' Meeting shall be convened to replenish the Board of Statutory Auditors by the majorities required by law, without list restrictions. The new members shall cease to hold office on the expiry of the term of incumbent statutory auditors.

b) Composition and duties of the Board of Statutory Auditors

The Board of Statutory Auditors was elected by the Shareholders' Meeting of 9 April 2016 for the three-year period 2016-2018.

The current composition of the Board of Statutory Auditors is as follows:

- HAGER Heinz Peter: Chairman - term of office: until the approval of the financial statements as at 31.12.2018
- KNOLL Joachim: Standing auditor - term of office: until the approval of the financial statements as at 31.12.2018
- HESSE Georg: Standing auditor - term of office: until the approval of the financial statements as at 31.12.2018
- LORENZON Emilio: Alternate auditor - term of office: until the approval of the financial statements as at 31.12.2018
- WISTHALER Markus: Alternate auditor - term of office: until the approval of the financial statements as at 31.12.2018

All members of the Board of Statutory Auditors are in possession of the professionalism requirements established by applicable regulations for those that perform control functions in banks.

The Board of Statutory Auditors monitors:

a) compliance with the law, regulations, and the Articles of Association;
b) compliance with the principles of proper administration;
c) the adequacy of the organisational, administrative and accounting structure adopted by the company and its actual functioning;
d) the adequacy and functionality of the internal control system, with particular regard to risk control, including the internal capital determination process;
e) the adequacy of the instructions given by the company to subsidiaries in the exercise of management and coordination activities;
f) other actions and facts as specified by law.

In particular, the Board of Statutory Auditors ensures adequate coordination of all functions and structures involved in the internal control system, including the independent auditors appointed to undertake the statutory audit of the accounts, where necessary promoting the appropriate corrective measures. To this end, the Board of Statutory Auditors and the independent auditors shall immediately exchange data and information relevant to the performance of their respective duties.

The Board of Statutory Auditors also monitors compliance with the measures adopted by the company to ensure the transparency and substantive and procedural propriety of related-party transactions and reports on such measures in the annual report to the Shareholders' Meeting.
The Board of Statutory Auditors may receive information flows from internal control functions and structures and may, in the performance of the necessary checks and inspections, avail itself of the structures and functions responsible for internal control and proceed to carry out inspections and controls at any time, including on an individual basis.
The Board of Statutory Auditors may request information from directors, including on subsidiary companies, on the progress of corporate operations, or on certain business transactions. The Board of Statutory Auditors may also exchange information with the corresponding bodies of subsidiaries concerning the management and control systems and general trends in the company's activities.
The Board of Statutory Auditors shall immediately inform the Bank of Italy of any facts or actions of which it becomes aware that may constitute an irregularity in the management of the Bank or a violation of legislation governing banking activity.
Without prejudice to the obligation established in paragraph 6 above, the Board of Statutory Auditors shall report any deficiencies and irregularities found to the Board of Directors, request the adoption of appropriate corrective measures, and verify their effectiveness over time.
The Board of Statutory Auditors expresses its opinion on decisions concerning the appointment of the heads of internal control functions, and on any decision concerning the definition of the essential elements of the internal control system.
At the time of approval of the financial statements, the statutory auditors shall report on the supervisory activity they have performed, omissions, and reprehensible events that may have been detected.
Statutory auditors are required attend Shareholders' Meetings, and meetings of the Board of Directors and the Executive Committee.
26 meetings of the Board of Statutory Auditors were held in 2018.

SHAREHOLDERS' MEETINGS

Pursuant to Article 12 of the Articles of Association, attendance at the Shareholders' Meeting requires the certification of the depositary intermediary as required by law. Such certification must be requested from the depositary intermediary at least two days before the date scheduled for the Shareholders' Meeting.
A shareholder may be represented by another shareholder who is entitled to attend and vote at the Shareholders' Meeting and who is not a director, statutory auditor or employee of the company or its subsidiaries. The proxies, duly completed in compliance with the provisions of law and the rules of the Shareholders' Meeting, are valid for all convocations of the same Shareholders' Meeting.
These restrictions do not apply to cases of legal representation.
The Shareholders' Meeting is the sovereign body of the company and management has always been committed to promoting the widest possible participation of shareholders in this essential moment of in the life of the company. The duly constituted Shareholders' Meeting represents all shareholders and its resolutions, adopted in accordance with law and the articles of association, are binding on all the shareholders.
Pursuant to Article 11 of the Articles of Association:

1) The Shareholders' Meeting is convened at least once a year, within one hundred and twenty days of the end of the financial year, in the manner and within the time limits required by law, by the Board of Directors - or if necessary by the Board of Statutory Auditors - at the company's registered office or at another place in the province of Bolzano indicated in the notice of meeting.
2) The General Meeting, both in ordinary and extraordinary session, normally takes place in a single convocation. However, the Board of Directors may, if it deems it appropriate, expressly indicating the grounds for its decision in the notice of meeting, that both the ordinary and extraordinary Shareholders' Meetings are to be held in more than one convocation.
3) The notice of meeting shall be published at the time and in the other manner established by law and regulations applicable from time to time. The notice of meeting shall contain:

a) an indication of the date, time, and place of the meeting and, in the event that the meeting is not duly convened in its first convocation, the details of the second convocation;
b) a list of the items to be discussed, together with other information as required by the law and regulations in force from time to time.

The notice is published in the Official Gazette of the Italian Republic or in one of the two nationally published newspapers "Il Sole 24 Ore" or "Milan Finanza", at least twenty days prior to the date established for the Shareholders' Meeting.

4) Shareholders' Meetings may also be held with participants located in several adjoining or distant premises, including outside the province of Bolzano, which are connected by audio/video link to the place where the Shareholders' Meeting is held and where the Chairman and the Secretary are located, provided that the collegial method and the principles of good faith and equal treatment are respected, and in particular provided that all participants can be identified and are able to follow the discussion, participate in the discussion of matters raised in real time, view, receive and discuss documentation, and cast their vote in real time.
In such cases, the notice of meeting must indicate the places connected by audio/video link in which participants may attend. The meeting shall be deemed to have been held at the place where the chairman and the person taking the minutes are present.
5) In the event that technical obstacles prevent the holding or continuation of a duly constituted Shareholders' Meeting and prevent its conclusion during the same day, the Chairman shall suspend the meeting, after ascertaining that the minutes have been compiled and giving a brief indication of the reasons for the suspension This provision applies without prejudice to the validity of resolutions already adopted by the Shareholders' Meeting as indicated in the minutes. For discussion of matters that have not yet been discussed and resolved due to the aforementioned impediments, the Shareholders' Meeting must be reconvened according to the terms established the law and the Articles of Association, and the provisions of the preceding paragraphs shall apply to such new convocations.
6) The Board of Directors shall also convene the Shareholders' Meeting without delay when a written request is made, indicating the matters to be discussed, by a number of shareholders with voting rights who, at the date of submission of the request, represent the percentage of the share capital required by applicable legislation. Shareholders are not permitted to convene a Shareholders' Meeting on request for matters on which the Meeting may only adopt resolutions, in accordance with law, on the proposal of the directors or on the basis of a project or a report prepared by directors.

Pursuant to Article 13 of the Articles of Association:
The Shareholders' Meeting may ordinary or extraordinary as provided by law. In addition to the provisions of law and the Articles of Association, the Shareholders' Meeting is governed by rules of procedure.
An Ordinary Shareholders' Meeting:

a) discusses and adopts resolutions on the financial statements, after hearing the report of the Board of Directors and that of the Board of Statutory Auditors, and allocates profits;
b) appoints and dismisses directors; appoints statutory auditors and the chairman of the Board of Statutory Auditors. It may, following consultation with the Board of Statutory Auditors, grant or revoke a mandate to the person responsible for the statutory audit of the accounts;
c) adopts resolutions on the liability of directors and statutory auditors;
d) determines the remuneration of directors, statutory auditors and the auditing firm responsible for the statutory audit, as well as attendance allowances for directors and statutory auditors;
e) approves the regulations governing limitations on the accumulation of directors' positions;
f) approves the remuneration and incentive policies for members of the Board of Directors and employees;
g) approves remuneration plans based on financial instruments;
h) approves the criteria for determining the remuneration to be paid in the event of premature termination of the employment relationship or premature cessation of office, including the limits set for such remuneration in terms of annual instalments of remuneration and the maximum amount arising from their application;
i) approve the rules of procedure for the Shareholders' Meeting;

j) adopts resolutions on other matters within its competence according to law or by provision of the Articles of Association.

The Extraordinary Shareholders' Meeting adopts resolutions on amendments to the Articles of Association, except as provided in Article 28, paragraph 2, letters (t), (v) and (w), and on any other matter reserved for its competence by law or by the Articles of Association.

Pursuant to Article 14 of the Articles of Association:

The business of the Shareholders' Meeting, both ordinary and extraordinary convocations, is governed, in addition to the provisions of law and the Articles of Association, by rules of procedure approved by the Ordinary Shareholders' Meeting which which shall remain valid, until amended or replaced, for all subsequent meetings. With the quorums required by law and by the Articles of Association for ordinary Shareholders' Meetings, the Shareholders' Meeting may from time to time decide to derogate from one or more provisions of the rules of procedure.

The Rules of Procedure currently in force are those amended by the Shareholders' Meeting of 26.11.2016, posted on the Bank's website and introduced by resolution of the Ordinary Shareholders' Meeting of 19.04.2005, as subsequently amended by the Shareholders' Meetings of 19.04.2007, 21.04.2009, 17.02.2011 and 19.04.2013.

CHANGES SINCE THE END OF THE YEAR OF REFERENCE

No changes were made to the governance structure between 31 December 2018 and the date of approval of this report.

REPORT OF THE BOARD OF STATUTORY AUDITORS

REPORT OF THE BOARD OF STATUTORY AUDITORS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 2429, PARAGRAPH 3, OF THE ITALIAN CIVIL CODE AND ARTICLE 153 OF LEGISLATIVE DECREE No. 58/1998

Dear Shareholders,

In this report, compiled in accordance with the provisions of the Italian Civil Code, in particular Article 2429, and with Article 153, paragraph 1, of Legislative Decree 58 of 24 February 1998, the Board of Statutory Auditors reports on the most significant aspects of its supervisory and control activities during the year ended 31 December 2018.

Summary of supervisory activity

During 2018, the Board of Statutory Auditors performed the supervisory activities required by the Italian Civil Code, Legislative Decree No. 385/1993 (the Consolidated Banking Act or "T.U.B." in its Italian acronym), Legislative Decrees Nos. 39/2010 and 58/1998 (the Consolidated Finance Act or "T.U.F." in its Italian acronym), by the guidelines for public authorities exercising supervisory and control activities, by its Articles of Association, and by the principles and rules of conduct recommended by the Italian National Council of Chartered and Registered Accountants.

The Board of Statutory Auditors took part in 25 meetings of the Board of Directors and, through its own representative or in joint sessions, in meetings of the Risk Committee and of the Supervisory Body established by the Bank pursuant to Legislative Decree 231/2001. It obtained comprehensive information on the Bank's activities and its most significant transactions and verified the soundness of Bank management by means of regular inspections (28 meetings).

In particular, during the year the Board of Statutory Auditors:

- obtained the required information on compliance with law, the Articles of Association and regulations, on observance of the principles of sound administration, the adequacy of the Bank's organisational structure and its internal control and administrative-accounting systems;
- obtained significant information on management, its evolution and the Bank's most significant economic, financial and capital transactions from directors and the general management;
- performed checks on the internal control system, including through the participation of the Head of Internal Audit at its meetings, and liaised with managers of the Risk Management, Compliance and Anti-Money Laundering offices to oversee the necessary interrelationship of their respective control duties, and duly informing them of the outcomes;
- ensured, on the basis of statements given by individual Directors and the collegiate assessments of the Board of Directors, that the criteria and procedures adopted by the Board of Directors to assess the independence of its members were correctly applied;
- verified transactions that come within the scope of Article 136 of the T.U.B. and ensured compliance with the obligation, established in Article 2391 bis of the Italian Civil Code, to adopt rules to guarantee the transparency and substantive and procedural propriety of transactions with related parties. No significant findings emerged from these inspections. Information on transactions with related parties is provided in section "H" of the explanatory notes to the financial statements;
- in light of orders issued by the Supervisory Authorities on remuneration and incentive systems, the Board of Statutory Auditors, in close collaboration with the other corporate functions, ensured that the rules on the remuneration of the heads of corporate control bodies and of the executive responsible for preparing corporate accounting documents were correctly applied. The Board of Statutory Auditors acknowledged the verifications and endorsed the observations of the Internal Audit Unit on the compliance of remuneration

practice with policies and the regulatory environment, leading to a satisfactory assessment. On the basis of available information, the principles set out in the Remuneration Report do not conflict with company objectives, strategies and prudent risk management policies.

Significant transactions during the year

During the year, the Board of Statutory Auditors obtained information on the most significant economic, financial and financial transactions undertaken by the Bank. On the basis of the information provided, the Board of Statutory Auditors found that the transactions were based on observance of the principles of proper administration, compliance with law and the Articles of Association, and were not manifestly imprudent, risky, involving conflicts of interest, contrary to resolutions adopted, or liable to compromise the integrity of the company's assets.

The significant events during the year, details of which are provided in the Report on Operations and in the Explanatory Notes to the Financial Statements, included:

- the issue of TIER 2 subordinated instruments for a total of €25 million;
- the sale, as part of the non-performing loans management strategy approved by the Board of Directors, of receivables classified as bad debts or a total of €187.7 million;
- the selection of a 'full outsourcing' IT service provider for the Bank, made with the input of specialist external support that assisted the Board of Directors throughout the selection process.

Supervision of the administrative-accounting system, of the financial reporting process, and of and Non-Financial Disclosure

The Board of Statutory Auditors, in its capacity as the Internal Control and Audit Committee, has overseen the adequacy and functioning of the organisational structure, the internal control system, the risk management system and the Bank's administrative and accounting system, including an assessment of the latter's ability to properly report on management-related issues.

In particular, meetings with the heads of the main corporate bodies, with the External Auditors, with the Financial Reporting Officer and with Internal Audit did not reveal any critical issues concerning the adequacy and reliability of the administrative and accounting system to correctly report on management-related issues and to provide correct financial reporting.

As part of its plan for the first-time adoption of IFRS 9, the Board of Statutory Auditors obtained information on the overall performance of company business, with particular reference to the adequacy of procedures and controls for the monitoring of financial reporting.

It has received confirmation of its independence from BDO Italia S.p.A. pursuant to Article 17 of Legislative Decree 39/2010, together with a communication on non-audit services provided to the Bank by the said company and by other companies belonging to its network.

During its regular meetings and in light of the Supplementary Report issued on [14] March 2019, the independent auditors BDO S.p.A. did not report any critical situations to the Board of Statutory Auditors that could affect the internal control system relating to administrative and accounting procedures, nor did the auditors raise any matters deemed reprehensible or irregularities that would require reporting pursuant to Article 155, paragraph 2, of the T.U.F.

As provided by law, the Board of Directors produced the financial statements of Banca Popolare dell'Alto Adige for the year ended 31 December 2018. The Board of Statutory Auditors monitored compliance with the rules of procedure for the formation and layout of the financial statements and the Report on Operations.

The Board of Directors also produced the Non-Financial Disclosure, as introduced by Directive 2014/95/EU and implemented in Italy by Legislative Decree 254/2016, as an autonomous document.

The Board of Statutory Auditors monitored compliance with the provisions of law on the procedures and timescales for publication of the Non-Financial Disclosure, in terms of its objective and subjective perimeter of application, compliance with the "comply or explain" principle regarding policies implemented, and on the capacity of the organisational, administrative, reporting and control system established by the Bank to a provide a proper and complete description of its corporate activity in the Non-Financial Disclosure, together with its results and impact on the non-financial issues indicated in Article 3, paragraph 1, of the Decree.

The independent auditor appointed to audit the Non-Financial Disclosure issued its own report on [14] March 2019. The report does not reveal any significant problems with the internal control system governing the processes for producing the Non-Financial Disclosure, or any other critical issues that would require the attention of the Board of Statutory Auditors.

Proposals concerning the financial statements, their approval, and matters coming within the competence of the Board of Statutory Auditors

With respect to the financial statements for the year ended 31 December 2018, it should be noted that:

– the statutory audit of the accounts of Banca Popolare dell'Alto Adige, as mandated by Shareholders' Meeting, was entrusted, pursuant to Article 2409 bis of the Italian Civil Code, to the independent auditors BDO Italia S.p.A.;
– on [14] March 2019, the independent auditors issued its report on the audit of the financial statements as at 31 December 2018 pursuant to Articles 14 and 16 of Legislative Decree 39/2010 and 10 of Regulation (EU) No 537 of 16 April 2014. On the merits, it should be noted that the financial statements were published without any observations or objections. The financial statements also include an assessment of the consistency of the report on operations;
– in meetings with the independent auditors, the application of accounting standards and the recognition and representation in the financial statements of elements of economic, financial and capital significance were discussed. During these meetings, no anomalies, critical issues or omissions were detected by the Auditors;
– the draft financial statements for the year ended 31 December 2018, as approved by the Board of Directors on 1 March 2019, were presented, and information was provided on the layout of the financial statements, their general compliance with legislation, including regulations, on their formation and structure, also in accordance with the IAS/IFRS international accounting standards and the instructions issued in the Bank of Italy in circular No. 262 of 22 December 2005 and subsequent updates;
– the Internal Control and Audit Committee performed the supervisory activities provided for in Article 19 of Legislative Decree No. 39/2010. It obtained the results of audits carried out by the independent auditors on the proper keeping of company accounts and the correct recognition of management-related issues in the accounting records. It also supervised the overall effectiveness of the internal control system for financial reporting. No significant events worthy of mention emerged from this supervisory activity;
– the Board of Directors' report on operations describes the course of operations during the year and contains an analysis of the Bank's situation and operating result. There are no particular issues to report in this regard;
– it appears that the directors have not made use of the derogation provided for in Article 2423(4) of the Italian Civil Code. Meetings with the Financial Reporting Officer did not reveal any significant shortcomings in administrative and accounting processes and controls that would invalidate the conclusion that the administrative and accounting procedures used to oversee the proper representation of the company's financial position, in accordance with current international accounting standards, were adequate and effective.
– On 1 March 2019, in accordance with Article 154 bis of the T.U.F. and Article 81 ter of Consob Regulation 11971/1999, the Chairman of the Board of Directors and the Financial Reporting Officer signed the report for the 2018 financial year. The report did not reveal any shortcomings that could invalidate the assessment that administrative and accounting procedures were adequate;

The Board of Statutory Auditors reported that in addition to auditing duties, in 2018 BDO SpA was granted the following mandates:

– audit of the non-financial disclosure for a fee of €16,780;
– certification services for tax returns for €4,000;

- a report on data provided for the second series of TLTRO operations, for €7,000;
- a comfort letter for the Base Prospectus for the EMTN programme for €5,000;
- certification activities in relation to the VOBA VII securitisation transaction for €26,000.

With the approval of the financial statements as at 31 December 2018, the mandate to the auditing company BDO S.p.A. for audit of the financial statements of Banca Popolare dell'Alto Adige expired. The Bank, together with the Board of Statutory Auditors in its role as Internal Control and Audit Committee, has conducted a selection procedure for the new auditing company to be granted the mandate for the years 2019 - 2027. On the conclusion of this procedure, the Board of Statutory Auditors produced a reasoned recommendation, the text of which is appended to the report of the Board of Directors on award of the new mandate and approval of the relevant remuneration.

Verifications performed in accordance with Article 19 of Legislative Decree 39/2010 enabled monitoring of the administrative and accounting processes for financial reporting, the effectiveness of the internal control and risk management systems, the effectiveness of audits, and the independence of the statutory auditor.

The Board of Statutory Auditors did not receive any complaints from shareholders pursuant to Article 2408 of the Italian Civil Code during the 2018 financial year.

Accordingly, the Board of Statutory Auditors has no observations to make to the Shareholders' Meeting in relation to the approval of the financial statements for the year ended 31 December 2018, accompanied by the report on operations as presented by the Board of Directors, the proposal for the allocation of the profit for the year, and the distribution of dividends.

With this report on Board of Statutory Auditors concludes its three-year mandate granted by the Shareholders' Meeting on 9 April 2016.

Bolzano, 15 March 2019

THE BOARD OF STATUTORY AUDITORS

Dr Heinz Peter Hager - chairman
Georg Hesse - statutory auditor
Dr Joachim Knoll - statutory auditor

CERTIFICATION OF THE FINANCIAL STATEMENTS

CERTIFICATION OF THE FINANCIAL STATEMENTS

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81 - TER OF CONSOB REGULATION No. 11971 OF 14 MAY 1999 AS AMENDED

1. The undersigned Otmar Michaeler, in the capacity of Chairman of the Board of Directors of Banca Popolare dell'Alto Adige Società per Azioni and Alberto Caltroni, in the capacity of Financial Reporting Officer of Banca Popolare dell'Alto Adige Società per Azioni, hereby certify, including pursuant to Article 154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998:

   - that they are consistent with the characteristics of the company, and
   - that the administrative and accounting procedures for the preparation of the financial statements have been effectively applied during the 2018 financial year.

2. We also certify that:

   2.1 the financial statements for the year ended 31 December 2018:

   a) have been produced in accordance with the international accounting standards recognised by the European Community pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) correspond to the results of the accounting books and records;

   c) provide a true and fair view of the issuer's financial position and profit performance.

   2.2 the report on operations includes a reliable analysis of the performance and result of operations, together with the issuer's situation and a description of the main risks and uncertainties to which the issuer is exposed.

Bolzano, 1 March 2019

The Chairman of the Board of Directors

Otmar Michaeler

The Financial Reporting Officer

Alberto Caltroni

REPORT OF THE INDEPENDENT AUDITORS

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Report of the independent auditors

pursuant to Article 14 of Legislative Decree No. 39 of 27 January 2010 and Article 10 of Regulation (EU) No 537/2014.

To the shareholders of Banca Popolare dell'Alto Adige SpA.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Banca Popolare dell'Alto Adige S.p.A. (the Bank), consisting of the balance sheet as at 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement for the year ended on that date and the explanatory notes to the financial statements, which also include a summary of the most significant accounting standards applied.

In our opinion, the financial statements give a true and fair view of the Bank's financial position as at 31 December 2018, together with its income statement and cash flows for the year ended, in accordance with the International Financial Reporting Standards adopted by the European Union and with orders issued pursuant to Article 9 of Legislative Decree 38/05 and Article 43 of Legislative Decree 136/15.

Elements on which the opinion is based

We have conducted the audit in accordance with international auditing standards (ISA Italia). Our responsibilities in accordance with these principles are described in detail in the section of this report entitled Responsibility of the independent auditors for auditing financial statements .

We are independent of the Bank, as required by the applicable principles of ethics and independence established in Italian law for the audit of financial statements. We consider that we have obtained sufficient and appropriate evidence on which to base our opinion.

Key aspects of the audit

The key aspects of the audit are those aspects which, in our professional judgement, were most significant in the context of the audit of the financial statements for the year under review. We have addressed these issues as part of our audit and in the preparation of our opinion on the financial statements as a whole. Accordingly, we have not expressed a separate opinion on these aspects.

Bari, Bergamo, Bologna, Brescia, Cagliari, Florence, Genoa, Milan, Naples, Padua, Palermo, Pescara, Rome, Turin, Treviso, Trieste, Verona, Vicenza

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Tax Code, VAT No. and Milan Companies Register No. 07722780967 - R.E.A. Milan 1977842
Listed in the Register of Statutory Auditors at No. 167911 by Ministerial Decree No. 26 of 15/03/2013, Official Gazette 02/04/2013
BDO Italia S.p.A., an Italian public limited company, is member of BDO International Limited, incorporated under English law (a company limited by guarantee), and is part of the DBO network of independent companies.

Key aspects	Audit procedures in response to key aspects
VALUATION OF LOANS TO CUSTOMERS	
Explanatory Notes: “Part A - Accounting policies, paragraph A.2 Financial assets measured at amortised cost”; “Part B - Balance sheet information - Assets, section 4 - Financial assets measured at amortised cost - item 40”; “Part C - Income statement information, section 8 - Adjustments/write-backs on impairment of net value for credit risk - item 130”; “Part E - Information on risks and related hedging policies, section 1 - credit risk”. Loans to customers as at 31 December 2018 amounted to €7,140 million, corresponding to 69% of total assets in the financial statements. This item is was deemed significant in the context of the audit, in view of its magnitude and the complexity and importance of the discretionary component inherent in the valuation processes and models, which are characterised by an estimation of numerous variables such as, principally, the existence of indicators of possible impairment, the determination of expected cash flows and the relevant recoupment timescales, and the realisable value of guarantees, where they exist.	The main audit procedures followed in response to the key aspect of the valuation of loans to customers involved: • analysis of the procedures and processes for the item in question and verification of the effectiveness of those controls, among those identified, that are considered key to monitoring such procedures and processes; • analysis of the adequacy of the IT environment, in terms of IT applications employed in the process of assessing loans to customers; • procedures for reconciliation between the data present in management systems and the information presented in the financial statements; • analysis of the classification criteria used by the Bank in order to bring loans to customers into line with the homogeneous regulatory categories and examination, on a sample basis, of the appropriate classification of loans, on the basis of available information on the status of the debtor and other available information, including external information; • procedures for comparative analysis and analysis of results with the corporate departments involved; • analysis of criteria and methods for assessing credits and examination of the soundness of the main assumptions and variables therein; • performance of validity procedures on a sample basis, including by obtaining and examining written confirmations from legal practitioners engaged by the Bank, in order to assess the soundness of valuation assumptions, both with regard to expected cash flows and the estimated timescales for their recoupment, after taking account of the underlying guarantees, where existing; • verification that the information provided in the explanatory notes is complete and appropriate.

ASSESSMENT OF GOODWILL

Explanatory Notes: “Part A - Accounting policies, paragraph A.6 - Intangible assets”; “Part B - Information on the balance sheet - Assets, section 9 - Intangible assets- item 90”; “Part C - Information on the income statement, section 13 - Adjustments/write-backs on impairment of intangible assets - item 190”.

The Bank recognised goodwill of €99.6 million in the financial statements.

This item was considered significant in the context of the audit, in view of its magnitude and the inherent subjectivity and complexity of the valuation processes; the recoverability of this goodwill is related to the occurrence of the assumptions underlying the strategic plan, the discount and future growth rates used, and other subjective parameters.

The main audit procedures performed involved:

- an understanding of the process adopted by the Bank in preparing for impairment testing;
- verifying the soundness of the main assumptions and the assumptions that underlie the strategic plan, including in the light of actual results compared to the estimates;
- verification of the adequacy of the impairment model used with the assistance of an expert;
- verification, with the assistance of an expert, of the key assumptions on which the impairment model is based, in particular those relating to cash flow projections, discounting rates and long-term growth rates;
- Verification of the mathematical accuracy of the impairment model used;
- verification of the analysis of the sensitivity of impairment to changes in key assumptions;
- verification that the information provided in the explanatory notes is complete and appropriate.

FIRST ADOPTION OF THE NEW INTERNATIONAL FINANCIAL REPORTING STANDARD IFRS 9

Explanatory Note:

Report of the effects of the first-time adoption of IFRS 9, indicated in Part A - Accounting Policies, Section 4 Other Aspects: Impact of the adoption of IFRS 9 "Financial Instruments"

As of 1 January 2018, the date of first application of IFRS 9, the asset values present at the end of the preceding year were subject to reclassification and measurement processes, as provided in the new accounting standard, based on the management methods of these financial assets (the Business Model) and the characteristics of the contractual cash flows of the financial instrument. Furthermore, with respect to the valuation of financial assets other than those measured at fair value with a balancing entry in the income statement, a new method was established for determining value adjustments (impairment) according to the expected credit losses model.

For audit purposes, the impact of the introduction of this new accounting standard are considered significant, given the complexity of the first-time application. It is necessary to define the business model, define the staging criteria, establish models for the measurement of expected credit losses, and methods for defining the parameters of the impairment model (PD, LGD, EAD).

The main audit procedures employed involved:

- analysis of procedures and processes for the classification and measurement of financial assets, with particular reference to the finance and credit business models approved by the Board of Directors;
- analysis of procedures and processes for the impairment model for receivables, with particular reference to:
    - definition of staging criteria and determination of the significant increase in credit risk from switching from stage 1 to stage 2;
    - models used to measure "expected credit losses" ("ECL") and methodologies for defining the parameters of the impairment model (PD, LGD, EAD);
- dialogue with the Management and Risk Management Department regarding the plan to transpose the new valuation regulations and their implementation, indicating any problems that arise;
- analysis of tests carried out by the Bank and its specialist advisor on the SAS IFRS 9 calculation engine, for the purposes of stage allocation and impairment in accordance with the new IFRS 9;
- procedures for reconciling and verifying the data contained in the reconciliation schedules between the closing data at 31 December 2017 of the last approved financial statements and the opening data at 1 January 2018 of the first financial statements compiled in accordance with IFRS 9;
- procedures for reconciliation of data present in management systems and information in reconciliation tables;
- verification of the information provided in the note supplement concerning the transition to IFRS 9.

Responsibility of directors and statutory auditors for the financial statements

The directors are responsible for the preparation of financial statements that provide a true and fair view in accordance with the International Financial Reporting Standards adopted by the European Union and the orders issued in implementation of Article 9 of Legislative Decree 38/05 and Article 43 of Legislative Decree 136/15 and, within the terms established by law, for that part of the internal control that they deem necessary to enable the preparation of financial statements that do not contain significant errors due to fraud or unintentional conduct or events.

The directors are responsible for assessing the Bank's ability to continue to operate as a going concern and, in preparing the financial statements, for the soundness of using the assumption of a going concern, as well as for adequate reporting on the matter. The directors use the going concern principle in preparing the financial statements unless they have concluded that the conditions exist for the liquidation of the Bank or for the cessation of its business, or they have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible, within the terms established by law, for overseeing the Bank's financial reporting process.

Responsibility of the independent auditor for auditing the financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole do not contain material misstatements, whether due to fraud or unintentional conduct or events, and to issue an audit report that includes our opinion. Reasonable security is understood as a high level of certainty, but not a guarantee, that an audit conducted in accordance with international auditing standards (ISA Italia) will always identify any material error that may exist. Errors may arise from fraud or unintentional conduct or events and are deemed significant if it can reasonably be expected that, individually or as a whole, they are capable of influencing economic decisions made by users on the basis of the financial statements.

As part of the audit conducted in accordance with the international auditing standards (ISA Italia), we exercised our professional judgment and maintained professional scepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement in the financial statements, due to fraud or unintentional behaviour or events; we have established and conducted audit procedures in response to these risks, and we have obtained sufficient and appropriate evidence on which to base our opinion. The risk of not detecting a significant error due to fraud is higher than the risk of not identifying a material error arising from unintentional behaviour or events, since fraud may involve collusion, falsification, intentional omissions, misleading representations or the distortion of internal control;
- we have adopted an understanding of internal control relevant to the audit in order to define audit procedures that are appropriate to the circumstances, not to express an opinion on the effectiveness of the Bank's internal control;
- we have assessed the appropriateness of the accounting principles used and the soundness of the accounting estimates made by directors, including the relevant disclosure;
- we have reached a conclusion on the soundness of directors' use of the going concern principle and, on the basis of evidence obtained, on the existence of any significant uncertainty regarding events or circumstances that may give rise to significant doubts as to the Bank's ability to continue operating as a going concern. In the event of significant uncertainty, we are required to draw attention to the relevant disclosure in the financial statements in the audit report or, if such a disclosure is inadequate, to reflect this fact in our opinion. Our conclusions are based on the evidence obtained up to the date of this report. However, subsequent events or circumstances may result in the Bank ceasing to operate as a going concern;

- We have assessed the presentation, structure and content of the financial statements as a whole, including its disclosure, and whether the financial statements report underlying transactions and events in a manner that provides a fair representation.

We have informed those responsible for governance activities, identified at an appropriate level as required by Italian ISAs, inter alia, of the planned scope and timescale of the audit and the significant results that emerged, including any significant shortcomings in internal control identified during the audit.

We have also issued a declaration to those responsible for governance that we have complied with the applicable ethical and independence rules and principles according to Italian law and have informed them of any situation that could reasonably have an effect on our independence and, where applicable, the relevant safeguards.

Among the aspects reported to those responsible for governance, we identified those that were most significant in the audit of the financial statements for the year under review, which were therefore the key aspects of the audit. We have described these aspects in the audit report.

Other information disclosed pursuant to Article 10 of Regulation (EU) 537/2014

On 20 April 2010, the shareholders' meeting of Banca Popolare dell'Alto Adige SpA appointed us to audit the financial statements of the Bank for the years 31 December 2010 to 31 December 2018.

We declare that no non-audit services that are prohibited under Article 5, paragraph 1 of Regulation (EU) No. 537/2014 were provided and that we remained independent of the Bank in performing the statutory audit.

We confirm that the assessment of the financial statements expressed in this report is in line with the additional report addressed to the Board of Statutory Auditors, in its role as internal control and auditing committee, produced pursuant to Article 11 of the aforementioned Regulation.

Report on other provisions of law and regulations

Opinion pursuant to Article 14, paragraph 2, letter e) of Legislative Decree 39/10 and Article 123-bis of Legislative Decree 58/98.

The directors of Banca Popolare dell'Alto Adige SpA are responsible for producing the report on operations and the report on the corporate governance and ownership structure of Banca Popolare dell'Alto Adige SpA as at 31 December 2018, including their consistency with the relevant financial statements and their compliance with law.

We have followed the procedures indicated in the audit principle (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure indicated in Article 123-bis, paragraph 4 of Legislative Decree 58/98 with the financial statements of Banca Popolare dell'Alto Adige S.p.A. as at 31 December 2018 and their compliance with law, and to issue a declaration on any significant errors.

In Our opinion, the report on operations and certain specific information contained in the report on corporate governance and ownership structure referred to above are consistent with the financial statements of Banca Popolare dell'Alto Adige S.p.A. as at 31 December 2018 and prepared in accordance with the law.

With reference to the declaration indicated in Article 14, paragraph 2, letter e), of Legislative Decree 39/10, to be issued on the basis of knowledge and an understanding of the company and the relevant context acquired during the audit, we have nothing to report.

Declaration pursuant to Article 4 of the Consob Regulation implementing Legislative Decree No. 254 of 30 December 2016.

The directors of Banca Popolare dell'Alto Adige SpA. are responsible for producing the non-financial disclosure pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that the directors have approved the non-financial disclosure.

Pursuant to Article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, this declaration is subject to a separate declaration of conformity on our part.

Milan, 15 March 2019

BDO Italia SpA

Francesca Scelsi
Shareholder

COMPANY REPORTING FORMATS

Balance Sheet

Assets		31.12.2018	31.12.2017
(in €)			
10.	Cash and cash equivalents	83,017,850	71,358,997
20.	Financial assets designated at fair value through profit or loss	290,022,083	199,065,518
	a) financial assets held for trading	3,258,439	11,494,684
	b) financial assets designated at fair value	-	-
	c) other financial assets compulsorily measured at fair value	286,763,644	187,570,835
30.	Financial assets measured at fair value with impact on overall profitability	829,144,042	1,004,413,149
40.	Financial assets measured at amortised cost	8,488,828,633	7,793,089,996
	a) loans to banks	83,358,663	109,745,557
	b) loans to customers	8,405,469,970	7,683,344,439
50.	Hedging derivatives	-	-
60.	Value adjustment of hedged financial assets (+/-)	-	-
70.	Equity investments	5,745,476	5,793,248
80.	Physical assets	135,964,893	139,577,074
90.	Intangible assets	118,731,281	119,213,815
	of which:		
	- goodwill	99,601,776	99,601,776
100.	Tax assets	174,704,904	169,106,370
	a) current	54,806,801	59,540,633
	b) prepaid	119,898,103	109,565,737
110.	Non-current assets and groups of assets held for sale	12,923,130	-
120.	Other assets	136,479,833	136,318,027
	Total assets	**10,275,562,125**	**9,637,936,194**

Liabilities and shareholders' equity		31.12.2018	31.12.2017
(in €)			
10.	Financial liabilities measured at amortised cost	9,101,606,665	8,501,056,421
	a) Payables to banks	1,418,187,385	1,150,659,435
	b) Payables to customers	6,985,198,803	6,396,871,221
	c) Outstanding securities	698,220,477	953,525,765
20.	Financial liabilities held for trading	1,429,146	2,030,173
30.	Financial liabilities designated at fair value (IFRS 7 par. 8 letter e)	-	1,049,676
40.	Hedging derivatives	-	-
50.	Value adjustment of hedged financial liabilities (+/-)	-	-
60.	Tax liabilities	31,253,822	33,831,834
	a) current	4,291,065	3,668,215
	b) deferred	26,962,757	30,163,619
70.	Liabilities associated with assets held for sale	-	-
80.	Other liabilities	266,228,646	188,923,598
90.	Employee severance indemnities	19,113,484	19,751,789
100.	Provisions for risks and charges	20,728,394	17,923,096
	a) commitments and guarantees given	6,848,854	1,131,318
	b) pensions and similar obligations	-	-
	c) other provisions for risks and charges	13,879,540	16,791,778
110.	Valuation reserves	(15,387,236)	681,778
120.	Redeemable shares	-	-
130.	Equity instruments	-	-
140.	Reserves	249,733,758	284,365,657
150.	Issue premium	383,158,533	383,158,533
160.	Capital	201,993,752	199,439,716
170.	Treasury shares (-)	(18,553,559)	(18,553,559)
180.	Profit (Loss) for the year (+/-)	34,256,720	24,277,481
	Total liabilities and shareholders' equity	**10,275,562,125**	**9,637,936,194**

Income statement

Income statement		31.12.2018	31.12.2017
(in €)			
10.	Interest receivable and similar income	194,394,238	181,256,313
	of which: interest income calculated according to the effective interest method	182,237,147	167,443,931
20.	Interest paid and similar charges	(29,001,999)	(29,320,643)
30.	**Interest margin**	**165,392,239**	**151,935,670**
40.	Commission income	99,280,360	97,895,095
50.	Commission expense	(10,168,404)	(9,689,201)
60.	**Net fees**	**89,111,956**	**88,205,894**
70.	Dividends and similar income	3,124,468	4,476,479
80.	Net result of trading	2,825,697	2,281,525
90.	Net result of hedging	-	-
100.	Profits (losses) on disposal or repurchase of:	2,731,618	10,829,366
	a) financial assets measured at amortised cost	817,935	(2,869,508)
	b) financial assets measured at fair value with an impact on comprehensive income	1,605,395	13,278,185
	c) financial liabilities	308,288	420,689
110.	Net profit/loss from other financial assets and liabilities measured at fair value with an impact on the income statement	(5,975,153)	(1,100,165)
	a) financial assets and liabilities designated at fair value	-	(66,841)
	b) other financial assets compulsorily measured at fair value	(5,975,153)	(1,033,324)
120.	**Net receipts from banking**	**257,210,825**	**256,628,769**
130.	Net adjustments/write-backs on credit risk:	(39,014,778)	(59,450,367)
	a) financial assets measured at amortised cost	(38,256,256)	(52,046,970)
	b) financial assets measured at fair value with an impact on comprehensive income	(758,522)	(7,403,397)
140.	Gains/losses from contractual amendments without write-downs	6,283	-
150.	**Net result of financial management**	**218,202,330**	**197,178,402**
160.	Administrative expenses:	(181,133,400)	(174,426,100)
	a) personnel expenses	(98,330,910)	(99,771,207)
	b) other administrative expenses	(82,802,490)	(74,654,893)
170.	Net provisions for risks and charges	(4,132,648)	(2,741,226)
	a) for credit risk relating to commitments and guarantees given	930,522	(51,632)
	b) other net provisions	(5,063,170)	(2,689,594)
180.	Net adjustments/write-backs on physical assets	(8,935,743)	(7,042,860)
190.	Net adjustments/write-backs on intangible assets	(1,162,784)	(1,336,198)
200.	Other operating income/expenses	19,037,349	21,000,211
210.	**Operating costs**	**(176,327,226)**	**(164,546,173)**
220.	Profits (losses) on equity investments	22,227	(34,264)
230.	Net result of measurement at fair value of tangible and intangible assets	-	-
240.	Goodwill value adjustments	-	-
250.	Profits (losses) on disposal of investments	2,176,467	305,619
260.	**Profit (loss) from current operations before tax**	**44,073,798**	**32,903,584**
270.	Income taxes on current operations	(9,817,078)	(8,626,103)
280.	**Profit (loss) from current operations after tax**	**34,256,720**	**24,277,481**
290.	Profit (Loss) on discontinued operations after tax	-	-
300.	**Profit (Loss) for the year**	**34,256,720**	**24,277,481**

Statement of comprehensive income

Items *(in €)*		31.12.2018	31.12.2017
10.	**Profit (Loss) for the year**	**34,256,720**	**24,277,481**
	Other income net of taxes not reversed to the income statement		
20.	Equity securities designated at fair value with an impact on overall profitability	(8,778,021)	-
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
70.	Defined benefit plans	(240,683)	78,044
	Other income net of taxes reversed to the income statement		
140.	Financial assets (other than equity securities) measured at fair value with an impact on overall profitability	(9,586,786)	6,146,940
160.	Share of valuation reserves of equity investments measured at equity	-	-
170.	**Total other income after tax**	**(18,605,490)**	**6,224,984**
180.	**Overall profitability (item 10+170)**	**15,651,230**	**30,502,465**

Statement of changes in shareholders' equity

Statement of changes in shareholders' equity from 1 January to 31 December 2018

(in €)	Balances at 31.12.2017	Change of opening balances	Balances at 01.01.2018	Allocation of previous year's profit		Changes during the year								Shareholders' equity at 31.12.2018
				Reserves	Dividends and other destinations	Changes in reserves	Operations on shareholders' equity						Overall profitability for 2017	
							Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	*Stock Options*		
Capital	199,439,716	-	199,439,716	-	-	-	2,554,036	-	-	-	-	-	-	201,993,752
a) ordinary shares	199,439,716	-	199,439,716	-	-	-	2,554,036	-	-	-	-	-	-	201,993,752
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	383,158,533	-	383,158,533	-	-	-	-	-	-	-	-	-	-	383,158,533
Reserves	284,365,657	(46,526,499)	237,839,158	14,612,166	-	(124,765)	(2,592,801)	-	-	-	-	-	-	249,733,758
a) profits	284,365,657	(46,526,499)	237,839,158	14,612,166	-	(124,765)	(2,592,801)	-	-	-	-	-	-	249,733,758
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	681,778	2,411,711	3,093,489	-	-	124,765	-	-	-	-	-	-	(18,605,490)	(15,387,236)
Equity instruments	-	-	-	-	-		-	-	-	-	-	-	-	-
Treasury shares	(18,553,559)	-	(18,553,559)	-	-	-	-	-	-	-	-	-	-	(18,553,559)
Profit for the year	24,277,481	-	24,277,481	(14,612,166)	(9,665,315)	-	-	-	-	-	-	-	34,256,720	34,256,720
Shareholders' equity	873,369,606	(44,114,788)	829,254,818	-	(9,665,315)	0	(38,765)	-	-	-	-	-	15,651,230	835,201,968

Statement of changes in shareholders' equity from 1 January to 31 December 2017

(in €)	Balances at 31.12.2016	Change of opening balances	Balances at 01.01.2017	Allocation of previous year's profit		Changes during the year								Shareholders' equity at 31.12.2017
				Reserves	Dividends and other destinations	Changes in reserves	Operations on shareholders' equity						Overall profitability for 2017	
							Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	*Stock Options*		
Capital	199,439,716	-	199,439,716	-	-	-	-	-	-	-	-	-	-	199,439,716
a) ordinary shares	199,439,716	-	199,439,716	-	-	-	-	-	-	-	-	-	-	199,439,716
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issue premium	383,158,533	-	383,158,533	-	-	-	-	-	-	-	-	-	-	383,158,533
Reserves	276,644,070	-	276,644,070	7,721,587	-		-	-	-	-	-	-	-	284,365,657
a) profits	276,644,070	-	276,644,070	7,721,587	-		-	-	-	-	-	-	-	284,365,657
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	(5,543,206)	-	(5,543,206)	-	-	-	-	-	-	-	-	-	6,224,984	681,778
Equity instruments	-	-	-	-	-		-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	(18,553,559)	-	-	-	-	-	(18,553,559)
Profit for the year	7,721,587	-	7,721,587	(7,721,587)	-	-	-	-	-	-	-	-	24,277,481	24,277,481
Shareholders' equity	861,420,700	-	861,420,700	-	-	-	-	(18,553,559)	-	-	-	-	30,502,465	873,369,606

Cash flow statement

A. OPERATING ACTIVITY	31.12.2018	31.12.2017
(in €)		
1. Management	**113,904,651**	**98,306,439**
- interest received (+)	194,394,238	181,256,313
- interest expense paid (-)	(29,001,999)	(29,320,643)
- dividends and similar income (+)	3,124,468	4,476,479
- net fees (+/-)	89,111,956	88,205,895
- personnel costs (-)	(98,330,910)	(99,771,207)
- other costs (-)	(85,785,797)	(76,545,989)
- other revenues (+)	50,209,773	38,631,694
- taxes and duties (-)	(9,817,078)	(8,626,103)
- costs/revenues relating to discontinued operations net of tax effect (+/-)	-	-
2. Cash generated/utilized by financial assets	**(753,532,003)**	**(372,401,129)**
- financial assets held for trading	3,347,954	5,141,984
- financial assets designated at fair value	-	-
- other assets necessarily measured at fair value	1,042,307	(4,107,597)
- financial assets designated at fair value with an impact on comprehensive income	(70,878,073)	556,168,596
- financial assets measured at amortised cost	(686,091,571)	(941,150,965)
- other assets	(952,620)	11,546,853
3. Cash generated/utilized by financial liabilities	**664,747,629**	**307,643,870**
- financial liabilities measured at amortised cost	601,409,911	307,020,021
- financial liabilities held for trading	(601,027)	(196,857)
- financial liabilities designated at fair value	(1,049,676)	(113,192)
- other liabilities	64,988,421	933,898
Net cash provided by/used in operating activities	**25,120,277**	**33,549,180**

B. INVESTMENT ACTIVITY		
1. Cash generated by	**2,246,467**	**331,869**
- sales of equity investments	-	-
- dividends received on equity investments	70,000	26,250
- sales of physical assets	2,176,467	305,619
- Sales of intangible assets	-	-
- sales of business units	-	-
2. Cash absorbed by	**(6,003,812)**	**(3,139,481)**
- purchases of equity investments	(0)	1,184,220
- purchases of physical assets	(5,323,562)	(4,143,958)
- purchases of intangible assets	(680,250)	(179,743)
- purchases of business units	-	-
Net cash generated/utilized by investment activities	**(3,757,345)**	**(2,807,612)**

C. FUNDING ACTIVITIES		
- issues/purchases of treasury shares	2,554,036	(18,553,559)
- issues/purchases of equity instruments	(2,592,800)	-
- distribution of dividends and other purposes	(9,665,315)	-
Net cash generated/utilized by funding	**(9,704,079)**	**(18,553,559)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	**11,658,853**	**12,188,009**

RECONCILIATION	31.12.2018	31.12.2017
Cash and cash equivalents at beginning of year	71,358,997	59,170,988
Total net cash generated/utilized during the year	11,658,853	12,188,009
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at end of year	**83,017,850**	**71,358,997**

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

PART A ACCOUNTING POLICIES

A.1 GENERAL PART

Section 1 DECLARATION OF CONFORMITY WITH THE MAIN INTERNATIONAL ACCOUNTING STANDARDS

These financial statements, prepared in accordance with Legislative Decree No. 231/2001 of 28 February 2005 no. 38, have been drafted in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and the applicable interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission in accordance with the procedure set out in Community Regulation no. 1606 of 19 July 2002.

The financial statements have been drafted in accordance with the approved international accounting standards in force at 31 December 2018, including the SIC and IFRIC interpretations.

The accounting principles adopted for the preparation of the financial statements, with reference to the phases of classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods of recognition of revenues and costs, have changed with respect to those adopted for the preparation of the 2017 Financial statements of Volksbank. These changes are essentially the result of the mandatory application, as of 1 January 2018, of the following international accounting standards:

- IFRS 9 "Financial Instruments", issued by the IASB in July 2014 and approved by the European Commission through Regulation no. 2067/2016, which replaced IAS 39 with regard to the classification and measurement of financial instruments, as well as the related impairment process;
- IFRS 15 "Revenues from contracts with clients", approved by the European Commission through Regulation no. 1905/2016, which led to the cancellation and replacement of IAS 18 "Revenues" and IAS 11 "Contract work".

With reference to the methods for presenting the effects of first-time adoption of IFRS 9, Volksbank has decided to adopt the option provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which - without prejudice to the retrospective application of the new rules for measurement and representation required by the standard - the mandatory restatement on a uniform basis of the comparison data in the financial statements of first-time adoption of the new standard is not envisaged.

In order to bring the comparative figures as at 31 December 2017 into line with the new official formats provided for in the 5th update of Bank of Italy Circular 262, in force since 1 January 2018, the necessary adjustments have been made, without changing the values, to allow inclusion in the new items. Specifically:

- the former items relating to loans to clients, loans to banks and held-to-maturity financial assets are included in item "40. Financial assets valued at amortised cost";
- those relating to financial assets held for trading and to financial assets measured *at fair value* are included in item "20. Financial assets at *fair value through* profit or loss";
- those relating to available-for-sale financial assets are included in item "30.Financial assets measured *at fair value* with impact on total revenue";
- the former items relating to amounts due to banks, amounts due to clients and securities issued are all included in item "10. Financial liabilities valued at amortised cost".

With regard to the introduction of IFRS 15, the analyses carried out have shown that the accounting treatment of the main types of revenues deriving from contracts with clients is already in line with the provisions of the new standard and, as a result, no significant impacts have emerged at the accounting level.

For an overview of the standards endorsed in 2018 or those endorsed in previous years, the application of which is planned or permitted for 2018, reference should be made to the following "Section 4 - Other Aspects", in which the main impacts on the Company are also described.

In addition, the financial statements as at 31 December 2018 have been prepared on the basis of the "Instructions for the preparation of the company's financial statements and the consolidated financial statements of banks and financial companies parent company of banking groups" issued by the Bank of Italy on 22 December 2005. These Instructions set out in a binding manner the format of the financial statements and the way in which they are drawn up, as well as the content of the Notes to the Financial Statements.

Section 2 GENERAL PRINCIPLES OF DRAFTING

The financial statements consist of the Balance Sheet, the Profit and Loss Account, the Overall Revenue Statement, the Statement of Changes in Equity, the Cash Flow Statement and the Notes to the Financial Statements and are accompanied by a report by the directors on the performance of operations, the economic results achieved and the financial position of Volksbank.

These financial statements have been prepared using the euro as the reporting currency.

The amounts in the financial statements are expressed in euros, while the figures in the tables in the Notes to the Financial Statements are expressed - unless otherwise indicated - in thousands of euros.

In accordance with the applicable provisions, the financial statements must be drawn up clearly and give a true and fair view of the financial position, the results of operations and the cash flows for the year. If the information required by international accounting standards and by the provisions contained in the above Circular is considered insufficient to give a true and fair view, the Notes to the Financial Statements provide the additional information necessary for this purpose.

If, in exceptional cases, the application of a provision of the international accounting standards is incompatible with a true and fair view of the financial position, the results of operations and the cash flows, it will not be applied. In this case, the reasons for the possible derogation and its influence on the representation of the Balance Sheet, financial situation and economic result must be explained in the Notes to the Financial Statements.

The financial statements have been drafted in accordance with the following general principles:

- *Going concern:* the financial statements have been prepared on a going concern basis;
- *Accrual basis of accounting*: the financial statements are drafted in accordance with the principle of accrual basis of accounting, regardless of the settlement date;
- *Consistency of presentation:* the presentation and classification of items in the financial statements is constant from one financial year to the next, except when a standard or an interpretation does not require a change in presentation or when another presentation or classification is deemed more appropriate taking into account the requirements of IAS 8. In the latter case, the explanatory notes provide information on the changes made with respect to the previous year;
- *Relevance and aggregation:* The Balance Sheet and Profit and Loss Account are made up of items (marked with Arabic numerals), sub-items (marked with letters) and further information (the "of which" items and sub-items). Items, sub-items and related information constitute the accounts of the financial statements. The formats comply with those defined by the Bank of Italy in the above Circular no. 262 of 22 December 2005 and subsequent updates. New items may be added to these schedules if their contents cannot be traced back to any of the items already provided for in the schedules and only if they are significant amounts. The sub-items provided for in the diagrams may be grouped together when one of the following two conditions is met:
    a. the amount of the sub-items is immaterial;
    b. the grouping favours the clarity of the financial statements; in this case, the Notes to the Financial Statements contain the sub-items covered by the grouping separately.

The Balance Sheet and Profit and Loss Account do not show accounts that do not show amounts for either the year to which the financial statements refer or the previous year.

- *Prevalence of substance over form:* transactions and other events are recognised and represented in accordance with their substance and economic reality and not also taking into account their legal form;
- *Offsetting:* assets and liabilities, revenue and costs are not offset unless this is permitted or required by an international accounting standard or its interpretation or by the provisions of the above Bank of Italy Circular;
- *Comparative information:* comparative information relating to the previous year is provided for each Balance Sheet and Profit and Loss Account, unless an accounting standard or interpretation does not allow or provide otherwise. The figures for the previous financial year may be adjusted, where necessary, to ensure the comparability of

information for the current financial year. Any non-comparability, adaptation or impossibility of the latter are indicated and commented on in the Notes to the Financial Statements.

The Notes to the Financial Statements are divided into parts. Each part of the note is divided into sections, each of which illustrates a single aspect of management.

Uncertainties related to the use of estimates

The preparation of financial information also requires the use of estimates and assumptions that can have a significant effect on the values recorded in the Balance Sheet and Profit and Loss Account, as well as on the information relating to potential assets and liabilities recorded in the financial statements. The preparation of such estimates involves the use of available information and the adoption of subjective evaluations, also based on historical experience, used to formulate reasonable assumptions for the recognition of operating events. Due to their nature, the estimates and assumptions used may vary from year to year and, accordingly, it cannot be excluded that in subsequent years the values recorded in the financial statements may vary significantly as a result of changes in the subjective assessments used.

The main cases for which the use of subjective assessments by management is most required are:

- the quantification of impairment losses on loans, equity investments and, in general, other financial assets;
- the use of valuation models for the recognition of the fair value of financial instruments not listed on active markets;
- the assessment of the fairness of the value of goodwill and other intangible fixed assets;
- quantification of the *fair value* of the properties;
- the quantification of provisions for personnel and provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets;
- estimate of the recoverable value of property held for investment purposes;

For some of the cases listed above, the main factors that are the subject of estimates can be identified and accordingly contribute to determining the book value of assets and liabilities in the financial statements. Without claiming to be exhaustive, it should be noted that:

- for the determination of the fair value of financial instruments not listed on active markets, where it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on the one hand, the development of future financial flows (or even revenue flows, in the case of shares), possibly subject to future events and, on the other, the level of certain input parameters not listed on active markets;
- for the allocation to the three credit risk stages envisaged by IFRS 9 of receivables and debt securities classified under Financial assets at amortised cost and under Financial assets at *fair value* with an impact on total revenue and the calculation of the related expected losses, the main estimates concern:
    a. the determination of parameters for a significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of financial assets and at the Balance Sheet date;
    b. the inclusion of forward looking factors, including macroeconomic factors, for the determination of PDs and LGDs;
    c. the determination of the probability of the sale of impaired financial assets, by realising the positions on the market;
- for the determination of the estimates of future cash flows from impaired loans, certain elements are taken into consideration: the expected recovery time, the estimated realisable value of any guarantees as well as the costs that are expected to be incurred for the recovery of the credit exposure;
- for the determination of the value in use of intangible fixed assets with an indefinite useful life (goodwill) with reference to the Cash Generating Unit (CGU), the future cash flows in the analytical forecast period and the flows used to determine the so-called "terminal value", generated by the CGU. The cost of capital is also included in the estimates;
- for the determination of the value in use of intangible fixed assets with a finite life ("client relationship"), the useful life is estimated, on the one hand, and the future cash flows from the asset, on the other. In the case of intangible fixed assets with a finite useful life, the cost of capital is also included in the estimates;
- the determination of the *fair value* of real estate is carried out through the preparation of special valuations. In order to prepare the valuations relating to the properties, the rental prices, sale prices, discount rates and capitalisation rates were estimated;

- for the quantification of provisions for pensions and similar obligations, the present value of the obligations is estimated, taking into account the flows, suitably discounted, deriving from historical statistical analyses, and the demographic curve;
- for the quantification of the provisions for risks and charges, an estimate is made - where possible - of the amount of disbursements necessary to meet the obligations, taking into account the actual probability of having to invest resources;
- for the determination of the items relating to deferred taxation, the probability of an actual future incurrence of taxes (taxable temporary differences) is estimated and the degree of reasonable certainty - if any - of future taxable amounts at the time when the tax deductibility will become apparent (deductible temporary differences).

Section 3 EVENTS SUCCESSING THE DATE OF REFERENCE OF THE BUDGET

No significant events occurred after the end of the year.

Section 4 OTHER ASPECTS

Time limits for approval and publication of the financial statements

Art. 135-sexies of the Legislative Decree 59/98 (TUF) requires that, within one hundred and twenty days of the end of the financial year, the financial statements be approved and the annual financial report, including the financial statements, the report on operations and the certification referred to in article 154-bis, paragraph 5, published.
The draft financial statements were approved by the Board of Directors on 1 March 2019.

Auditing

The separate financial statements have been audited in accordance with the provisions of Legislative Decree No. 58/1998. 58/98, by the company BDO Italia S.p.A., in application of the mandate conferred for the period 2010 - 2018 on that company by resolution of the shareholders" meeting of 20 April 2010. The audit report is published in full together with the annual financial report, pursuant to art. 135-septies of Legislative Decree 58/98.

New accounting standards or changes to existing standards approved by the European Commission

There follows an illustration of the new accounting standards or changes to existing standards approved by the IASB, as well as new interpretations or changes to existing ones published by the IFRIC, with separate indication of those applicable in 2018 and those applicable in subsequent years.
IASB/IFRIC documents approved by the European Union and entered into force in 2018.

IAS/IFRS - SIC/IFRIC interpretation	Modifications
Changes to IFRS 2: Classification and Measurement of Share-based Payment Transactions (Published on 20 June 2016)	Effective date 1 January 2018. The change refers to the accounting treatment of share-based payments that are settled in cash and include a performance condition.
Regulation No 2067 of 22 November 2016 - IFRS 9 "Financial instruments".	IFRS 9, issued by the IASB in July 2014, governs the classification and measurement of financial instruments, as well as the related impairment process and replaces the previous accounting standard IAS 39.
Regulation no. 1905 of 22 September 2016 - IFRS 15 "Revenues from contracts with clients" and subsequent clarifications approved by Regulation no. 1987 of 31 October 2017	IFRS 15, published by the IASB on 28 May 2014, introduces a single model for the recognition of all revenues deriving from contracts entered into with clients and replaces the previous standards/interpretations on revenues (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, SIC 31).
Regulation No 1988 of 3 November 2017 - "Joint application of IFRS 9 Financial instruments and IFRS 4 Insurance contracts".	The changes are aimed at resolving, for insurance companies, problems related to the application of IFRS 9 before the implementation of the standard (IFRS 17 which will enter into force on 1 January 2021) which will replace IFRS 4 on insurance contracts.

IAS/IFRS - SIC/IFRIC interpretation	Modifications
Regulation No 182 of 7 February 2018 - "Annual cycle of improvements to IFRS 2014 - 2016".	The aim is to provide certain clarifications in order to resolve certain inconsistencies or methodological clarifications.
Regulation no. 289 of 26 February 2018 - "Changes to IFRS 2".	The changes aim to clarify the valuation and recognition criteria to be used for certain types of share-based payment transactions.
Regulation No 400 of 14 March 2018 - "Changes to IAS 40 - Changes in the use of real estate investments".	The changes clarify the moment of transfer of an asset from/to the category of "investment property", identified as "change in use".
Regulation No 519 of 28 March 2018 - "IFRIC Interpretation 22 - Foreign currency transactions and advances".	This interpretation clarifies the accounting of transactions involving the receipt or payment of advances in foreign currency.

With the exception of the first-time adoption of IFRS 9, for which reference should be made to the specific chapter "TRANSION TO INTERNATIONAL ACCOUNTING STANDARD IFRS 9", the other changes or interpretations did not have a significant impact on the Bank's financial position or results of operations.

On November 9, 2017, Regulation (EU) No. 2017/1986 was published, by which the European Commission endorsed IFRS 16 Leasing, aimed at improving the accounting reporting of leasing contracts. This standard will replace the current IAS 17 "Leasing" with effect from 1 January 2019. The standard introduces new provisions for the accounting of leasing contracts by lessees (i.e. users of assets subject to leasing contracts) which are based on the definition of a leasing contract understood as a contract that gives the lessee the right to use an identified asset for a certain period of time in exchange for a consideration.
Depending on this, the lessee enters the right of use (of the asset underlying the contract) under the assets in the Balance Sheet, which is subsequently amortised, against the entry of a financial liability equal to the present value of the so-called "financial liabilities". "lease payments", i.e. all fixed and expected payments to be made to the lessor during the remaining life of the contract.
The Bank has preliminarily carried out an analysis of the main innovations introduced by the standard in question, has carried out a detailed analysis of the contracts entered into as lessor/lessee, which may constitute a "Lease", in accordance with the provisions of IFRS 16.
Following the analysis, the Bank carried out the design and implementation phase, which was completed in time for the application of the new standard as from financial year 2019.

The following is an illustration of the accounting standards/interpretations or changes issued by the IASB/IFRIC and approved by the European Commission, which will be mandatory after 2018.

IAS/IFRS - SIC/IFRIC interpretation	Modifications
IFRIC 23 Uncertainty over Revenue Tax Treatments (issued on 7 June 2017)	Effective date 1 January 2019. IFRIC 23 is intended to specify how uncertainty should be reflected in the accounting treatment of revenue taxes.
Changes to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017)	Effective date 1 January 2019. The change clarifies the application of IFRS 9 in accounting for long-term interest in an associate or joint venture that is, in substance, part of a net investment in an associate or joint venture but to which the equity method is not applied.
Regulation No. 1986 of October 31, 2017 - IFRS 16 "Leases".	The standard was published by the IASB on January 13, 2016, with the aim of improving the accounting of leasing contracts. Mandatory application is envisaged from 1 January 2019. In detail, the standard introduces new rules for the accounting presentation of leasing contracts for both lessors and lessees, replacing the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27).
Regulation no. 498 of 22 March 2018 - "Changes to IFRS 9 Financial Instruments - Negative Cleared Prepayments".	The changes are intended to clarify the classification of certain early repayment financial assets when IFRS 9 applies. Specifically: - for financial assets: it is possible to measure at amortised cost also those loans which, in the event of early repayment, require payment by the grantor; - for financial liabilities: in the event of a change in the contractual terms of a liability, which is not such as to result in derecognition, the effect of the change on the amortised cost must be recognised in the Profit and Loss Account at the date of the change.

The following is an illustration of the accounting standards/interpretations or changes issued by the IASB/IFRIC that have not yet been approved by the European Commission.

IAS/IFRS - SIC/IFRIC interpretation	Modifications
IFRS 17 Insurance Contracts (issued on 18 May 2017)	IFRS 17 Insurance Contracts sets out accounting policies. Measurement, presentation and disclosure of issued insurance contracts. Similar principles are also applied to reinsurance contracts and investment contracts containing discretionary holding formulations.
Annual Improvement Cycle to IFRS 2015-2017 Cycle Standards (Published 12 December 2017)	Annual improvement clicks provide an effective mechanism for managing minor improvements to IFRS standards.
Changes to IAS 19: Plan Change, Curtailment or Settlement (issued on 7 February 2018)	The changes to IAS 19 are intended to clarify certain aspects relating to the accounting treatment of liabilities (assets) associated with defined benefit plans in the event of their recalculation and the accounting treatment of the cost of the service and interest, again in the event of the recalculation of the defined benefit plan.
Changes to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)	The changes concern references to the Conceptual Framework of IFRS Standards, published by the IASB on 29 March 2018.
Change to IFRS 3 Business Combinations (issued on 22 October 2018)	The changes refer to the definition of Business for the purposes of IFRS 3.
Changes to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)	The changes aim to clarify the definition of "material" and how this should be applied.

THE TRANSITION TO INTERNATIONAL ACCOUNTING STANDARD IFRS 9

IFRS 9: the new accounting standard for financial instruments

Regulatory provisions

The new accounting standard IFRS 9, which came into force on 1 January 2018, regulates the classification and measurement of financial instruments, was issued by the IASB in July 2014 and approved by the European Commission through Regulation no. 2067/2016. It replaces IAS 39, applicable until 31 December 2017.

IFRS 9 is divided into three macro-areas of application relating to the accounting treatment of financial instruments:

- classification and measurement;
- impairment;
- hedge accounting.

In particular, IFRS 9 requires that the classification of financial assets be guided, on the one hand, by the characteristics of the contractual cash flows of each instrument and, on the other hand, by the management intent (*"business model"*) within which these assets are held.

The previous four accounting categories envisaged by IAS 39 ("Loans", "Financial assets held for trading", "Financial assets held to maturity" and "Financial assets available for sale") have been replaced by three categories: "Financial assets measured at amortised cost", "Financial assets measured at fair value with an impact on ***total revenue"*** (for debt instruments, the equity reserve is transferred to the Profit and Loss Account in the event *of disposal of the instrument) and "Financial assets measured at fair value with an impact on the* Profit and Loss Account".

Financial assets can be recorded in the first two categories and, accordingly, be valued at amortised cost or at *fair value* with recognition in equity only if it is demonstrated that they give rise to cash flows that are represented exclusively by payments of principal and interest (the so-called "cash flow hedge")."solely payment of principal and interest" – "SPPI test").

Equity instruments are always recorded in the third category and measured at *fair value* through profit or loss, unless the entity irrevocably chooses (upon initial recognition), for equity instruments not held for trading purposes, to present the changes in value in an equity reserve, which will never be transferred to the Profit and Loss Account, even in the event of disposal of the financial instrument (Financial assets measured at *fair value* with an impact on overall profitability without "recycling").

As regards the classification and valuation of financial liabilities, no substantial changes have been introduced with respect to IAS 39.The only change is the accounting treatment of own credit risk: for financial liabilities designated at fair value *(so-called fair value option liabilities), the standard requires that changes in fair value attributable to changes in credit* risk be recognised *in equity, unless this treatment creates or expands an accounting asymmetry in profit for the year, while* the residual amount of changes in fair value of liabilities must be recognised in the Profit and Loss Account.

With reference to impairment, for instruments measured at amortised cost and *fair value* with a balancing entry in equity (other than equity instruments), a model based on the concept of "expected loss" is introduced in place of the "incurred loss" envisaged by IAS 39, with the target of recognising losses in advance thanks to the inclusion, in the calculation of the expected loss, of expectations regarding the evolution of the economic cycle.In the case of an unfavourable economic scenario, expected losses will be taken into account, all other things being equal, higher than those recognised in a neutral or favourable scenario.

IFRS 9 requires companies to recognise expected losses in the following 12 months ("stage 1") from the initial recognition of the financial instrument. If the credit quality of the financial instrument has deteriorated significantly with respect to the initial measurement ("stage 2") or if it is "impaired" ("stage 3"), the time horizon for calculating the expected loss becomes the entire residual life of the asset being valued. More specifically, the introduction of the new impairment rules entails:

- the allocation of performing financial assets to two different stages of credit risk ("staging"), to which correspond value adjustments based on the losses expected in the following 12 months (the so-called "staging"). "First stage" - "Stage 1"), i.e. "lifetime", for the entire remaining life of the instrument (i.e. the entire duration of the instrument). "Stage 2) in the presence of a significant increase in credit risk ("Significant Increase in Credit Risk - SICR") determined by comparing the Probability of Default at the date of first recognition of the asset and at the date of the financial statements;

- the allocation of impaired financial assets to the so-called "Stage 3", always with value adjustments based on expected lifetime losses;
- the inclusion in the calculation of expected losses ("Expected Credit Losses - ECL") of prospective information ("forward looking") linked, among other things, to the expected evolution of the macroeconomic scenario.

Finally, with reference to hedge accounting, the new model for hedges - which does not, however, concern the so-called "hedge accounting" - has been introduced. "macro hedges" - tend to align the accounting representation with the risk management activities and to strengthen the disclosure on the risk management activities undertaken by the entity preparing the financial statements.

Adoption of the transitional regime to mitigate the IFRS 9 impacts on equity

On 12 December 2017, the European Parliament and Council issued Regulation (EU) 2017/2395 "Transitional provisions to mitigate the impact of the introduction of IFRS 9 on equity" which updates Regulation 575/2013 CRR, inserting the new article 473 bis "Introduction of IFRS 9", which offers banks the possibility of mitigating the impact on equity 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 through the application of decreasing percentages over time. Volksbank has chosen to adopt the so-called "dynamic approach", to be applied to the impact resulting from the comparison between IAS 39 value adjustments existing as at 31.12.2017 and IFRS 9 value adjustments resulting as at 01.01.2018, as well as to the impacts relating to higher value adjustments from 1 January 2018 to 31 December 2022, limited to increases in adjustments to exposures classified as stage 1 and 2 (excluding adjustments to stage 3 positions).
Banks opting for the transitional treatment from 2018 must in any case also provide the market with information on available capital, RWA, capital ratio and fully loaded leverage ratio.

Representation of first application effects

Volksbank avails itself of the option provided by paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards" which allow, in the financial statements of first-time adoption of the standard, not to present comparative data on a uniform basis, without prejudice to the retrospective application of the new rules for measurement and representation required by the standard.
According to the indications contained in the deed of issue of the 5th update of Circular 262 "The bank Balance Sheet: schemes and rules for compilation", the banks that will make use of the exemption from the obligation to recalculate comparative values must, however, include, in the first financial statements drawn up on the basis of the new Circular 262, a reconciliation prospectus that highlights the method used and provides a reconciliation between the data of the last approved financial statements and the first financial statements drawn up on the basis of the new provisions.

Classification and Measurement

As already mentioned, IFRS 9 requires that the classification of financial assets be guided, on the one hand, by the contractual characteristics of the cash flows of the instruments and, on the other, by the management intent with which they are held ("Business Model"). To this end, the methods for carrying out the test on the contractual characteristics of the cash flows ("SPPI Test") have been defined and the related business models have been formalised.
The securities and loans portfolios outstanding as at 31 December 2017 were subjected to the SPPI test as defined internally, in order to determine the correct classification at the time of the First Time Adoption (FTA) of the new standard. With regard to debt securities, a detailed examination was carried out of the characteristics of the cash flows of instruments classified as "Held to maturity" ("HTM") and in the category of Financial assets available for sale ("AFS") according to IAS 39, in order to identify those instruments which, not passing the test, must be classified as "assets that must be measured at fair value with an impact on the Profit and Loss Account" according to IFRS 9. The debt securities held as at 31 December 2017 all passed the SPPI test.
The units of OICR (open-end and closed-end funds) have been classified, also on the basis of the guidelines that have emerged and the clarifications provided by the IFRS Interpretation Committee, under "assets measured at fair value with an impact on the Profit and Loss Account".

Tests carried out on the loan portfolio revealed a limited number of cases in which specific contractual clauses or the nature of the financing led to the failure of the SPPI test. Moreover, the consequent classification of these receivables under "assets measured at fair value through profit or loss" did not have a significant impact on the FTA phase.
With regard to the second driver for the classification of financial assets (business model), the reference business models have been defined. For the Hold to Collect portfolios, the thresholds of admissibility of sales that do not affect the classification (frequent but not significant, individually and in aggregate, or infrequent even if of significant amount) have been defined and, at the same time, the parameters have been established to identify sales consistent with this business model as they are attributable to an increase in credit risk.
More specifically, sales are allowed under an HTC business model:

- in the event of an increase in credit risk, which occurs:
    i. for securities, when there is a "significant increase in credit risk" that is significant for the purposes of "staging" for the purposes of calculating the impairment of the portfolio itself (accordingly referring in general to both the so-called "credit risk" and the "credit risk"). Delta PD/delta notch with respect to the purchase of the tranche in the portfolio), in accordance with the methodology in use for the identification of "significant deterioration", i.e. for the passage of staging;
    ii. for credits, in the case of assignments of credits classified as stage 2 or stage 3;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, frequency and significance thresholds have been defined:
    i. significance is defined as the ratio of the nominal value of sales of debt securities to the average nominal value of the HTC portfolio over the relevant time period;
    ii. the frequency is set by analogy to the same annual threshold defined for significance (updated periodically), but applied to the ISIN code number in the portfolio at the beginning of each year;

On the basis of the analyses carried out, it emerged that the portfolios of debt securities valued at amortised cost in accordance with IAS 39 generally show a reduced movement, consistent with the management strategy of a Hold to Collect business model.
With reference, on the other hand, to debt securities classified - again in accordance with IAS 39 - as Assets available for sale, the adoption of a Hold to Collect and Sell business model was defined for most of the portfolios.
Only in some cases have portfolio reclassifications been made in FTA, to take into account, as required by the standard, the underlying business model at the date of first application of IFRS 9. These reclassifications concerned, in particular, debt securities measured at fair value with an impact on equity in accordance with IAS 39, which were included in a Hold to Collect FTA business model and accordingly valued, if the SPPI test was passed, using the amortised cost method.
As far as loans are concerned, their current management method, towards both retail and corporate counterparties, is essentially attributable to a Hold to Collect business model, with the limited exceptions mentioned above.
The elements constituting the business model are identified and detailed in specific documents, approved by the Board of Directors, in line with the management intentions that govern the holding and consequent classification of individual financial instruments.
With regard to equity securities, the instruments (classified under the category of financial assets available for sale in accordance with IAS 39) for which the option of classification at fair value was exercised in FTA with an impact on total revenue (without "recycling" in the Profit and Loss Account) were identified. In addition, the general criteria that should guide the choice "at full capacity" have been defined and the related organisational process has been formalized.
Finally, it should be noted that, on the basis of an analysis that also took into account the limited number of cases at 31 December 2017 and the close maturity of the instruments, it was decided to no longer make use of the Fair Value Option for the financial liabilities issued.

Impairment

As far as the new impairment model is concerned:

- the methods for measuring changes in the credit quality of positions in portfolios of financial assets valued at amortised cost and fair value, with a balancing entry in equity, have been defined;

- the parameters for determining the significant increase in credit risk have been established, in order to ensure the correct allocation of performing exposures (stage 1 or stage 2);
- models were developed - including forward looking information - to be used for stage allocation (based on the use of PD lifetime) and calculation of expected credit loss (ECL) at 12 months to be applied to exposures in stage 1 and lifetime to be applied to exposures in stage 2 and stage 3.

The elements that constitute the main determinants to be taken into consideration for the purposes of assessing the "steps" between different stages are as follows:

- the change beyond certain thresholds of lifetime probability of default ("PD") since the initial recognition of the financial instrument on the Balance Sheet;
- the possible emergence of an expired one that - without prejudice to the thresholds of significance identified by the regulations - is such as to be at least 30 days old. In this case, the credit risk of the exposure is presumed to be "significantly increased" and, accordingly, the "transition" to stage 2 follows;
- the possible presence of forbearance measures, which - again on a presumption basis - entail the classification of exposures among those whose credit risk is "significantly increased" with respect to initial recognition.
- the presence, if any, of "observation" master notes, which classify exposures as "Watchlists" or those whose credit risk is "significantly increased" with respect to initial recognition.

Of those indicated above, the change in the probability of default lifetime is the main factor in the significant increase in credit risk ("SICR"). It is calculated by comparing the relative variation in the Probability of Default Life recorded between the date of first registration of the report and the date of observation ("delta PD" Lifetime) with significance thresholds calculated and defined as "Threshold". The assignment of a PD Lifetime to the individual reports is carried out by bringing them back to the ratings scale for each segment both at the date of first registration and at the observation. Ratings are determined on the basis of internal management models.

The determination of significant deterioration is accordingly given by the increase in the lifetime PD caused by the downgrades of the position between the origination of the same and the date of reporting ("observation").

This "relative" change in PD lifetime is an indicator of the increase or decrease in credit risk during the reference period. In order to determine whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and accordingly involve the transition between stages), it is necessary to define specific thresholds. Lifetime PD increases below these thresholds are not considered significant and, consequently, do not involve the transfer of individual credit lines/debt tranches from stage 1 to stage 2; such transfer is, however, necessary when relative PD increases above the thresholds in question are present. The thresholds used are determined on the basis of a process of simulations and predictive performance optimizations, developed using historical granular portfolio data.

The determination of the thresholds has been calibrated in order to find a correct balance between the performance indicators relating to the capacity of the thresholds themselves:

- intercept stage 2 positions before they move to default;
- identify the positions for which the return to stage 1 is synonymous with an effective improvement in creditworthiness.

The "staging" of the securities, on the other hand, considers all the individual transactions of sale and purchase (carried out with reference to the same ISIN), which may normally fall within the ordinary activity of management of the positions. The method adopted identifies sales and repayments in order to determine the residual quantities of individual transactions to which a credit/rating quality can be associated with the origination to be compared with that of the reporting date.

Once the allocation to the different stages of credit risk has been defined, the expected losses (ECL) are determined, at the level of individual transactions or tranches of securities, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The valuation of financial assets also reflects the best estimate of the effects of future conditions, especially economic conditions, on the basis of which PD and LGD forward looking are conditioned. Information on future macroeconomic scenarios in which the Bank may find itself operating influences the situation of debtors with reference both to the "riskiness" of migrating exposures to lower quality classes (accordingly concerning staging) and to recoverable amounts (accordingly concerning the determination of the expected loss on exposures).

In order to include forward-looking information, a model has been developed that, on the basis of the macroeconomic variables observed in the past, identifies the correlation between the historical default rate and the economic and

financial scenario variables observed. Once the above correlation has been defined, the forward-looking estimates of the risk parameter (identified in the default rate) are obtained by transforming the independent variables relating to macroeconomic forecasts, which make it possible to calculate the forward-looking multipliers to be applied to the default curves. The model is differentiated by clusters of homogeneous debtors, i.e. Private, Small Business and Corporate, and makes it possible to obtain, for each segment, the correct PD curve for the forward-looking multipliers.
Special considerations apply to exposures classified in the so-called "stage 3" (those corresponding - as indicated above - to the current perimeter of impaired assets). With regard more specifically to impaired loans, it should be noted that, although the definition of "credit-impaired financial asset" in IFRS 9 is substantially the same as that in the previous accounting standard, the method of calculating the ECL lifetime has also had methodological implications for the valuations to be carried out in this sector, mainly in relation to it:

- the inclusion of forward looking information, such as macroeconomic scenarios, estimates and recovery times for positions classified as "Probable defaults" and "Past due";
- the consideration of an alternative scenario of recovery given by the sale of credit assets, in connection with possible transfers of shares in the impaired portfolio as provided for in the business plans for the reduction of non-performing assets, to which a probability of realisation is attributed, to be considered in the overall assessment.

The inclusion, for the purposes of the valuation, of an alternative recovery scenario consisting of the sale, is based on the targets of reducing the stock of non-performing loans included in the business plans, also drawn up in relation to the commitments required by the Supervisory Bodies and is within the scope of the discretionary powers offered by IFRS 9.
In particular, the document "Guidelines for Italian Less Significant Banks in the Management of Impaired Loans", published on 30 January 2018, which recalls and is consistent with the document "Guidance to banks on non-performing loans" published by the Single Supervisory Mechanism, represents the expectations of the Supervisory Authority in relation to the management of NPLs and has required banks to prepare an NPL management strategy that also includes targets for the reduction of aggregates over the planning period.
Consistent with the indications contained therein, the Bank has identified the reduction of the incidence of gross deteriorated loans as a priority target for risk reduction.
In this context, accordingly, the sale of certain portfolios is the strategy that can, under certain conditions, maximise the recovery of cash flows, also in consideration of recovery times.
Consequently, the approved NPL management plan provides for the strengthening of activities aimed at recovering positions internally and the transfer of a significant portfolio of non-performing loans. The combination of the sales scenario with the ordinary scenario of recovery through internal management accordingly responds to the requests received from the Supervisory Authorities.
In detail, the achievement of the targets of a significant reduction in impaired loans over the required period (3-5 years), taking into account the favourable economic context, required that the strategy of managing non-performing loans through internal workouts, penalised by the intrinsic timing required by executive and bankruptcy procedures, be accompanied by the strategy of selling certain portfolios.
The reduction in non-performing loans was planned with reference to both the total gross value of the aggregate and the gross value as a percentage of total lending ("NPL Ratio").
This strategy was already applied when the principle was first applied, in line with the principle itself and as confirmed and further specified by the Transition Reporting Group ("TRG"). In particular, IFRS 9, par. 5.5.17. provides that "the entity will measure the expected credit losses of the financial instrument so that they reflect:

a) a probability-weighted target amount determined by assessing a range of possible outcomes;
b) the time value of the money;
c) reasonable and demonstrable information that is available without excessive cost or effort at the Balance Sheet date about past events, current conditions and expectations of future economic conditions.

IFRS 9 defines the loss as the difference between all contractual cash flows payable and the cash flows expected to be received by the entity. These flows are not limited to those obtainable under the contractual terms, but are all the cash flows obtainable under the chosen recovery strategies.
Accordingly, if the entity, as part of a formalised impaired credit management strategy, plans to sell a non-performing loan, the cash flow that can be obtained from the sale will contribute to the estimate of the related ECL.

With reference to the use of sales scenarios, reference is also made to the information provided by the Transition Reporting Group ("TRG"), which has specified that cash flows from the sale of a defaulting loan are considered in the ECL estimate on condition that:

- the sale of the receivable is one of the methods of recovery that the entity expects to implement;
- the entity has no legal or operational limitations that affect its ability to sell credit;
- the entity has reasonable and adequate information to support the sales scenario.

"TRG" also specified that:

- In order to support the entity's expectations regarding the assumption that transfers to third parties represent a means of recovery in the event of default, both the entity's past conduct and future expectations must be assessed, and that the latter may deviate from previously observed conduct;
- in order to determine the recoverable amount, relevant market information on the exchange prices of receivables must be considered;
- the inclusion of amounts recoverable through sale for the purpose of estimating expected losses is applicable to financial instruments classified in all stages (1, 2 and 3); this is because, in measuring expected losses, IFRS 9 requires all possible scenarios to be considered regardless of the stage in which the receivable is classified.

In the valuation of receivables, in particular non-performing loans, in accordance with the IFRS 9 impairment model, the various recovery strategies assumed are reflected so as to align them proportionally to a disposal probability defined in accordance with the NPL management strategy.
As a result, the "ordinary" scenario, which envisages a recovery strategy based on the collection of the receivable typically through legal actions, mandates to recovery companies, and the realisation of mortgage guarantees, was accompanied - as a recovery strategy - by the scenario of the sale of the receivable itself. In light of this, for a defined perimeter of non-performing loans having the characteristics of assignability, in order to determine the overall expected loss of these exposures, the recoverable values based on the ordinary internal recovery process and the amounts recoverable from the sale, estimated on the basis of market valuations, have been weighted according to the probability of sale, determined on the basis of the expected time horizon for the sale, and the state of progress of the sale process.
In this context, the perimeter of assignable non-performing loans (amounting to approximately 240.5 million euro, in terms of gross exposure, out of a total of 614.9 million euro) was identified by the Workout Department, within the positions managed by it, on the basis of defined criteria, including the presence or absence of guarantees and the vintage of each position, as an indicator of a particularly advanced state of internal management such as to make the alternative represented by the transfer a strategy capable of maximising cash flows.
For the sake of completeness, the Group also prepared an Impairment Policy that complies with the requirements of IFRS 9, which was approved by the relevant authorities.

Hedge accounting

With regard to hedge accounting, the new regulations concern exclusively general hedge accounting. As at 31 December 2017 the Bank had no hedging transactions in place, there were no impacts on the FTA. The exercise of the options allowed in relation to the regime to be applied (opt-out) will be evaluated at the time of the introduction of IFRS 9 hedge accounting.

Transition to the new principle

The Bank has conducted the process of implementing the new Principle on the basis of a strong and solid Project Governance. Project responsibility was assigned to the Administration and Budget Area, and thanks to the establishment of a Steering Committee and an Operational Committee, with responsibility for approving the main project decisions, representatives of all the departments affected were actively involved.
The Board of Directors and the Risk Committee have been involved, during the duration of the project, as key players in the implementation of the principle.
ECL's policies for determining performing and non-performing loans have been modified and integrated, with the involvement of the Credit, Workout and Risk Management Departments. The latter oversees the measurement, by predefined methods, of expected losses on performing loans as well as any further measurements on a non-analytical basis of non-performing loans ("add on scenario").

The calculation of expected losses is based on the definition of expected scenarios, which are obtained from external info providers.
The Risk Management Area is responsible for developing and implementing the models and methods necessary for calculating credit losses. These are then subject to the validation of the Administration and Budget Area, a function independent of both the Business structures and the structures for the development and implementation of the models.
The process of classifying financial instruments is governed by the Business Model policies approved by the Board of Directors. These Rules define and define the constituent elements of the various business models and, together with the methodology for carrying out the SPPI test, make it possible to determine the correct valuation approach for financial assets.
In particular, with regard to loans, it should be noted that the credit granting processes have been integrated to (i) manage the execution of the SPPI test, carried out on the basis of the methodology developed internally and developed in the specific tool available to the business structures and (ii) decline the business model associated with each credit granting.
The determination of the fair value of loans (input data, models, etc.) is carried out by the Risk Management Area, in accordance with the Policy for the valuation of financial assets.
Finally, with reference to investments in equity instruments, which the principle defines by default as financial assets measured at fair value with an impact on the Profit and Loss Account, the general criteria that must guide the possible exercise of the option to classify them at fair value with an impact on overall profitability (without recycling to the Profit and Loss Account) have been determined and the reference framework (processes, limits and decision-making autonomy, etc.) has been adjusted accordingly.

The effects of the first-time adoption (FTA) of IFRS 9

As already mentioned, the Bank has availed itself of the option, provided for by IFRS 9, not to restate the comparative data of the financial statements of first-time adoption of IFRS 9. In order to bring the comparative data for the 2017 financial year back into the accounting items provided for by the new formats of Circular 262, which incorporate the new accounting categories of IFRS 9, the comparative data have been restated, without restatement of the values.

Reconciliation between the Financial statements published in the 2017 Financial statements and the IFRS 9 Financial statements (new Circular 262) as at 1 January 2018 (reclassification of balances under IAS 39)

The table below shows the reconciliation between the formats of the 2017 financial statements and the formats of the financial statements introduced by the new Bank of Italy Circular 262, which incorporates the changes introduced by IFRS 9. The accounting balances at 31 December 2017, determined in accordance with IAS 39, have been reclassified to the new items introduced by IFRS 9.

Assets and liabilities		IAS 39											
(in euro)													
		10. Cash and cash equivalents	20. Financial assets held for trading	40. Financial assets available for sale	50. Financial assets held to maturity	60. Loans and advances to banks	70. Loans and advances to clients	100. Holdings	110. Tangible fixed assets	120. Intangible fixed assets	130. Tax assets	150. Other activities	Total asset
	IFRS 9												
10.	Cash and cash equivalents	71,358,997	-	-	-	-	-	-	-	-	-	-	71,358,997
20.	Financial assets at fair value through profit or loss	-	3,942,564	62,411,255	619,290	-	228,542,132	-	-	-	-	-	295,515,241
30.	Financial assets at fair value with impact on total revenue	-	-	775,783,903	-	-	-	-	-	-	-	-	775,783,903
40.	Financial assets valued at amortised cost	-	7,588,669	252,456,438	822,352,359	109,745,557	6,733,169,733	-	-	-	-	-	7,925,312,756
70.	Holdings	-	-	-	-	-	-	5,793,248	-	-	-	-	5,793,248
80.	Tangible fixed assets	-	-	-	-	-	-	-	139,577,074	-	-	-	139,577,074
90.	Intangible fixed assets	-	-	-	-	-	-	-	-	119,213,815	-	-	119,213,815
100.	Tax assets	-	-	-	-	-	-	-	-	-	169,106,370	-	169,106,370
110.	Non-current assets and disposal groups held for sale	-	-	-	-	-	-	-	-	-	-	-	-
120.	Other activities	-	-	-	-	-	-	-	-	-	-	136,274,793	136,274,793
Total assets		**71,358,997**	**11,531,233**	**1,090,651,595**	**822,971,649**	**109,745,557**	**6,961,711,865**	**5,793,248**	**139,577,074**	**119,213,815**	**169,106,370**	**136,274,793**	**9,637,936,195**

Liabilities		IAS 39									
(in euro)											
		10. Payables to banks	20. Due to clients	30. Securities in issue	40. Financial liabilities held for trading	50. Financial liabilities measured at fair value	80. Tax liabilities	100. Other liabilities	110. Employee severance indemnities	120. Provisions for risks and charges:	Total liabilities
	IFRS 9										
10.	Financial liabilities valued at amortised cost	1,150,659,435	6,396,871,221	944,837,002	-	8,688,763	-	-	-	-	8,501,056,421
20.	Financial liabilities held for trading	-	-	-	2,030,173	-	-	-	-	-	2,030,173
30.	Financial liabilities designated at fair value (IFRS 7 par. 8(e))	-	-	-	-	1,049,676	-	-	-	-	1,049,676
60.	Tax liabilities	-	-	-	-	-	33,831,834	-	-	-	33,831,834
70.	Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-	-	-
80.	Other liabilities	-	-	-	44,362	-	-	188,879,237	-	-	188,923,598
90.	Employee severance indemnities	-	-	-	-	-	-	-	19,751,789	-	19,751,789
100.	Provisions for risks and charges	-	-	-	-	-	-	1,131,318	-	16,791,778	17,923,096
Total liabilities		**1,150,659,435**	**6,396,871,221**	**944,837,002**	**2,074,535**	**9,738,439**	**33,831,834**	**190,010,555**	**19,751,789**	**16,791,778**	**8,764,566,588**

Items in equity		IAS 39						
(in euro)								
		130. Valuation reserves	160. Reserves	170. Emission surcharges	180. Capital	190. Own shares	200. Profit (loss) for the year	Total equity
	IFRS 9							
110.	Valuation reserves	681,778	-	-	-	-	-	681,778
140.	Reserves	-	284,365,658	-	-	-	-	284,365,658
150.	Emission surcharges	-	-	383,158,533	-	-	-	383,158,533
160.	Capital	-	-	-	199,439,716	-	-	199,439,716
170.	Own shares (-)	-	-	-	-	(18,553,559)	-	(18,553,559)
180.	Net revenue (loss) for the year (+/-)	-	-	-	-	-	24,277,481	24,277,481
Equity		**681,778**	**284,365,658**	**383,158,533**	**199,439,716**	**(18,553,559)**	**24,277,481**	**873,369,606**

in particular:

- available-for-sale debt securities amounting to 252,5 million euro were allocated to financial assets valued at amortised cost;
- financial assets held to maturity amounting to euros 0.6 million have been reclassified to financial assets measured at fair value through profit or loss;
- financial assets measured at fair value amounting to euros 7.6 million were carried forward to financial assets measured at amortised cost;
- shares of OICRs classified as available-for-sale financial instruments for euros 43.6 million have been reclassified to assets that must be measured at fair value with an impact on the Profit and Loss Account;
- equity instruments amounting to 18.8 million euro classified within financial instruments available for sale, 9.6 million euro was allocated to financial assets for which the fair value measurement option is irrevocably exercised with an impact on equity (without recycling in the Profit and Loss Account) and 9.2 million euro to financial assets that must be measured at fair value with an impact on the Profit and Loss Account;
- capitalisation policies amounting to 168.8 million euro classified as loans and advances to clients were reclassified to assets measured at fair value through profit or loss.

It should also be noted that the reclassification of loans to clients in the portfolio of assets measured at fair value with an impact on the Profit and Loss Account due to the failure of the SPPI test amounted to 59.8 million euro.

The new Circular 262 provides for a different method of presentation of financial assets, having replaced the former items “Loans to clients”, “Loans to banks”, “Financial assets held to maturity”, “Financial assets available for sale”, “Financial assets at fair value through profit or loss” and “Financial assets held for trading” with the new items “Financial assets at fair value through profit or loss”, “Financial assets at fair value through profit or loss” and “Financial assets at amortised cost”.

With reference to financial liabilities, the following should be noted

- the provisions for credit risk relating to commitments to disburse funds and financial guarantees issued have been reclassified from the item “Other liabilities” to the item “Provisions for risks and charges”;
- The items “Due to banks”, “Due to clients” and “Securities in issue” are included in “Financial liabilities measured at amortised cost”.

Reconciliation of the Balance Sheet at December 31, 2017 (which incorporates the new presentation rules of IFRS 9) and the Balance Sheet at January 1, 2018 (which incorporates the new valuation and impairment rules of IFRS 9)
The table shows the reconciliation between the Balance Sheet as at 31 December 2017 and the Balance Sheet as at 1 January 2018, according to the new presentation format. The accounting balances at 31 December 2017 determined in accordance with IAS 39 are compared with the opening balances at 1 January 2018 determined in accordance with the new IFRS 9 compliant rules.

	ACTIVE	31.12.2017 (a)	IFRS 9 transition effect Classification and measurement (b)	IFRS 9 transition effect Impairment (c)	01.01.2018 (d) = (a) + (b)
(in euro)					
10.	Cash and cash equivalents	71,358,997	-	-	71,358,997
20.	Financial assets at fair value through profit or loss	297,590,092	8,257	-	297,561,800
	1) Receivables from banks	-	-	-	-
	2) Receivables from clients	61,856,912	84,430	-	61,941,342
	3) Securities and derivatives	235,733,180	-76,174	-	235,620,458
30.	Financial assets at fair value with impact on total revenue	776,030,444	-246,541	-	775,783,903
	1) Receivables from banks	-	-	-	-
	2) Receivables from clients	-	-	-	-
	3) Securities	776,030,444	-246,541	-	775,783,903
40.	Financial assets valued at amortised cost	7,922,991,361	3,169,510	-57,795,966	7,868,358,220
	1) Receivables from banks	109,745,557	0	-82,695	109,662,862
	2) Receivables from clients	6,731,094,880	0	-56,782,268	6,674,305,927
	3) Securities	1,082,150,924	3,169,510	-931,003	1,084,389,431
50.	Hedging derivatives	-	-	-	-
60.	Value adjustment of hedged financial assets (+/-)	-	-	-	-
70.	Holdings	5,793,248	-	-	5,793,248
90.	Tangible fixed assets	139,577,074	-	-	139,577,074
100.	Intangible fixed assets	119,213,815	-	-	119,213,815
	of which: goodwill	99,601,776	-	-	99,601,776
110.	Tax assets	169,106,370	-849,546	17,649,873	185,906,697
120.	Non-current assets and disposal groups held for sale	-	-	-	-
130.	Other activities	136,274,793	-	-	136,318,027
	Total assets	**9,637,936,194**	**2,081,680**	**-40,146,093**	**9,599,871,781**

	LIABILITIES AND EQUITY				
(in euro)					
10.	Financial liabilities valued at amortised cost	8,501,056,421	-551,379	0	8,500,505,042
	a) Payables to banks	1,150,659,435	0	0	1,150,659,435
	b) Due to clients	6,396,871,221	0	0	6,396,871,221
	c) Securities in issue	953,525,765	-551,379	0	952,974,386
20.	Financial liabilities held for trading	2,030,173	0	0	2,030,173
30.	Financial liabilities designated at fair value	1,049,676	0	0	1,049,676
40.	Hedging derivatives				
50.	Value adjustment of hedged financial liabilities (+/-)				
60.	Tax liabilities	33,831,834	-46,305	0	33,785,529
80.	Other liabilities	188,923,598	0	0	188,923,598
90.	Employee severance indemnities	19,751,789	0	0	19,751,789
100.	Provisions for risks and charges:	17,923,096	0	6,648,059	24,571,155
	a) commitments and guarantees given	1,131,318	0	6,648,059	7,779,377
	b) pensions and similar obligations	0	0	0	0
	c) other provisions for risks and charges	16,791,778	0	0	16,791,778
110.	Valuation reserves	681,778	2,411,712	0	3,093,489
120.	Own shares	-18,553,559	0	0	-18,553,559
140.	Reserves	284,365,657	76,255	-46,602,754	237,839,158
150.	Emission surcharges	383,158,533	0	0	383,158,533
160.	Capital	199,439,716	0	0	199,439,716
180.	Profit (loss) for the period (+/-)	24,277,481	0	0	24,277,481
	Total liabilities and equity	**9,637,936,194**	**1,890,283**	**-39,954,696**	**9,599,871,781**

Classification and measurement

The new rules for the classification of financial assets provided for by IFRS 9, with a consequent change in the opening value, have had a positive impact (before tax) on equity of euros 3.5 million. Specifically:

- financial assets available for sale reclassified to the "Hold to Collect" business model led to the consequent recalculation of the book value and derecognition of the AFS reserve (+€4.4 million);
- financial assets held for trading reclassified to the "Hold to Collect" business model led to the consequent restatement of the carrying amount (-€1.5 million);

The closure of the *fair value* option on a part of the bond loan led to the recalculation of the value of the related liabilities (euros +0.5 million).

The *fair value* adjustment of financial assets following the failure of the SPPI test resulted in a gross negative impact (before tax) on equity of euros 0.1 million, mainly relating to loans to clients.

Impairment

The application of the new rules of impairment ("expected credit losses") on financial assets valued at amortised cost had a negative impact (before tax) of euros 64.3 million, as detailed below:

- higher impairment losses on performing cash loans of 19.3 million euro attributable to (i) the allocation of part of the performing portfolio to Stage 2, based on defined stage allocation criteria, with the consequent need to calculate the expected loss for the entire remaining life of the financial assets and (ii) the inclusion in the calculation of expected losses of forward looking parameters deriving from future macroeconomic scenarios;
- higher impairment losses on loans to banks and on debt securities amounting to 0.9 million euro as a result of the new rules on impairment (inclusive of the *forward looking* component);
- higher value adjustments for guarantees granted and commitments (irrevocable and revocable) to disburse provisions for 6.6 million euro recognised as provisions for risks and charges. This increase derives both from the application of the new rules on impairment (including the *forward looking* component) and from the extension of the scope of application;
- higher impairment losses on impaired loans amounting to 38.4 million euro, following the inclusion of the sales scenario - as envisaged by the corporate targets for the reduction of non-performing assets - for a part of the non-performing portfolio with transferability characteristics.

Reconciliation between equity IAS 39 and equity IFRS 9

The table shows the reconciliation between equity at 31 December 2017, as reported in the 2017 financial statements, and opening equity at 1 January 2018.

	Effect of switch IFRS 9
(in euro)	
Equity at 31.12.2017 (IAS 39)	**873,369,605**
CLASSIFICATION AND MEASUREMENT	
Adjustment of the carrying value of financial assets resulting from the change in the Business Model	3,395,889
Fair value adjustment of financial assets following the failure of the SPPI test	84,430
Reclassification from valuation reserves to profit reserves:	-
net change in valuation reserves due to the application of new classification and measurement rules	*(1,167,547)*
net change in profit reserves due to the application of new classification and measurement rules	*1,167,547*
IMPAIRMENT	
Application of the new impairment model (ECL) to receivables valued at amortised cost:	(56,864,963)
performing (Stage 1 and 2)	(18,452,793)
non performing (Stage 3)	(38,412,170)
Application of the new impairment model (ECL) to guarantees granted and commitments (irrevocable and revocable) to disburse funds	(6,648,059)
Application of the new impairment model (ECL) to debt securities at amortised cost	(832,410)
performing (Stage 1 and 2)	(832,410)
non performing (Stage 3)	-
Reclassification from valuation reserves to profit reserves:	-
net change in valuation reserves for impairment of financial assets at fair value with impact on total revenue	581
net change in profit reserves due to impairment of financial assets at fair value with impact on total revenue	(581)
TAX EFFECT	**16,750,325**
Total transition effects IFRS 9	**(44,114,788)**
Equity at 01.01.2018 (IFRS 9)	**829,254,818**

The accounting effects described above also have consequences for regulatory capital and prudential ratios. Specifically:

- the increase in impairment reduces CET 1 through the reduction of the accounting equity;
- the tax effect generates DTAs which are reduced by CET 1;
- RWA on standard positions are reduced due to increased impairment.

Consequently, the impact of the first application of IFRS 9 on the CET 1 ratio is equal to:

- 96 bps in the fully loaded approach;
- 1 bps with the so called "bps". "phase in, i.e. the application of the provisions of Article 473a of the Capital Requirements Regulation (CRR).

Assets and liabilities	**Equity at 31.12.2017**	**Equity at 01.01.2018 IFRS 9 fully loaded**	**Equity at 01.01.2018 IFRS 9 phased-in 95%**
(in euro)			
Equity in the accounts	**873,370**	**829,255**	**829,255**
Capital adjustments and regulatory deductions	**(157,698)**	**(174,755)**	**(113,627)**
Primary Tier 1 capital (Common Equity Tier 1 - CET1) (C - D +/-E)	**715,671**	**654,500**	**715,628**
Additional Tier 1 capital (AT1)	-	-	-
Additional Tier 1 capital (AT1)	**715,671**	**654,500**	**715,628**
Additional Tier 2 capital (Tier 2 -T2)	1,149	1,149	1,149
Class 2 instruments (Tier 2 -T2)	**105,000**	**105,000**	**105,000**
Total equity	**821,820**	**760,648**	**821,777**
Risk-weighted assets (RWA)	**6,032,971**	**6,003,879**	**6,031,516**
Primary capital class 1/Risk-weighted assets (CET1 ratio)	**11.9%**	**10.9%**	**11.9%**
Total assets	**9,637,936**	**9,898,854**	**9,898,854**

Financial statements - Balance Sheet

Assets and liabilities		**01.01.2018**
(in euro)		
10.	Cash and cash equivalents	71,358,997
20.	Financial assets at fair value through profit or loss	297,561,800
	a) financial assets held for trading	3,780,696
	b) financial assets designated at fair value	-
	c) other financial assets that must be measured at fair value	293,781,104
30.	Financial assets at fair value with impact on total revenue	775,783,903
40.	Financial assets valued at amortised cost	7,868,358,219
	a) due from banks	156,005,898
	b) due from clients	7,712,352,321
50.	Hedging derivatives	-
60.	Value adjustment of hedged financial assets (+/-)	-
70.	Holdings	5,793,248
80.	Tangible fixed assets	139,577,074
90.	Intangible fixed assets	119,213,815
	of which:	
	- ignition	99,601,776
100.	Tax assets	185,906,698
	a) current	59,540,633
	b) anticipated	126,366,065
110.	Non-current assets and disposal groups held for sale	-
120.	Other activities	136,318,027
Total assets		**9,599,871,781**

Liabilities and equity items		**01.01.2018**
(in euro)		
10.	Financial liabilities valued at amortised cost	8,500,505,042
	a) due to banks	1,150,659,435
	b) due to clients	6,396,871,221
	c) securities in issue	952,974,386
20.	Financial liabilities held for trading	2,030,173
30.	Financial liabilities designated at fair value (IFRS 7 par. 8(e))	1,049,676
40.	Hedging derivatives	-
50.	Value adjustment of hedged financial liabilities (+/-)	-
60.	Tax liabilities	33,785,530
	a) current	3,668,215
	b) deferred	30,117,315
70.	Liabilities associated with assets held for sale	-
80.	Other liabilities	188,923,598
90.	Employee severance indemnities	19,751,789
100.	Provisions for risks and charges	24,571,155
	a) commitments and guarantees given	7,779,377
	b) pensions and similar obligations	-
	c) other provisions for risks and charges	16,791,778
110.	Valuation reserves	3,093,489
120.	Redeemable shares	-
130.	Capital instruments	-
140.	Reserves	237,839,158
150.	Emission surcharges	383,158,533
160.	Capital	199,439,716
170.	Own shares (-)	(18,553,559)
180.	Net revenue (loss) for the year (+/-)	24,277,481
Total liabilities and equity		**9,599,871,781**

Breakdown and allocation by stage of exposures at amortised cost subject to impairment IFRS 9 and related ECL

IFRS 9

Cash exposures (Amortised cost)	**Gross exposure**				**Total value adjustments**				**Net Exposure**			
(thousands of euro)	*STAGE*				*STAGE*				*STAGE*			
	1	2	3	Total	1	2	3	Total	1	2	3	Total
Loans and advances to clients	5,569,008	706,942	898,049	7,173,999	(29,456)	(37,306)	(432,931)	(499,693)	5,539,552	669,636	465,118	6,674,306
Loans and advances to banks	109,746	-	-	109,746	(83)	-	-	(83)	109,663	-	-	109,663
Debt securities	1,085,320	-	-	1,085,320	(931)	-	-	(931)	1,084,389	-	-	1,084,389
TOTAL	6,764,074	706,942	898,049		(30,470)	(37,306)	(432,931)		6,733,604	669,636	465,118	7,868,358

IAS 39

Cash exposures (Amortised cost)	**Gross exposure**				**Total value adjustments**				**Net Exposure**			
(thousands of euro)	*STAGE*				*STAGE*				*STAGE*			
	1	2	3	Total	1	2	3	Total	1	2	3	Total
Loans and advances to clients	5,569,008	706,942	898,049	7,173,999	(42,118)	(6,274)	(394,519)	(442,911)	5,526,890	700,668	503,530	6,731,088
Loans and advances to banks	109,746	-	-	109,746	-	-	-	-	109,746	-	-	109,746
Debt securities	890,399	-	-	890,399	-	-	-	-	890,399	-	-	890,399
TOTAL	**6,569,153**	**706,942**	**898,049**		**(42,118)**	**(6,274)**	**(394,519)**		**6,527,035**	**700,668**	**503,530**	**7,731,233**

For the majority of exposures (about 73.5%), the classification in stage 2 is due to the increase (above the various thresholds that have been established) of the lifetime PD with respect to origination. The remaining part, on the other hand, is attributable to stage 2 classifications resulting from the presence of automatic classification triggers (mainly, expired by more than 30 days and forborne positions).

IFRS 15: Revenues from client contracts

The new accounting standard introduces a new model for the recognition of revenues deriving from contracts with clients. The new standard replaces the current IFRS requirements for revenue recognition: IAS11 Construction Contracts, IAS18 Revenue, IFRIC 13 Client Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Clients e SIC-31 Revenue – Barter Transaction involving Advertising Services.
The principle is effective from 1 January 2018. The new IFRS provides for the recognition of revenue on the basis of the following five steps:
- identification of the contract;
- identification of individual bonds;
- determination of the transaction price;
- allocation of the transaction price to individual bonds on the basis of their "market prices" ("stand-alone selling price");
- recognition of revenues allocated to the individual obligation when it is settled, i.e. when the client obtains control of the goods and services.

No significant impacts have emerged from the application of the new standard.

OTHER

As at 31 December 2018, the Bank was a participant in the conditional refinancing programme TLTRO amounting to 1.0 billion euro.
Decision EU 810/2016, which governs, inter alia, the method of calculating the interest applicable to the loan, provides that the interest rate applicable to the amount borrowed under each TLTRO-II is that applied to the main refinancing operation at the time of the award of the relevant TLTRO-II. However, if the eligible net loans granted in the reference period 01.02.2016 - 31.01.2018 grow above the reference level set at +2.5%, the interest rate applicable to the amounts borrowed by the Participants will be equal to the interest rate on deposits with the Central Bank at the time of the allotment of each TLTRO-II.
Since in March 2016 the ECB reduced the rate on its main refinancing operations to zero and the rate on its deposits to -0.40%, it follows that for all operations carried out by the Bank, if the threshold is exceeded, the rate of -0.40% is applicable instead of 0.00%.
As at 31 January 2018, the disbursement of eligible net loans on the basis of EU Decision 2016/810 showed growth, compared to the figure as at 1 February 2016, well above the threshold set at 2.5%.
Accordingly, the negative rate of -0.40% is applicable to the ECB's acquisition under the TLTRO-II programme. In application of IFRS 9, the positive contribution of interest from the TLTRO II loan, recognised using the effective interest method provided for by international accounting standards in relation to the expected growth in lending in the period 1 February 2016 - 31 January 2018, was recognised as a reduction in the item "interest expense".

Option for national tax consolidation

Volksbank, together with its subsidiaries Quartiere Brizzi S.r.l., Voba Invest S.r.l. in liquidation and Valpolicella Alta Società Agricola S.r.l., has opted for the application of group taxation (tax consolidation) pursuant to articles 117 et seq. of the Presidential Decree. 917/86.
Relations between these companies were regulated by private agreement signed by the parties in June 2014 for the three-year period 2014-2016. The option was last renewed for the three-year period 2017 - 2019 by resolution of the Board of Directors of 22 December 2017. The company Quartiere Brizzi S.r.l. has been included in the tax consolidation regime since 2018, the year in which the Bank acquired control.
The regime allows the individual subsidiaries participating in the tax consolidation, after having determined the tax burden pertaining to them, to transfer the corresponding taxable revenue (or tax loss) to the parent company, which determines - by making the adjustment for intercompany interest expense provided for in relation to the deductibility of interest expense - a taxable revenue or consolidated tax loss, as the algebraic sum of its own revenue/losses and those of the individual subsidiaries participating, with identification of the tax payable or receivable to the tax authorities.

The offsetting of the flows relating to transfers resulting from tax profits and losses between the parent company and its subsidiaries are governed by specific agreements. These flows are determined by applying the current IRES (corporation tax) rate to the taxable revenue of the companies participating in the consolidation. For companies with tax losses, the compensation, calculated as above, is recognised by the parent company to the subsidiary for losses realised after joining the national tax consolidation system, where these losses are included in the consolidated taxable revenue. Losses realised before joining the national tax consolidation scheme will have to be offset in its taxable revenue only by the consolidation scheme in accordance with the tax rules in force.

A.2 PART RELATING TO THE MAIN BALANCE SHEET ITEMS

The accounting principles applied are shown below, broken down by Balance Sheet item.

1. Financial assets at fair value through profit or loss (FVTPL)

Classification criteria

This category includes financial assets other than those classified as Financial assets at fair value through profit or loss and as Financial assets at amortised cost. The item, in particular, includes:
- financial assets held for trading, mainly consisting of debt and equity securities and the positive value of derivative contracts held for trading;
- financial assets that must be measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortised cost or at *fair value*, with an impact on total revenue. These are financial assets whose contractual terms do not provide exclusively for capital repayments and interest payments on the amount of capital to be repaid (the so-called "repayment of principal"). "*SPPI test*") or that are not held in a business model whose target is the possession of assets aimed at collecting contractual cash flows (Business model "*Hold to Collect*") or in a business model whose target is achieved both through the collection of contractual cash flows and through the sale of financial assets (*Business model "Hold to Collect and Sell*");
- financial assets designated at fair value, i.e. the financial assets thus defined at the time of initial recognition, if the conditions are met. In this case, an entity may irrevocably designate a financial asset for recognition as measured at fair value through profit or loss if, and only if, by doing so, it eliminates or significantly reduces a valuation inconsistency.

They find, accordingly, evidence in this entry:
- debt securities and loans that are included in an *Other/Trading* business model (i.e., 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 which, from the outset, are intended for sale and which are not attributable to a *Hold to Collect and Sell* business model;
- equity instruments - not qualifying as control, connection or joint control - held for trading purposes or for which it was not decided, on initial recognition, to designate them at fair value with an impact on total revenue;
- quotas of UCIs.

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 arising from outstanding transactions with the same counterparty may only be offset if there is a current legal right to offset the amounts recognised in the accounts and it is intended to settle the net positions to be offset on a net basis.

Derivatives also include those embedded in complex financial contracts - in which the primary 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 instruments, 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 Profit and Loss Account.

With regard to classification rules, IFRS 9 does not allow any reclassification for equity securities. For the other categories of financial assets, reclassifications are also not permitted, unless the entity changes 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 with an impact on the Profit and Loss Account into one of the other two categories provided for by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at *fair value* with an impact on total revenue). The transfer value is represented by the fair value at the time of reclassification and the effects of the 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 at the reclassification date and this date is considered as the initial recognition date for allocation to the various stages of credit risk (stage assignment) for the purposes of impairment.

For further information on the criteria for the classification of financial instruments, reference should be made to the following chapter "Criteria for the classification of financial assets".

Entry criteria

Financial assets are initially recognised on the settlement date for debt 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 with an impact on the Profit and Loss Account are recognised at fair value, without considering transaction costs or revenue directly attributable to the instrument itself.

Evaluation criteria

Subsequent to initial recognition, financial assets measured at *fair value* with an impact on the Profit and Loss Account are measured at fair value. The effects of applying this valuation criterion are charged to the Profit and Loss Account.
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 used, which take into account all the risk factors related to the instruments and which are based on market data such as: valuation of quoted instruments with similar characteristics, discounted cash flow calculations, option pricing models, values recorded in recent comparable transactions, etc.. For equity securities and derivative instruments involving equity securities not listed on an active market, the cost criterion 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 valuation 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.

Cancellation criteria

Financial assets are derecognised only if the disposal has resulted in the substantial transfer of all the risks and rewards associated with the assets. On the other hand, if a significant portion of the risks and rewards relating to the financial assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of the assets has actually been transferred.
In the event that it is not possible to ascertain the substantial transfer of risks and rewards, financial assets are derecognised from the Balance Sheet if no type of control has been retained over them. Otherwise, the retention, even in part, of this control entails maintaining the assets in the Balance Sheet to the extent of the residual involvement, measured by the exposure to changes in the value of the assets sold and to changes in the financial flows of the same.
Finally, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows are retained, with the simultaneous assumption of an obligation to pay those flows, and only they, without significant delay to other third parties.

A.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH AN IMPACT ON TOTAL REVENUE (CAPTIONS)

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 target is achieved both through the collection of contractual cash flows and through the sale (Business model "Hold to Collect and Sell"), and
- the contractual terms of the financial asset provide, at certain dates, for cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (the so-called "cash flow hedge"). "SPPI test" passed).

The item also includes equity instruments, not held for trading purposes, for which the option to be designated at fair value with an impact on total revenue was exercised at the time of initial recognition.
In particular, they are included in this item:
- debt securities that are part of a "Hold to Collect and Sell" business model and passed the SPPI test;

- equity interests, not qualifying as controlling, related or jointly controlled, that are not held for trading purposes, for which the option to be designated at fair value has been exercised with an impact on total revenue;
- loans that are linked to a "Hold to Collect and Sell" business model and that have passed the SPPI test, including the portions of syndicated loans subscribed that, from the outset, are intended for sale and that are linked to a "Business model Hold to Collect and Sell".

Reclassifications to other categories of financial assets are not permitted unless the entity changes 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 with an impact on total revenue into one of the other two categories provided for by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at *fair value* with an impact on the Profit and Loss Account).

The transfer value is represented by the *fair value* at the time of reclassification and the effects of the reclassification operate prospectively from the date of reclassification. In the case of reclassification from the category in question to that of the amortised cost, 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. In the case of reclassification to the fair value category with an impact on the Profit and Loss Account, the accumulated profit (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss) for the year.

No reclassification is permitted for equity securities.

For further information on the criteria for the classification of financial instruments, reference should be made to the following chapter "Criteria for the classification of financial assets".

Entry criteria

Financial assets are initially recognised on the settlement date for debt securities and equity securities and on the disbursement date for loans. On initial recognition, assets are recorded at *fair value*, including transaction costs or revenue directly attributable to the instrument itself.

Evaluation criteria

Subsequent to initial recognition, assets classified at fair value with an impact on total revenue, other than equity securities, are measured at *fair value*, with the impact of the application of amortised cost, the effects of impairment and any exchange rate effect recognised in the Profit and Loss Account, while other gains or losses arising from a change in *fair value* are recognised in a specific equity reserve until the financial asset is derecognised. Upon disposal, in whole or in part, the gain or loss accumulated in the valuation reserve is reversed, in whole or in part, to the Profit and Loss Account.

The equity instruments chosen for classification in this category are measured at *fair value* and the amounts recognised as a contra-entry to equity (Overall Revenue Statement) must not be subsequently transferred to the Profit and Loss Account, even in the event of disposal. The only component relating to the equity securities in question that is recognised in the Profit and Loss Account is the related dividends.

Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value with an impact on the Profit and Loss Account.

For equity securities included in this category, not listed on an active market, the cost criterion is used as a *fair value* estimate only to a residual extent and limited to a few circumstances, i.e. in the event of the non-applicability of all the valuation methods mentioned above, or in the presence of a wide range of possible *fair value* measurements, in which the cost represents the most significant estimate.

Financial assets measured at fair value with an impact on total revenue - both in the form of debt securities and loans - are subject to impairment testing, as is the case for assets at amortised cost, with the consequent recognition in the Profit and Loss Account of an impairment loss to cover expected losses. More specifically, on instruments classified as stage 1 (i.e. on financial assets at the time of origination, if not impaired, and on instruments for which there has been no significant increase in credit risk compared to the initial recognition date), an expected loss of one year is recorded at the initial recognition date and at each subsequent reporting date. On the other hand, for instruments classified as stage 2 (performing instruments for which there has been a significant increase in credit risk since the date of initial

recognition) and stage 3 (impaired exposures), an expected loss is recognised for the entire residual life of the financial instrument.
Conversely, equity securities are not subject to impairment.
Reference should be made to the following chapter "Impairment of financial assets" for further details.

Cancellation criteria

Financial assets are derecognised only if the disposal has resulted in the substantial transfer of all the risks and rewards associated with the assets. On the other hand, if a significant portion of the risks and rewards relating to the financial assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of the assets has actually been transferred.
In the event that it is not possible to ascertain the substantial transfer of risks and rewards, financial assets are derecognised from the Balance Sheet if no type of control has been retained over them. Otherwise, the retention, even in part, of this control entails maintaining the assets in the Balance Sheet to the extent of the residual involvement, measured by the exposure to changes in the value of the assets sold and to changes in the financial flows of the same.
Finally, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows are retained, with the simultaneous assumption of an obligation to pay those flows, and only they, without significant delay to other third parties.

A.2 FINANCIAL ASSETS VALUED AT AMORTISED COST

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 in accordance with a business model whose target is achieved through the collection of contractually agreed cash flows (the "*Hold to Collect*" business model), and
- the contractual terms of the financial asset provide, at certain dates, for cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (the so-called "cash flow hedge"). "*SPPI test*").

More specifically, they are recognised under this heading:
- loans to banks in the different technical forms that meet the requirements set out in the previous paragraph;
- loans to clients in the various 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 receivables connected with the provision of financial activities and services as defined by the T.U.B. and the T.U.F. (e.g. for distribution of financial products and servicing activities).
According to the general rules provided for by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes 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 provided for by IFRS 9 (Financial assets at fair value through profit or loss or Financial assets at *fair value* through profit or loss).
The transfer value is represented by the *fair value* at the time of reclassification and the effects of the reclassification operate prospectively from the date of reclassification. Gains or losses resulting from the difference between the amortised cost of the financial asset and its fair value are recognised in the Profit and Loss Account in the case of reclassification to financial assets measured at *fair value* through profit or loss and to equity, in the appropriate valuation reserve, and in the case of reclassification to financial assets measured at *fair value* through profit or loss.
For further information on the criteria for the classification of financial instruments, reference should be made to the following paragraph "Criteria for the classification of financial assets".

Entry criteria

Financial assets are initially recognised on the settlement date for debt securities and on the disbursement date for loans. On initial recognition, assets are recorded at *fair value*, including transaction costs or revenue directly attributable to the instrument itself.
In particular, as far as credits are concerned, the date of disbursement normally coincides with the date of signing of the contract. If such a coincidence does not occur, a commitment to disburse funds is recorded at the time of signing the contract, which closes on the date of disbursement of the loan. The receivable is recognised on the basis of its *fair value*, equal to the amount disbursed, or subscription price, including costs/revenue directly attributable to the individual receivable and determinable from the start of the transaction, even if settled at a later date.
Costs that, despite having the above characteristics, are subject to reimbursement by the debtor counterparty or are classifiable as normal internal administrative costs are excluded.

Evaluation criteria

Subsequent to initial recognition, the financial assets in question are valued at amortised cost, using the effective interest rate method. In these terms, the asset is recognised in the financial statements at an amount equal to its initial recognition value less any capital repayments, plus or minus the cumulative amortisation (calculated using the above-mentioned effective interest rate method) of the difference between this initial amount and the amount at maturity (typically attributable to costs/revenue charged directly to the individual asset) and adjusted by any provision to cover losses. The effective interest rate is determined by calculating the rate that equals the present value of the future flows of the asset, for principal and interest, to the amount disbursed including costs/revenue associated with the financial asset itself. This method of accounting, using a financial logic, makes it possible to distribute the economic effect of costs/revenue directly attributable to a financial asset over its expected residual life.
The amortised cost method is not used for assets - valued at cost - whose short duration makes the effect of the application of the discounting logic negligible, for those without a defined maturity and for revoked receivables.
The valuation criteria, as better indicated in the chapter "Impairment of financial assets", are closely linked to the inclusion of the instruments in question in one of the three stages (stages of credit risk) provided for 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-mentioned valuation effects, the value adjustments referring to this type of asset are recorded in the Profit and Loss Account:

- at the time of initial recognition, for an amount equal to the expected loss of twelve months;
- at the time of the subsequent valuation of the asset, where the credit risk has not significantly increased with respect to the initial recognition, in relation to changes in the amount of value adjustments for losses expected in the following twelve months;
- at the time of the subsequent valuation of the asset, where the credit risk has significantly increased with respect to the initial recognition, in relation to the recognition of value adjustments for expected losses relating to the entire residual life of the asset as provided for in the contract;
- at the time of the subsequent valuation of the asset, where - after there was a significant increase in credit risk compared to the initial recognition - the "significance" of this increase ceased to exist, in relation to the adjustment of the cumulative value adjustments to take account of the transition from an expected loss over the entire residual life of the instrument ("lifetime") to one to twelve months.

If the financial assets in question are performing, they are valued in order to determine the value adjustments to be recognised in the financial statements at the level of the individual loan ratio (or "tranche" of the security), based on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD).
If, in addition to a significant increase in credit risk, there is also objective 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 estimated future cash flows discounted at the original effective interest rate. The amount of the loss, to be recorded in the Profit and Loss Account, is defined on the basis of an analytical valuation process or determined by homogeneous categories and, accordingly, analytically attributed to each position and takes into account, as detailed in the chapter "Impairment of financial assets", "*forward looking*" information and possible alternative recovery scenarios.

Impaired assets include financial instruments that have been granted the status of non-performing, probable default or past due/overdue by more than ninety days according to the rules of the Bank of Italy, consistent with the IAS/IFRS and European Supervision regulations.
The expected cash flows take into account the expected recovery time and the estimated realisable value of any guarantees.
The original effective rate of interest for each asset remains unchanged over time, even if the relationship has been restructured, resulting in a change in the contractual rate, and even if the relationship becomes, in practice, without contractual interest.
If the reasons for the loss in value are removed as a result of an event subsequent to the recognition of the reduction in value, the value is reinstated and charged to the Profit and Loss Account. The write-back may not exceed the amortised cost that the financial instrument would have had in the absence of previous adjustments.
Reversals of write-backs related to the passage of time are recognised in net interest revenue.
In some cases, during the life of the financial assets in question and in particular of the receivables, the original contractual conditions are subject to subsequent change at the request of the contractual parties. When, over the life of an instrument, the contractual clauses are amended, it is necessary to check whether the original asset should continue to be recognised in the financial statements or, on the contrary, whether the original instrument should be derecognised and a new financial instrument recognised.
In general, changes to a financial asset lead to the derecognition of the financial asset and the recognition of a new asset when they are "material". The assessment of the "substantiality" of the change must be made taking into account both qualitative and quantitative elements. In some cases, in fact, it may be clear, without recourse to complex analyses, that the changes introduced substantially modify the characteristics and/or contractual flows of a given activity while, in other cases, further analyses (including quantitative analyses) will have to be carried out in order to appreciate the effects of the same and verify the need to proceed or not with the cancellation of the activity and the registration of a new financial instrument.
The analyses (qualitative-quantitative) aimed at defining the "substantiality" of the contractual changes made to a financial asset, will accordingly have to consider:

- the purposes for which the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty:
    a) the first, aimed at "retaining" the client, involves 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 relates to aspects related to the cost of the debt, with a consequent economic benefit for the debtor. In general, it is considered that, whenever the Bank renegotiates in order to avoid losing its client, this renegotiation should be considered as substantial since, if not done, the client could finance himself/herself from another intermediary and the Bank would suffer a decrease in expected future revenues;
    b) the latter, carried out for "credit risk reasons" (forbearance measures), are linked to the target of maximising the recovery of cash flows. As a rule, the underlying risks and rewards are not substantially transferred following the changes and, consequently, the accounting representation is based on the "modification accounting" which provides for the recording in the Profit and Loss Account of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate, without derecognition;
- the presence of specific target 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.

Cancellation criteria

Financial assets are derecognised only if the disposal has resulted in the substantial transfer of all the risks and rewards associated with the assets. On the other hand, if a significant portion of the risks and rewards relating to the financial

assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of the assets has actually been transferred.
In the event that it is not possible to ascertain the substantial transfer of risks and rewards, financial assets are derecognised from the Balance Sheet if no type of control has been retained over them. Otherwise, the retention, even in part, of this control entails maintaining the assets in the Balance Sheet to the extent of the residual involvement, measured by the exposure to changes in the value of the assets sold and to changes in the financial flows of the same.
Finally, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows are retained, with the simultaneous assumption of an obligation to pay those flows, and only they, without significant delay to other third parties.

A.3 HEDGING TRANSACTIONS

Volksbank has no hedging operations in place at the time. The choice made in the case of new hedging transactions, which was allowed when IFRS 9 was introduced, is to continue to fully apply the provisions of IAS 39 on "hedge accounting" (in the carved out version approved by the European Commission) for each type of hedge (for both specific hedges and macro hedges).

Classification criteria: type of hedge

The purpose of risk hedging transactions is to neutralise potential losses attributable to a given risk and recognised on a given element or group of elements, should that particular risk actually arise.
The types of roofing used are as follows:

- fair value hedge: the target is to hedge exposure to changes in *fair value* (attributable to different types of risk) of assets and liabilities recorded in the Balance Sheet or portions thereof, groups of assets/liabilities, irrevocable commitments and portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 approved by the European Commission. General *fair value* hedges ("macro hedges") are designed to reduce fluctuations in fair value, attributable to interest rate risk, by a monetary amount deriving from a portfolio of assets or liabilities;
- cash flow hedges: these are designed to hedge exposure to changes in future cash flows attributable to particular risks associated with items in the financial statements. This type of hedge is used essentially to stabilise the flow of interest on variable-rate deposits to the extent that the latter finance fixed-rate loans. In some circumstances, similar transactions are carried out in relation to certain types of variable rate loans;
- Hedging of an investment in foreign currency: this refers to the hedging of the risks of an investment in a foreign company expressed in foreign currency.

Given the choice made to make use of the possibility of continuing to fully apply the rules of IAS 39 for hedging relationships, it is not possible to designate equity instruments classified under Financial assets measured at *fair value* with an impact on total revenue (FVOCI) as hedged items for price or exchange rate risk, since these instruments do not impact the Profit and Loss Account, even in the event of a sale (except for dividends which are recognised in the Profit and Loss Account).

Entry criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at *fair value*.

Evaluation criteria

Hedging derivatives are measured at *fair value*. Specifically:

- in the case of a fair value hedge, the change in the fair value of the hedged item is offset by the change in the *fair value* of the hedging instrument. This compensation is recognised through the recognition in the Profit and Loss Account of the changes in value, referring both to the hedged item (as regards the changes produced by the underlying risk factor) and to the hedging instrument. Any difference, which represents the partial ineffectiveness of

the hedge, accordingly constitutes the net economic effect. In the case of generic fair value hedging transactions ("*macro hedges*"), changes in *fair value* with reference to the hedged risk of the hedged assets and liabilities are recorded in the Balance Sheet under item 60 of the assets "Value adjustment of financial assets subject to generic hedging" or 50 of the liabilities "Value adjustment of financial liabilities subject to generic hedging", respectively;
- in the case of cash flow hedges, changes in the *fair value* of the derivative are recognised in equity, for the effective portion of the hedge, and are recognised in the Profit and Loss Account only when, with reference to the hedged item, there is a change in the cash flows to be offset or if the hedge is ineffective;
- hedges of an investment in foreign currency are accounted for in the same way as cash flow hedges.

The derivative instrument is designated as a hedge if there is formal documentation of the relationship between the hedged instrument and the hedging instrument and if it is effective at the time the hedge commences and, prospectively, throughout its life.
The effectiveness of the hedge depends on the extent to which the changes in the *fair value* of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Effectiveness is accordingly appreciated by comparing the above changes, taking into account the intention pursued by the company when the hedge was set up. It is effective when changes in the *fair value* (or cash flow) of the hedging instrument neutralise almost entirely, i.e. within the limits set by the range 80-125%, changes in the hedged instrument for the hedged risk element.
The evaluation of effectiveness is carried out at each Balance Sheet or interim statement closing using:
- prospective tests, which justify the application of hedge accounting, as they demonstrate its expected effectiveness;
- retrospective tests, which show the degree of effectiveness of the hedge achieved in the period to which they refer, or rather, measure how far the actual results have deviated from the perfect hedge.

If the tests do not confirm the effectiveness of the hedge, from that moment on the hedge accounting, according to the above, is interrupted, the hedging derivative contract is reclassified among the trading instruments and the hedged financial instrument regains the valuation criterion corresponding to its classification in the financial statements.
In the event of the interruption of a generic *fair value* hedging relationship, the cumulative revaluations/write-downs recorded under item 60. "Value adjustment of financial assets subject to generic hedging" or 50. "Value adjustments of financial liabilities subject to generic hedging" are recorded in the Profit and Loss Account under interest revenue or expense over the remaining life of the original hedging relationship, subject to verification that the conditions are met.

A.4 HOLDINGS

Classification, recognition and measurement criteria

This item includes interests held in joint ventures and associates.
Joint ventures are entities for which, on a contractual basis, control is shared between the Bank and one or more other parties, or when decisions concerning significant activities require the unanimous consent of all parties sharing control.
Companies subject to significant influence ("associated companies") are those in which the Bank holds at least 20% of the voting rights (including "potential" voting rights) or in which - although with a lower percentage of voting rights - it has the power to participate in determining the financial and operating policies of the subsidiary by virtue of particular legal ties such as holding in shareholders" agreements.
Certain interests of more than 20%, in which the Bank holds only equity rights to a portion of the investment revenue, has no access to management policies and may exercise governance rights limited to the protection of equity interests, are not considered to be subject to significant influence.
If there is evidence that the value of an investment may have been impaired, the recoverable amount of the investment is estimated, taking into account the present value of the future cash flows that the investment may generate, including the final disposal value of the investment.
If the recoverable amount is lower than the carrying amount, the difference is recognised in the Profit and Loss Account.
If the reasons for the loss in value are removed as a result of an event subsequent to the recognition of the reduction in value, the value is reinstated and charged to the Profit and Loss Account.

Cancellation criteria

Equity investments are derecognised when the contractual rights to cash flows from the assets expire or when the investment is sold, transferring substantially all the risks and rewards associated with it.

A.5 TANGIBLE ASSETS

Classification criteria

Tangible fixed assets include land, buildings used for business purposes, investment property, valuable artistic assets, technical equipment, furniture and fittings, as well as equipment of any kind that is expected to be used for more than one period.
Tangible assets held for use in the production or supply of goods and services are classified as "assets for functional use" in accordance with IAS 16. Real estate held for investment purposes (in order to earn rentals or for capital appreciation) is classified as "assets held for investment purposes" in accordance with IAS 40.
The item also includes tangible fixed assets classified in accordance with IAS 2 - Inventories, which refer both to assets deriving from the enforcement of guarantees or from the purchase at auction that the company intends to sell in the near future (normally on the basis of IFRS 5), without carrying out significant restructuring work, and which do not have the conditions to be classified in the previous categories, and to the real estate portfolio, including building land, real estate under construction, completed properties for sale and real estate development initiatives, held with a view to disposal.
Finally, assets used under financial leasing contracts are recorded under tangible fixed assets, even though their legal ownership remains with the leasing company.

Entry criteria

Tangible fixed assets are initially recognised at cost, which includes, in addition to the purchase price, any additional charges directly attributable to the purchase and commissioning of the asset.
Extraordinary maintenance costs that increase future economic benefits are recognised as an increase in the value of the assets, while other ordinary maintenance costs are recognised in the Profit and Loss Account.

Evaluation criteria

Tangible fixed assets are valued at cost, less any depreciation and impairment losses, with the exception of functional properties and fine art assets, which are valued using the revaluation method.
Real estate held for investment purposes is valued at cost.
In the case of tangible assets subject to valuation using the revaluation method:
- if the carrying amount of an asset is increased as a result of a revaluation, the increase will be recognised in other total revenue and accumulated in equity under the heading of revaluation surplus; instead, if the increase restores a decrease due to a revaluation of the same asset previously recognised in profit or loss, it will be recognised as revenue;
- if the carrying amount of an asset is decreased as a result of the revaluation, the decrease will be recognised in other total revenue as a reduction of the revaluation surplus to the extent that there are any credit balances in the revaluation surplus in respect of that asset; otherwise, that reduction will be recognised in profit or loss.

Tangible fixed assets are systematically depreciated on a linear basis over their useful lives. Depreciable amount is represented by the cost of the assets (or by the net re-determined value if the valuation method adopted is that of the re-determination of value) net of the residual value at the end of the depreciation process, if significant.
Properties are depreciated for a portion deemed appropriate in order to represent the deterioration of the assets over time following their use, taking into account extraordinary maintenance costs, which are added to the value of the assets.

They are not amortised:

- land, whether acquired individually or incorporated into the value of buildings, as it has an indefinite useful life;
- valuable artistic heritage, other historical, artistic and decorative assets because their useful life cannot be estimated and their value is normally destined to increase over time;
- investment properties for which the *fair value* method has been chosen, with a balancing entry in the Profit and Loss Account.

If there is any indication that a tangible asset measured at cost may have suffered a loss in value, the carrying amount of the asset is compared with its recoverable amount. Any adjustments are recognised in the Profit and Loss Account. If the reasons for the loss cease to exist, the value is written back, which may not exceed the value that the asset would have had, net of the calculated depreciation, in the absence of previous losses in value.

Cancellation criteria

A tangible asset is derecognised from the Balance Sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

A.6 INTANGIBLE FIXED ASSETS

Classification criteria

Intangible fixed assets are recognised as such if they are identifiable and originate from legal or contractual rights. Intangible fixed assets also include goodwill, which represents the positive difference between the purchase cost and the *fair value* of the assets and liabilities of an acquired company.

Classification criteria

Intangible fixed assets are recognised at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the asset can be measured reliably. Otherwise, the cost of the intangible asset is recognised in the Profit and Loss Account in the year in which it is incurred. For assets with a finite useful life, the cost is amortised on a linear basis or in decreasing amounts determined on the basis of the inflow of economic benefits expected from the asset. Assets with an indefinite useful life are not amortised on a linear basis, but are tested periodically to determine whether their carrying amount is adequate.
If there is any indication that an asset may be impaired, the asset's recoverable amount is estimated. The amount of the loss, recorded in the Profit and Loss Account, is equal to the difference between the book value of the asset and its recoverable value.
In particular, intangible fixed assets are included under intangible fixed assets:

- technology-based intangible fixed assets, such as application software, which are amortised on the basis of their expected technological obsolescence and in any case no longer than a maximum period of seven years. In particular, costs incurred internally for the development of software projects are intangible fixed assets and are recognised as assets only if all the following conditions are met: i) the cost attributable to the development activity is reliably determinable, ii) there is the intention, availability of financial resources and technical capacity to make the asset available for use or sale, iii) it is demonstrable that the activity is capable of producing future economic benefits. Capitalised software development costs include only those expenses incurred that can be attributed directly to the development process. Capitalised software development costs are systematically amortised over the estimated life of the related product/service to reflect the way in which the future economic benefits arising from the asset are expected to be consumed by the entity from the start of production over the estimated life of the product;
- intangible fixed assets linked to clients, represented by the valuation, on the occasion of aggregation transactions, of asset management relationships. These assets, with a finite life, are originally valued by discounting back, using a rate representing the time value of money and the risks specific to the asset, the cash flows representing profit margins over a period expressing the residual duration, contractual or estimated, of the relationships existing at the

time of the combination. They are amortised, for asset management relationships, on a linear basis over the most significant inflow period of the expected economic benefits in the case of relationships not having a predetermined maturity and, for relationships linked to insurance contracts, in decreasing amounts corresponding to the duration period of the contracts in the case of relationships with a defined maturity (residual life of the policies);

- intangible fixed assets related to marketing, represented by the enhancement of the brand name, also registered on the occasion of aggregation operations. This asset is considered to have an indefinite life as it is believed that it can contribute for an indefinite period to the formation of revenue flows.

Finally, intangible fixed assets include goodwill.
Goodwill can be recognised as part of a business combination when the positive difference between the consideration transferred and any recognition at fair value of the assets acquired is representative of the future earnings capacity of the investment ("*goodwill*").
If this difference is negative ("*badwill*") or if the goodwill is not justified by the future earnings capacity of the investee company, the difference is recorded directly in the Profit and Loss Account.
A test to verify the adequacy of the value of goodwill is carried out annually (or whenever there is evidence of impairment). To this end, the cash-generating unit to which goodwill is attributed is identified. In Volksbank, the cash-generating unit is the same as the business entity as a whole. The amount of any impairment is determined on the basis of the difference between the carrying amount of the goodwill and its recoverable amount, if lower. This recoverable amount is equal to the higher of the fair value of the cash-generating unit, net of any selling costs, and its value in use. The resulting value adjustments are recognised in the Profit and Loss Account.

Cancellation criteria

An intangible asset is derecognised from the Balance Sheet at the time of disposal or when future economic benefits are no longer expected.

A.7 OTHER ASSETS

Other assets essentially include items awaiting settlement and items that do not relate to other Balance Sheet items, including receivables arising from the supply of non-financial goods and services, tax items other than those recognised under own account (for example, related to withholding tax), gold, silver and precious metals and accrued revenue other than those that should be capitalised on the related financial assets, including those arising from contracts with clients pursuant to IFRS 15, paragraphs 116 et seq.

A.8 NON-CURRENT ASSETS OR DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups held for sale" and "Liabilities associated with assets held for sale" are classified under assets and liabilities as non-current assets or disposal groups for which a disposal process has been initiated and their sale is considered highly probable. These assets/liabilities are valued at the lower of their book value and their *fair value* net of disposal costs, with the exception of certain types of assets (e.g. financial assets falling within the scope of application of IFRS 9) for which IFRS 5 specifically provides that the valuation criteria of the relevant accounting standard must be applied.
Revenue and expenses (net of the tax effect), relating to groups of assets being disposed of or recognised as such during the year, are shown in the Profit and Loss Account as a separate item.

A.9 CURRENT AND DEFERRED TAXATION

Revenue taxes, calculated in compliance with national tax legislation, are recorded as costs on an accruals basis, in line with the method of recording the costs and revenues that generated them in the financial statements. They accordingly represent the balance of current and deferred taxes relating to revenue for the year. Current tax assets and

liabilities include the net balance of the Company's tax positions with the Italian 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 tax incurred or other tax credits from previous years for which the Company has requested offsetting with taxes from subsequent years.
Current tax assets also include tax credits for which the Company has requested a refund from the competent tax authorities, as well as amounts paid provisionally in the course of a dispute with the tax authorities. The risk inherent in these proceedings, as well as the risks inherent in proceedings that did not require provisional payments, is assessed according to the logic of IAS 37 in relation to the probability of the use of economic resources for their fulfilment.
Taking into account the adoption of the national tax consolidation by the Company, the tax positions relating to the companies included in the consolidation are managed in a separate way from an administrative point of view.
Deferred taxation is determined on the basis of the Balance Sheet liability method, taking into account the tax effect of the temporary differences between the book value of assets and liabilities and their tax value, which will determine taxable or deductible amounts in future periods. For these purposes, "taxable temporary differences" are those that in future periods will determine taxable amounts and "deductible temporary differences" are those that in future years will determine deductible amounts.
Deferred taxes are calculated by applying the tax rates established by the laws in force to taxable temporary differences for which there is a reasonable probability that taxes will actually be borne and to deductible temporary differences for which there is a reasonable certainty that there will be future taxable amounts at the time when the related tax deductibility will become apparent (so-called probability test). Deferred tax assets and liabilities relating to the same tax and falling due in the same period are offset.
If the deferred tax assets and liabilities refer to items that have affected the Profit and Loss Account, the contra entry is represented by revenue taxes.
In cases where deferred tax assets and liabilities relate to transactions that directly affect equity without affecting the Profit and Loss Account (such as first-time adoption adjustments of IAS/IFRS, valuations of financial instruments recognised at *fair value* with an impact on total revenue or derivative contracts hedging cash flows), they are recorded as a balancing entry in equity, involving specific reserves when required (e.g. valuation reserves).
Deferred taxes on Balance Sheet items in suspense for tax purposes that are "taxable in any case of use" are recorded in the financial statements as a reduction in equity. Deferred tax assets relating to revaluations for conversion to the euro, directly charged to a specific reserve pursuant to Article 21 of Legislative Decree 213/98 in suspension of tax, are recorded in the Balance Sheet as a reduction of the reserve itself. Deferred taxes relating to Balance Sheet items in suspense for tax purposes "taxable only in the event of distribution" are not recorded in the financial statements, since the amount of available reserves already subject to taxation makes it possible to believe that no transactions involving their taxation will be carried out.
Deferred taxes relating to companies included in the tax consolidation are recorded in the financial statements by the same, in application of the accrual basis of accounting and in consideration of the value of the tax consolidation limited to the fulfilment of the liquidation of current tax positions.

A.10 PROVISIONS FOR RISKS AND CHARGES

Provisions for pensions and similar obligations

Provisions for pensions are established in accordance with company agreements and qualify as defined-benefit plans. The liability relating to these plans and the related pension cost of current employment services are determined on the basis of actuarial assumptions applying the "Projected Unit Credit Method", which provides for the projection of future disbursements on the basis of historical statistical analyses and the demographic curve and the financial discounting of these flows on the basis of a market interest rate. The contributions paid in each financial year are considered as separate units, recognised and valued individually for the purpose of determining the final obligation. The discount rate used is determined on the basis of the market yields recorded at the valuation dates of primary company bonds, taking into account the average residual duration of the liability. The present value of the obligation at the Balance Sheet date is also adjusted by the fair value of any plan assets.

Actuarial gains and losses (i.e. changes in the present value of the obligation arising from changes in actuarial assumptions and adjustments based on past experience) are recognised in the Overall Revenue Statement.

Provisions for risks and charges against commitments and guarantees given

The sub-item "Provisions for risks and charges" includes the provisions for credit risk recognised for commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules on impairment in accordance with IFRS 9. In principle, the same methods of allocation between the three stages (credit risk stages) and calculation of the expected loss shown with reference to financial assets measured at amortised cost or at *fair value* with an impact on total revenue are adopted for these cases.
The aggregate also includes provisions for risks and charges set up to cover other types of commitments and guarantees given which, by virtue of their specific nature, do not fall within the scope of application of the impairment test pursuant to IFRS 9.

Other funds

Other provisions for risks and charges include provisions relating to legal obligations or those related to employment relationships or to disputes, including tax disputes, arising from a past event for which it is probable that economic resources will be disbursed to meet the obligations, provided that a reliable estimate can be made of the relative amount.
Consequently, a provision is recognised if and only if:

- there is a current obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount resulting from the fulfilment of the obligation.

The amount recognised as a provision represents the best estimate of the expenditure required to meet the obligation existing at the Balance Sheet date and reflects the risks and uncertainties that inevitably characterise a number of facts and circumstances. Where the time element is significant, provisions are discounted using current market rates. Provisions and increases due to the time factor are recorded in the Profit and Loss Account.
The provision is reversed when the use of resources capable of producing economic benefits to fulfil the obligation becomes unlikely or when the obligation is extinguished.
The item also includes long-term employee benefits, the charges for which are determined using the same actuarial criteria as those described for the provision for pensions. Actuarial gains and losses are all recognised immediately in the Profit and Loss Account.

A.11 FINANCIAL LIABILITIES VALUED AT AMORTISED COST

Classification criteria

Amounts due to banks, amounts due to clients and securities issued include the various forms of interbank and client funding, repurchase agreements and funding through certificates of deposit, bonds and other outstanding funding instruments, net of any amounts repurchased.
It also includes debts recorded by the company as a lessee under finance leases.

Entry criteria

These financial liabilities are first recognised on the date the contract is signed, which normally coincides with the date of receipt of the sums collected or the issue of the debt securities.
Initial recognition is based on the *fair value* of the liabilities, normally equal to the amount received or the issue price, plus any additional costs/revenue directly attributable to the individual funding or issue transaction. Internal administrative costs are excluded.

Evaluation criteria

After initial recognition, financial liabilities 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.

Cancellation criteria

Financial liabilities are derecognised when they expire or are extinguished. Cancellations are also made when previously issued bonds are repurchased. The difference between the carrying amount of the liability and the amount paid to purchase it is recognised in the Profit and Loss Account.
The placing on the market of own securities after their repurchase is considered as a new issue with registration at the new placement price.

A.12 FINANCIAL LIABILITIES HELD FOR TRADING

Entry criteria

These financial instruments are recorded at the date of subscription or issue at a value equal to the fair value of the instrument, without considering any transaction costs or revenue directly attributable to the instruments themselves.
This category of liabilities includes, in particular, 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. It also includes liabilities arising from technical overdrafts generated by trading in securities and certificates.

Evaluation criteria

All trading liabilities are measured at fair value with the result of the valuation recognised in the Profit and Loss Account.

Cancellation criteria

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

A.13 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

Classification criteria

This item includes financial liabilities designated at fair value with a balancing entry in the Profit and Loss Account, based on the option granted to companies (i.e. the right to sell the assets at fair value). "*fair value option*) by IFRS 9 and in compliance with the provisions of the relevant legislation.

Entry criteria

These liabilities are recognised at the issue date at their *fair value*, including the value of any embedded derivative, net of placement fees paid.

Evaluation criteria

These liabilities are measured at *fair value* and the result is recognised in accordance with the following rules set out in IFRS 9:

- changes in fair value that are attributable to changes in creditworthiness must be recognised in the Overall Revenue Statement (equity);
- the remaining changes in *fair value* must be recognised in the Profit and Loss Account.

The amounts recognised in the Overall Revenue Statement are not subsequently reclassified to the Profit and Loss Account. This method of accounting does not have to be applied when the recognition of the effects of one's creditworthiness under equity leads to or accentuates an accounting mismatch in the Profit and Loss Account. In this case, the gains or losses linked to the liability, including those determined as a result of the change in its creditworthiness, must be recorded in the Profit and Loss Account.

Cancellation criteria

Financial liabilities measured at *fair value* are derecognised when the contractual rights to the related cash flows expire or when the financial liability is transferred with the substantial transfer of all the risks and rewards of ownership.

A.14 CURRENCY TRANSACTIONS

Initial recognition criteria

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

Subsequent recognition criteria

At each Balance Sheet or interim reporting date, foreign currency Balance Sheet items are valued as follows:
- monetary items are converted at the exchange rate on the closing date;
- non-monetary items valued at historical cost are converted at the exchange rate prevailing at the date of the transaction;
- non-monetary items measured at *fair value* are translated using the exchange rates in force at the closing date.

Exchange differences arising from the settlement of monetary items or from the translation of monetary items at rates other than the initial conversion rate, or the conversion rate of the previous financial statements, are recognised in the Profit and Loss Account for the period in which they arise.

When a gain or loss on a non-monetary item is recognised in equity, the exchange difference relating to that item is also recognised in equity. Conversely, when a gain or loss is recognised in the Profit and Loss Account, the related exchange difference is also recognised in the Profit and Loss Account.

A.15 OTHER INFORMATION

Own shares

Any treasury shares held are deducted from equity. Similarly, their original cost and the gains or losses from their subsequent sale are recognised as movements in equity.

Accruals and deferrals

Accruals and deferrals that include revenue and expenses for the period accrued on assets and liabilities are recorded in the financial statements as an adjustment to the assets and liabilities to which they refer.

Leasehold improvements

Costs for the renovation of real estate not owned by the company are capitalised in view of the fact that, for the duration of the rental contract, the user company has control of the assets and can derive future economic benefits from them. These costs, which are classified as Other assets in accordance with Bank of Italy instructions, are amortised over a period not exceeding the duration of the lease agreement.

Employee severance indemnities

The provision for employee severance indemnities is classified as a "post-employment benefit":

- defined-contribution plan" for employee severance indemnities accruing from 1 January 2007 (date of entry into force of the supplementary pension reform pursuant to Legislative Decree no. 252 of 5 December 2005), both in the case of an employee opting for supplementary pension schemes and in the case of allocation to the treasury fund at INPS. For these portions, the amount recorded under personnel costs is determined on the basis of the contributions due without the application of actuarial calculation methods;
- The item "defined-benefit plan" is accordingly recorded on the basis of its actuarial value determined using the "Projected Unit Credit Method", for the portion of employee severance indemnities accrued up to 31 December 2006.

These portions are recorded on the basis of their actuarial value determined using the projected unit credit method, without application of the pro-rata of the service provided, since the current service cost of the employee severance indemnity has almost entirely matured and its revaluation, for the years to come, is not considered to give rise to significant benefits for employees.

For discounting purposes, the rate used is determined with reference to the market yield on bonds of primary companies, taking into account the average residual duration of the liability, weighted on the basis of the percentage of the amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the final extinction of the entire obligation.

Plan service costs are recognised as personnel costs, while actuarial gains and losses are recognised in the Overall Revenue Statement.

Share-based payments

Employee remuneration plans based on shares are recorded in the Profit and Loss Account, with a corresponding increase in equity, on the basis of the fair value of the financial instruments assigned at the assignment date, dividing the cost over the period envisaged by the plan.

In the presence of options, their fair value is calculated using a model that considers, in addition to information such as the exercise price and the life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, also the specific characteristics of the existing plan. In the valuation model, the option and the probability of achieving the conditions on the basis of which the options were assigned are assessed separately.

The combination of the two values provides the fair value of the instrument assigned.

Any reduction in the number of financial instruments granted is accounted for as the cancellation of part of them.

Employee benefits

Employee benefits are defined as all types of remuneration paid by the company in exchange for the work performed by employees. Employee benefits are divided between:

- short-term benefits (other than termination benefits and equity compensation) that are expected to be paid in full within twelve months of the end of the period in which the employees render the service and are recognised in full in the Profit and Loss Account at the time of vesting (for example, "extraordinary" wages, salaries and benefits fall into this category);
- post-employment benefits due after the end of the employment relationship which oblige the company to make future payments to employees. These include severance indemnities and pension funds, which in turn are divided into defined-contribution plans and defined-benefit plans or company pension funds;
- termination benefits, i.e. those compensation that the company pays to employees as a counterpart to the termination of the employment relationship, following the company's decision to terminate the employment relationship before the normal retirement date;
- long-term benefits, other than the previous ones, which are not expected to be fully extinguished within the twelve months following the end of the financial year in which the employees worked.

Recognition of revenues and costs

Revenues may be recognised:

- at a specified time, when the entity fulfils its obligation to do so by transferring the promised good or service to the client, or
- over time, as the entity fulfils its obligation to do so by transferring the promised good or service to the client.

The asset is transferred when, or during the period in which, the client acquires control of it. Specifically:

- the interest payments are recognised pro rata temporis on the basis of the contractual interest rate or the effective interest rate if the amortised cost is applied. Interest revenue (or interest expense) also includes differentials or margins, positive (or negative), accrued up to the Balance Sheet date, relating to financial derivative contracts (i) hedging assets and liabilities that generate interest; (ii) classified in the Balance Sheet in the trading portfolio but linked to financial assets and/or liabilities measured at *fair value* (*fair value option*); (iii) linked to assets and liabilities classified in the trading portfolio that require the settlement of differentials or margins at more than one maturity;
- interest on arrears, which may be provided for by contract, is only recorded in the Profit and Loss Account when it is actually collected;
- dividends are recognised in the Profit and Loss Account in the year in which their distribution is approved;
- commissions for revenues from services are recorded, on the basis of the existence of contractual agreements, in the period in which the services were provided. The commissions considered in the amortised cost for the purposes of calculating the effective interest rate are recorded under interest;
- revenues from the sale of financial instruments, determined by the difference between the consideration paid or received for the transaction and the *fair value* of the instrument, are recognised in the Profit and Loss Account upon recognition of the transaction;
- gains and losses arising from trading in financial instruments are recognised in the Profit and Loss Account at the time of completion of the sale, on the basis of the difference between the consideration paid or received and the book value of the instruments themselves;
- revenues from the sale of non-financial assets are recognised when the sale is completed, or when the obligation to do so vis-à-vis the client is fulfilled.

Costs relating to the obtaining and fulfilment of contracts with clients are recorded in the Profit and Loss Account in the periods in which the related revenues are recorded.

Use of estimates and assumptions in the preparation of financial statements

The preparation of financial information also requires the use of estimates and assumptions that can have a significant effect on the values recorded in the Balance Sheet and Profit and Loss Account, as well as on the information relating to potential assets and liabilities recorded in the financial statements.
The preparation of such estimates involves the use of available information and the adoption of subjective evaluations, also based on historical experience, used to formulate reasonable assumptions for the recognition of operating events. Due to their nature, the estimates and assumptions used may vary from year to year and, accordingly, it cannot be excluded that in subsequent years the values recorded in the financial statements may vary significantly as a result of changes in the subjective assessments used.
The main cases for which the use of subjective assessments by management is most required are:

- the quantification of impairment losses on loans, equity investments and, in general, other financial assets;
- the use of valuation models for the recognition of the *fair value* of financial instruments not listed on active markets;
- the assessment of the fairness of the value of goodwill and other intangible fixed assets;
- quantification of the *fair value* of the properties and artistic heritage of value;
- the quantification of provisions for personnel and provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets;
- the demographic (linked to the prospective mortality of the insured population) and financial (deriving from the possible evolution of the financial markets) assumptions used in structuring the insurance products and in defining the bases for calculating the supplementary reserves.

For some of the cases listed above, the main factors that are the subject of estimates can be identified and accordingly contribute to determining the book value of assets and liabilities in the financial statements. Without claiming to be exhaustive, it should be noted that:

- for the determination of the *fair value* of financial instruments not listed on active markets, where it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on the one hand, the development of future financial flows (or even revenue flows, in the case of shares), possibly subject to future events and, on the other, the level of certain input parameters not listed on active markets;
- for the allocation of receivables and debt securities classified under Financial assets at amortised cost and Financial assets at fair value to the three credit risk stages envisaged by IFRS 9 with an impact on total revenue and the calculation of the related expected losses, the main estimates concern:
    a) the determination of parameters for a significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of financial assets and at the Balance Sheet date;
    b) the inclusion of forward looking factors, including macroeconomic factors, for the determination of PDs and LGDs;
    c) the determination of the probability of sale of impaired financial assets, by realising the positions on the market;
- for the determination of the estimates of future cash flows from impaired loans, certain elements are taken into consideration: the expected recovery time, the estimated realisable value of any guarantees as well as the costs that are expected to be incurred for the recovery of the credit exposure;
- for the determination of the value in use of intangible fixed assets with an indefinite life (goodwill, brand name, etc.) with reference to Cash Generating Units (CGUs), the future cash flows in the analytical forecast period and the flows used to determine the so-called "Cash Generating Units" (CGUs) are estimated separately and appropriately discounted. "terminal value", generated by the CGU. The cost of capital is also included in the estimates;
- to determine the value in use of intangible fixed assets with a finite life (asset management and insurance portfolios) with reference to the CGUs, the useful life is estimated, on the one hand, and the future cash flows from the asset, on the other. In the case of intangible fixed assets with a finite useful life, the cost of capital is also included in the estimates;
- the determination of the *fair value* of real estate and valuable artistic heritage is carried out through the preparation of special valuations by qualified and independent companies or through internal experts. For the preparation of the valuations relating to the properties, the rental fees, sale prices, discount rates and capitalisation rates were estimated, while for the preparation of the valuations relating to the valuable artistic heritage, the estimate of the value was derived from the trend of exchanges of similar works (by technique, size, subject) of the same author, or of schools and regional movements next in style and technique;
- for the quantification of provisions for pensions and similar obligations, the present value of the obligations is estimated, taking into account the flows, suitably discounted, deriving from historical statistical analyses, and the demographic curve;
- for the quantification of the provisions for risks and charges, an estimate is made - where possible - of the amount of disbursements necessary to meet the obligations, taking into account the actual probability of having to invest resources;
- for the determination of the items relating to deferred taxation, the probability of an actual future incurrence of taxes (taxable temporary differences) is estimated and the degree of reasonable certainty - if any - of future taxable amounts at the time when the tax deductibility will become apparent (deductible temporary differences).

A.16 THE CRITERIA FOR CLASSIFYING FINANCIAL ASSETS

The classification of financial assets in the three categories provided for by IFRS 9 depends on two criteria, or drivers, of classification: i) the business model with which the financial instruments are managed (or Business Model) and ii) the contractual characteristics of the financial flows of the financial assets (or SPPI Test).
The combined provisions of the two drivers mentioned above give rise to the classification of financial assets, as described below:

- Financial assets valued at amortised cost: assets that pass the SPPI test and fall within the Hold to collect (HTC) business model;
- Financial assets measured at *fair value* with impact on total revenue (FVOCI): assets that pass the SPPI test and fall within the Hold to collect and sell (HTCS) business model;
- Financial assets measured at *fair value* through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test on the characteristics of contractual flows (SPPI test not passed).

SPPI tests

In order for a financial asset to be classified at amortised cost or at FVOCI - in addition to the analysis relating to the business model - the contractual terms of the asset itself must provide, on certain dates, for cash flows represented solely by payments of principal and interest on the amount of capital to be repaid ("solely payment of principal and interest" - SPPI). This analysis must be carried out, in particular, for loans and debt securities.
The SPPI test must be carried out on each individual financial instrument at the time of budgeting.
After initial recognition, and as long as it is recognised in the financial statements, the asset is no longer subject to new valuations for the purposes of the SPPI test. If a financial instrument is derecognised and a new financial asset is recognised, the SPPI test on the new asset must be carried out.
For the purposes of applying the SPPI test, the following definitions will apply

- Capital: is the *fair value* of the financial asset at the time of initial recognition. This value may change over the life of the financial instrument, for example as a result of repayments of part of the principal;
- Interest: is the consideration for the time value of money and for the credit risk associated with the outstanding principal in a particular period of time. It may also include remuneration for other basic risks and costs associated with lending and a profit margin.

In assessing whether the contractual flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a "basic lending arrangement", which is independent of the legal form of the asset. When contractual clauses introduce exposure to risks or volatility of contractual cash flows that are not consistent with the definition of basic lending arrangements, such as exposure to changes in share or commodity prices, contractual flows do not meet the definition of SPPI. The application of the classification driver based on contractual cash flows sometimes requires subjective judgment and, accordingly, the definition of internal application policies.
In cases where the time value of money is modified - for example, when the interest rate of the financial asset is periodically recalculated, but the frequency of restatement or the frequency of coupon payments does not reflect the nature of the interest rate (e.g. the interest rate is revised monthly on the basis of a one-year rate) or when the interest rate is periodically revised on the basis of an average of particular short or medium/long-term rates - it is assessed, using both quantitative and qualitative elements, whether the contractual flows still meet the definition of SPPI (c. the interest rate is adjusted to reflect the nature of the interest rate).d. benchmark cash flows test). If the test shows that the contractual cash flows (not discounted) are "significantly different" from the cash flows (also not discounted) of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered as meeting the definition of SPPI.
Special analyses (so-called "look through test") are required by the principle and are consequently also implemented for contractually linked instruments ("CLIs") that create concentrations of credit risk for debt settlement and for non-recourse assets, for example in cases where the receivable can only be claimed in relation to certain assets of the debtor or to cash flows from certain assets.
The presence of contractual clauses that may change the frequency or amount of contractual cash flows must also be considered to assess whether these flows meet the requirements to be considered as SPPI (e.g. prepayment options, possibility of deferring contractual cash flows, instruments with embedded derivatives, subordinated instruments, etc.).
However, as required by IFRS 9, a feature of the contractual cash flows does not affect the classification of the financial asset if it can only have a de minimis effect on the contractual cash flows of the financial asset (in each period and cumulatively). Similarly, if a feature of the cash flows is unrealistic ("not genuine"), or if it affects the contractual cash flows of the instrument only on the occurrence of an extremely rare, very unusual and very unlikely event, it does not affect the classification of the financial asset.

In order to carry out the SPPI test, the Company makes use of the services provided by well-known info-providers for debt securities transactions.
A tool based on an internally developed methodology (decision trees) has been developed for the SPPI test in the context of the credit granting processes. In particular, given the significant differences in characteristics, differentiated management is envisaged for products that can be traced back to a contractual standard (typically retail loan portfolio) and for "tailor made" loans (typically corporate loan portfolio).
For standard products, the SPPI test is carried out during the structuring of the contractual standard and the result of the test is extended to all individual reports related to the same product. For "tailor made" products, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool.

Business model

As far as the business model is concerned, IFRS 9 identifies three cases in relation to the way in which cash flows and sales of financial assets are managed:
- Hold to Collect (HTC): this is a business model whose target is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated with it. The inclusion of a portfolio of financial assets in this business model does not necessarily mean that it is impossible to sell the instruments, even if it is necessary to consider the frequency, value and timing of sales in previous years, the reasons for sales and expectations regarding future sales;
- Hold to Collect and Sell (HTCS): is a mixed business model, whose target is achieved both through the collection of contractual cash flows from the financial assets in the portfolio and through a sales activity that is an integral part of the strategy. Both activities (collection of contractual flows and sale) are functional to achieving the target of the business model. Accordingly, sales are more frequent and significant than an HTC business model and are an integral part of the strategies pursued;
- Others/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that cannot be traced back to the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured at *fair value*.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management through the appropriate involvement of business structures.
The business model is observed considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of financial assets or from both of these assets. The assessment is not made on the basis of scenarios which, according to reasonable forecasts of the entity, are not likely to occur, such as the so-called worst-case or stress-case scenarios. For example, if the entity expects to sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the assessment of the entity's business model for those assets if that scenario, based on the entity's reasonable expectations, is not expected to occur.
The business model does not depend on the intentions that management has with reference to a single financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business target.
In summary, the business model:
- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management, through the appropriate involvement of business structures;
- must be observable in view of the way in which financial activities are managed.

In operational terms, the assessment of the business model is carried out in accordance with the company organisation, the specialisation of the business functions, the risk model and the assignment of delegated powers (limits).
In relation to the management purposes for which the financial assets are held, it should be noted that a specific document - approved by the competent levels of governance - defines and sets out the elements constituting the business model in relation to the financial assets included in the portfolios managed in the performance of operations on the business structures.

For the Hold to Collect portfolios, the Company has defined the eligibility thresholds for sales that do not affect the classification (frequent but not significant, individually and in aggregate, or infrequent even if of significant amount) and, at the same time, the parameters have been established to identify sales consistent with this business model as they are attributable to an increase in credit risk.
More specifically, sales are allowed under an HTC business model:
- in the event of an increase in credit risk, which occurs:
    a) for securities, when there is a downgrade of predetermined notches to the origination rating. The approach adopted envisages that the number of notches is differentiated according to the origination rating, in line with the methodology in use for the identification of "significant deterioration", i.e. for the staging transition;
    b) in the case of claims, in the case of assignments of impaired claims or of claims classified as stage 2 claims;
    - when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, frequency and significance thresholds have been defined:
    a) the frequency is defined as the percentage ratio between the number of positions sold (ISINs or ratios) during the observation period and the total number of positions in the portfolio during the observation period;
    b) significance is defined as the percentage ratio of the nominal value of sales to the total nominal value of the instruments in the portfolio over the period considered.

Where both frequency and significance thresholds are exceeded at the same time, an additional assessment is required to confirm the consistency of the HTC business model (e.g. to assess whether sales are made close to maturity).

Methods of determining amortised cost

The amortised cost of a financial asset or liability is the value at which, on initial recognition, the financial asset or liability has been measured net of principal repayments, increased or decreased by the total amortisation calculated using the effective interest method, by the differences between the initial value and the value at maturity and net of any loss in value.
The effective interest rate is the rate that equals the present value of a financial asset or financial liability to the contractual flow of future payments in cash or received until maturity or the next date of price recalculation. For the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments over the entire useful life of the financial asset or financial liability or for a shorter period under certain conditions (e.g. revision of market rates).
Subsequent to initial recognition, the amortised cost makes it possible to allocate revenues and costs deducted from or increased by the instrument over its expected life through the amortisation process. The determination of the amortised cost differs according to whether the financial assets/liabilities being valued are at a fixed or variable rate and - in the latter case - according to whether the variability of the rate is known in advance or not. For fixed rate or fixed rate instruments by time band, future cash flows are quantified on the basis of the known interest rate (single or variable) over the life of the loan. For variable rate financial assets/liabilities, the variability of which is not known in advance (for example because it is linked to an index), cash flows are determined on the basis of the last known rate. At each rate revision date, the amortisation plan and the effective rate of return are recalculated over the entire useful life of the instrument, i.e. up to the expiry date. The adjustment is recognised as a cost or revenue in the Profit and Loss Account.
Amortised cost measurement is carried out for financial assets measured at amortised cost and for those measured at fair value with an impact on total revenue, as well as for financial liabilities measured at amortised cost.
Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or paid inclusive, since they are instruments valued at amortised cost, transaction costs and directly attributable commissions.
Transaction costs are marginal internal or external costs and revenue attributable to the issue, acquisition or disposal of a financial instrument and not chargeable back to the client. These fees, which must be directly attributable to the individual financial asset or liability, affect the original effective yield and make the effective interest rate associated with the transaction different from the contractual interest rate.
Costs/revenue relating indistinctly to several transactions and components related to events that may occur during the life of the financial instrument, but which are not certain at the time of the initial definition, such as, for example: commissions for retrocession, for non-use, for early repayment, are excluded. Moreover, the amortised cost does not include costs that the company would have to bear independently of the transaction (e.g. administrative, stationery,

communication costs), those that, although specifically attributable to the transaction, fall within the normal practice of managing the loan (e.g. activities aimed at disbursement of the credit), as well as commissions for services collected following the performance of Structured Finance activities that would have been collected independently of the subsequent financing of the transaction (such as, for example, facility and arrangement commissions).

With particular reference to loans, the following are considered costs attributable to the financial instrument: commissions paid to distribution channels, fees paid for consultancy/assistance for the organisation of and/or holding in syndicated loans and, finally, up-front commissions related to loans granted at rates higher than market rates; while revenues considered in the calculation of the amortised cost are up-front commissions related to loans granted at rates lower than market rates, those for holding in syndicated transactions and brokerage commissions linked to commissions paid by brokerage firms.

With regard to securities not valued at fair value with an impact on the Profit and Loss Account, transaction costs are considered to be commissions for contracts with brokers operating on Italian stock markets, those disbursed to brokers operating on foreign stock markets and bonds defined on the basis of commission tables. Stamps are not considered to be attracted by the amortised cost, as they are not significant.

For the securities issued, commissions on the placement of bonds paid to third parties, shares paid to stock exchanges and fees paid to auditors for the work carried out for each individual issue are considered in the calculation of the amortised cost, while commissions paid to rating agencies, legal and advisory/revision fees for the annual updating of prospectuses, costs for the use of indices and commissions originating during the life of the bond issued are not considered to be attracted by the amortised cost.

Amortised cost is also applied to the valuation of the loss in value of the financial instruments listed above and to the recognition of those issued or purchased at a value other than their fair value. The latter are recorded at fair value, rather than for the amount received or paid, calculated by discounting future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of creditworthiness, contractual maturities, currency, etc.), with simultaneous recognition in the Profit and Loss Account of a financial charge or revenue. Subsequent to initial valuation, they are valued at amortised cost, with actual interest greater or lesser than nominal interest. Finally, structured liabilities that are not measured at fair value are also measured at amortised cost and recognised in the Profit and Loss Account because the derivative contract embedded in the financial instrument has been separated and recognised separately.

As indicated by IFRS 9, in some cases, a financial asset is considered impaired at the time of initial recognition because the credit risk is very high and, in the case of purchase, is purchased with large discounts (compared to the initial disbursement value). If the financial assets in question, based on the application of the classification drivers (i.e. SPPI test and Business model), are classified as assets valued at amortised cost or fair value with an impact on overall profitability, they are classified as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to special treatment with regard to the impairment process. In addition, on financial assets classified as POCI, an effective interest rate adjusted for the loan is calculated at the date of initial recognition (i.e., the interest rate on the loan is calculated as follows). "The amount of the loan is determined by the amount of the credit-adjusted effective interest rate, for which it is necessary to include the expected initial losses in the estimates of the cash flows. For the application of the amortised cost, and the consequent calculation of the interest, the effective interest rate corrected for the loan is applied.

The amortised cost method does not apply to hedged financial assets/liabilities for which changes in *fair valuee* relating to the risk hedged are recognised in the Profit and Loss Account. The financial instrument is, however, revalued at amortised cost in the event of termination of the hedge, at which point the previously recorded changes in fair value are amortised, calculating a new effective interest rate of return that considers the value of the loan adjusted by the fair value of the part subject to the hedge, until the expiry of the hedge originally envisaged. Moreover, as already mentioned in the paragraphs relating to financial assets and liabilities valued at amortised cost, the valuation at amortised cost does not apply to financial assets/liabilities whose short duration makes the economic effect of discounting negligible, nor to receivables without a defined maturity or revoked.

A.17 METHODS OF DETERMINING IMPAIRMENT LOSSES

Impairment of financial assets

At each Balance Sheet date, in accordance with IFRS 9, financial assets other than those measured at *fair value* through profit or loss are subject to an assessment to determine whether there is any evidence that the book value of the assets may not be fully recoverable. A similar analysis is also carried out for commitments to disburse funds and guarantees issued that fall within the scope of impairment pursuant to IFRS 9.
In the event that such evidence exists in accordance with the provisions of the Civil Code (e.g. "evidence of impairment"), the financial assets in question - consistently, where they exist, with all the remaining assets pertaining to the same counterparty - are considered impaired and are included in stage 3. These exposures, represented by financial assets classified - in accordance with the provisions of Bank of Italy Circular no. 262/2005 - in the categories of non-performing loans, probable default and exposures past due by more than ninety days, must be subject to value adjustments equal to the expected losses relating to their entire residual life.

Impairment of performing financial assets

For financial assets for which there is no evidence of impairment (non-impaired financial instruments), it is necessary, instead, to verify whether there are indicators such that the credit risk of the individual transaction is significantly increased compared to the time of initial recognition. The consequences of this verification, from the point of view of classification (or, more properly, staging) and evaluation, are as follows:
- where such indicators exist, the financial asset is included in stage 2. In this case, the valuation, in accordance with the international accounting standards and even in the absence of a manifest loss of value, provides for the recognition of value adjustments equal to the expected losses over the entire residual life of the financial instrument. These adjustments are reviewed at each subsequent reporting date both to periodically check their consistency with the constantly updated loss estimates and to take into account - in the event that the indicators of a "significantly increased" credit risk are no longer available - the changed forecast period for calculating the expected loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, the valuation, in accordance with the international accounting standards and even in the absence of a manifest loss of value, provides for the recognition of expected losses, for the specific financial instrument, over the following twelve months. These adjustments are subject to review at each subsequent Balance Sheet date both to periodically check their consistency with the constantly updated loss estimates, and to take into account - in the event of indicators of a "significantly increased" credit risk - the changed forecast period for calculating the expected loss.

With regard to the valuation of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset being valued in stage 2), the elements that - pursuant to the principle and its operating articulation by the Company - constitute the main determinants to be taken into consideration are as follows:
- the change in the probability of lifetime default compared to the time of initial recognition of the financial instrument in the financial statements. It is, accordingly, an evaluation carried out by adopting a "relative" criterion, which is configured as the main "driver";
- the possible presence of an overdue one that - without prejudice to the thresholds of significance identified by the regulations - is such as to be at least 30 days old. In this case, in other words, the credit risk of the exposure is presumed to be "significantly increased" and, accordingly, the "passage" in stage 2 follows (if the exposure was previously included in stage 1);
- the possible presence of forbearance measures, which - again on a presumption basis - entail the classification of exposures among those whose credit risk is "significantly increased" with respect to initial recognition;
- the presence, if any, of "observation" master notes, which classify exposures as "Watchlists" or those whose credit risk is "significantly increased" with respect to initial recognition.

The significant increase in credit risk ("SICR"), measured by the change in the probability of default lifetime, is calculated by comparing the relative change in the probability of default lifetime recorded between the date of first recognition of the report and the observation date (Delta PD Lifetime) with predetermined thresholds of significance. The assignment of a PD Lifetime to individual relationships is carried out by bringing back the ratings for each segment both on the date of first registration and on observation. Ratings are determined on the basis of internal models, where available, or management models.

This "relative" change in PD is an indicator of the increase or decrease in credit risk during the reference period. In order to determine whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and accordingly involve the transition between stages), it is necessary to define specific thresholds. Lifetime PD increases below these thresholds are not considered significant and, consequently, do not involve the transfer of individual lines of credit/debit tranches from stage 1 to stage 2; such a transfer is, however, necessary in the presence of relative PD increases above the thresholds in question. The thresholds used were estimated on the basis of a process of simulations and optimization of predictive performance, developed using historical granular portfolio data. Specific thresholds are defined for Private, Small business and Corporate models.

The determination of the thresholds has been calibrated in order to find a correct balance between the performance indicators relating to the capacity of the thresholds themselves:

- intercept stage 2 positions before they move to default;
- identify the positions for which the return to stage 1 is synonymous with an effective improvement in creditworthiness.

Some peculiar considerations apply to the so-called "title staging. Unlike loans, in fact, for this type of exposure, buying and selling operations subsequent to the first purchase (carried out with reference to the same ISIN) can usually fall within the ordinary activity of managing positions (with the consequent need to identify a methodology to be adopted for the identification of sales and repayments in order to determine the residual quantities of individual transactions to which to associate a credit quality/rating to the origination to be compared with that of the reporting date). In this context, it was considered that the use of the "first-in-first-out" or "FIFO" method (for the reversal to the Profit and Loss Account of the recorded ECL, in the event of sales and refunds) contributes to a more transparent management of the portfolio, also from the point of view of front office operators, allowing, at the same time, a continuous updating of the creditworthiness assessment on the basis of new purchases.

Once the allocation of exposures to the various credit risk stages has been defined, the determination of expected losses (ECL) is carried out, at the level of individual transactions or tranches of securities, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), on which appropriate corrective action is taken to ensure compliance with the specific requirements of IFRS 9.

The following definitions apply to PD, LGD and EAD:

- PD (Probability of Default): probability of migrating from performing to impaired credit status within a one-year time horizon. In models consistent with supervisory requirements, the PD factor is typically quantified through the rating. PD values are derived from the internal rating model where available, supplemented by external ratings or average segment/portfolio data;
- LGD (Loss Given Default): percentage of loss in the event of default, quantified through historical experience of recoveries discounted to present value on practices that have been transferred to impaired loans;
- EAD (Exposure At Default) or credit equivalent: amount of the exposure at the time of default.

In relation to multi-period EAD, in line with the provisions of IFRS 9, reference is made to plans at amortised cost for both loans and debt securities, regardless of the related valuation methods (amortised cost or *fair value* with an impact on total revenue). For commitments to disburse funds (margins), the EAD is, on the other hand, assumed to be the weighted nominal value for a specific Credit Conversion Factor (CCF).

The valuation of financial assets also reflects the best estimate of the effects of future conditions, especially economic conditions, on the basis of which PD and LGD forward looking are conditioned. In the context of IFRS 9, also on the basis of the indications of the international Regulators, information on future macroeconomic scenarios in which the Company may find itself operating and which influence the situation of debtors with reference to both the "riskiness" of migration of exposures to lower quality classes (accordingly concerning the "staging") and the recoverable amounts (accordingly concerning the determination of the expected loss on exposures) are of particular importance. The macroeconomic scenario is obtained from external info providers. Alternative improvement and worsening scenarios are determined by stressing variables in input to forecasting models.

Impairment of non-performing financial assets

Impaired loans classified as non-performing are subject to the following valuation methods:

- analytical-statistical assessment, which is adopted for exposures below certain thresholds, based on the application of specific LGD grids, to which an add-on may be added in order to take account of forward looking information, in particular that relating to the impact of future macroeconomic scenarios;
- analytical-specific valuation, which is adopted for clients with exposures above certain thresholds and is based on the depreciation percentages attributed by the manager, following specific analysis and valuation processes, to which an Add-On component can be added in order to take account of “forward looking” information, in particular that relating to the impacts of future macroeconomic scenarios (with the exception of non-performing loans with mortgage guarantees, for which the impacts of future scenarios are included through the methods of determining the “haircuts” at the value of the properties under warranty);
- inclusion of sales scenarios for assignable non-performing loans: regardless of the division of these exposures between those subject to analytical-statistical evaluation and those subject to analytical-specific evaluation (as identified above), the valuation of assignable non-performing loans also includes the additional components relating to future sales scenarios.

The assessment of unlikely to pay (UTP) defaults is also based on two different approaches:

- analytical-statistical evaluation, for cash exposures below certain thresholds, based on the application of specific statistical grids of LGD to which is added a component of Add-On in order to understand the impacts of future macroeconomic scenarios;
- analytical-specific assessment, for cash exposures above certain thresholds, based on the devaluation percentages attributed by the operator, plus an add-on component in order to take into account, also in this case, the impacts of future macroeconomic scenarios.

Impaired loans classified as past due and/or in excess of limits are, on the other hand, subject to analytical valuation on a statistical basis, regardless of the amount of cash exposure. Again, however, the adjustment defined on the basis of the LGD statistical grids is supplemented to take account of the Add-On component attributable to the effect of future macroeconomic scenarios.

With reference to the alternative recovery scenarios, the Company, in relation to the targets of reducing the stock of non-performing loans in place, included in the company plans, and the commitments undertaken with the Supervisory Bodies, with specific reference to the so-called “recovery scenarios”, has adopted the following measures NPL Strategy, considers the sale of certain portfolios as the strategy that can, under certain conditions, maximize the recovery of cash flows, also in view of the recovery time.

In particular, the Bank of Italy in the document “Guidelines for Italian Less Significant Banks in the Management of Impaired Loans”, which refers to the document “Guidance to banks on non-performing loans” published by the SSM, requested the Banks to define a strategy aimed at achieving a progressive reduction of the same.

In addition to these initial indications, further regulatory developments were added, including the measures introduced by the European Union in the first part of the year to reduce the risks associated with non-performing loans, aimed at determining minimum levels of prudential provisions for impaired loans, the strategy of reducing aggregates through internal work-out necessarily had to be strengthened and accompanied by other more effective measures through the sale of a significant portfolio of non-performing loans.

As a result, the “ordinary” scenario, which envisages a recovery strategy based on the collection of the receivable typically through legal actions, mandates to recovery companies, and the realisation of mortgage guarantees, was accompanied - as a recovery strategy - by the scenario of the sale of the receivable itself. In light of this, for a defined perimeter of non-performing loans with the characteristics of assignability, in order to determine the overall expected loss of the exposures, the recoverable values based on the ordinary internal recovery process and the amounts recoverable from the sale, estimated on the basis of market valuations, have been weighted according to the share of the portfolio destined for sale, as envisaged by the NPL strategy, with respect to the total of the assignable portfolio.

In particular, the recoverable value of assignable non-performing loans was quantified as the average of (i) the “*fair value*” and (ii) the value in the event of recovery through an internal work-out - the “value in the event of collection”.

It should be noted that the "collection hypothesis value" was determined according to the ordinary logic followed for the impairment of non-performing loans, i.e. on the basis of an analytical assessment for exposures above a defined threshold and on the basis of an analytical-statistical assessment for the others.
As already mentioned, it should also be noted that the financial assets purchased or originated already impaired (POCI) have particular characteristics with regard to impairment. In this regard, value adjustments equal to the ECL lifetime must be recorded for the instruments in question from the date of initial recognition and for their entire life. At each subsequent Balance Sheet date, the amount of the lifetime ECL must accordingly be adjusted, recording in the Profit and Loss Account the amount of any change in expected losses over the life of the loan as a gain or loss due to impairment. In the light of the above, the POCI financial assets are initially entered in stage 3, without prejudice to the possibility of being subsequently moved to performing loans, on which, however, an expected loss equal to the ECL lifetime will continue to be recorded.
In addition, with regard to impaired loans, uncollectible accounting entries are derecognised/withdrawn and the remainder not yet adjusted is charged to losses, also taking into account the following cases:
- irrecoverability of the debt, resulting from certain and precise elements (such as, by way of example, unavailability and nullity of the debtor, failure to recover from securities and real estate executions, negative seizures, insolvency proceedings closed with no complete relief for the Bank, if there are no further guarantees usefully enforceable, etc.);
- assignment of credit;
- waiver of the claim, as a consequence of unilateral remission of the debt or residue against settlement contracts;
- without waiver of the receivable in the event of very marginal possibilities of recovery, even without any of the elements referred to in the previous points, in the presence of adequate valuation elements, it may be necessary to proceed with the full or partial write-off for unrecoverability of the receivable even without closure of the legal file, thus maintaining the full right to collection of the balances subject to cancellation. The write-off may only affect the portion of the credit covered by provisions.

Impairment of investments

At each Balance Sheet date, investments in associates or joint ventures are tested for impairment in order to determine whether there is objective evidence that the carrying amount of the assets in question may not be fully recoverable.
The process of detecting any impairment involves verifying the presence of indicators of possible reductions in value and determining any write-downs. Impairment indicators can be divided into two main categories: qualitative indicators and quantitative indicators.
Among the qualitative ones, we would like to point out:
- the achievement of negative economic results or, in any case, a significant deviation from budget targets or those set out in long-term plans communicated to the market;
- the announcement/initiation of bankruptcy proceedings or restructuring plans;
- the downward revision of the rating of more than two classes;
- failure to meet the obligations of timely and full payment of the debt securities issued;
- the use of industrial policy instruments aimed at dealing with serious crises or at enabling companies to face restructuring/reorganisation processes.

Quantitative indicators include:
- the reduction of the *fair value* below the carrying amount by a significant percentage or on a lasting basis;
- the market capitalization lower than the book net equity of the company, in the case of securities listed on active markets, or by a book value of the investment in the separate financial statements higher than the book value in the consolidated financial statements of the net assets and goodwill of the subsidiary or by the distribution by the latter of a dividend higher than its total revenue.

The presence of impairment indicators entails the recognition of a write-down, to the extent that the recoverable value is lower than the book value, to be determined by means of a specific valuation.
The recoverable amount is the higher of fair value less costs of sale and value in use.
Value in use is the present value of the expected cash flows from the asset; it reflects an estimate of the expected cash flows from the asset, an estimate of possible changes in the amount and/or timing of cash flows, the time value of

money, the price that compensates for the riskiness of the asset and other factors that may influence the appreciation by market participants of the expected cash flows from the asset.
In determining value in use, the method of discounting future cash flows is used.

Impairment of other non-financial assets

Tangible fixed assets and intangible fixed assets with a finite useful life are subject to impairment testing if there is an indication that the book value of the asset can no longer be recovered. The recoverable value is determined by reference to the fair value of the tangible or intangible asset net of disposal costs or to the value in use if determinable and if it is higher than the *fair value*.
With regard to real estate, in order to verify the presence of impairment indicators, an analysis of the different scenarios of the real estate markets is carried out annually. If these analyses reveal indicators of impairment, an expert opinion is prepared on the properties for which this presence has been verified.
For other tangible and intangible fixed assets (other than those recorded as a result of aggregation transactions) it is assumed that the book value normally corresponds to the value in use, since it is determined by an amortisation process estimated on the basis of the actual contribution of the asset to the production process and the determination of a fair value is extremely uncertain. The two values differ, giving rise to impairment, in the event of damage, exit from the production process or other similar non-recurring circumstances.
Intangible fixed assets recognised as a result of acquisitions and in accordance with IFRS 3 at each Balance Sheet date are subject to an impairment test, in order to verify whether there is objective evidence that the asset may be impaired. Intangible fixed assets with a finite useful life are subject to a new valuation process to verify the recoverability of the values recorded in the financial statements if there are indicators of impairment. The recoverable value is determined on the basis of the value in use, or the present value, estimated using a rate representing the time value of money and the specific risks of the asset, the profit margins generated by the relationships existing at the valuation date over a time horizon expressing the expected residual duration of the same.
Intangible fixed assets with an indefinite life, represented by goodwill, which do not have independent cash flows, are subject to an annual assessment of the adequacy of the value recorded among the assets with reference to the Cash Generating Unit (CGU) to which the values were attributed during the business combination transactions. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and its recoverable amount, represented by the higher of its *fair value*, net of any costs of sale, and its value in use.
The value in use of a CGU is determined by estimating the present value of the future cash flows expected to be generated by the CGU. These cash flows are determined using the latest available public company plan or, failing that, through the formulation of an internal anticipatory plan by management or through other available external evidence. Normally, the analytical forecast period covers a maximum period of five years. The flow of the last analytical forecast year is projected in perpetuity, through an appropriate growth rate "g" for the purposes of the so-called "Terminal value". The "g" rate is determined assuming as growth factor the lower of the average growth rate recorded in the analytical forecast period and the average development rate of the Gross Domestic Product in the countries where the flows are generated.
In determining value in use, cash flows must be discounted at a rate that reflects current valuations of the time value of money and the risks specific to the asset. In particular, the discount rates used incorporate the risk free component and equity related risk premiums observed over a sufficiently long period of time to reflect different market conditions and economic cycles.

A.18 BUSINESS COMBINATIONS

IFRS 3 is the accounting standard of reference for business combinations.
The transfer of control of a business (or of a group of integrated activities and assets, conducted and managed as a unit) constitutes a business combination.
For this purpose, control is deemed to have been transferred when the investor is exposed to, or has rights over, variable returns arising from his relationship with the investee and at the same time has the ability to affect returns by exercising his power over that entity.

IFRS 3 requires an acquirer to be identified for all aggregation transactions. The latter will be identified as the entity that obtains control over another entity or group of activities. If it is not possible to identify a controlling party according to the definition of control described above, as for example in the case of transactions for the exchange of equity interests, the identification of the purchaser must be made using other factors such as: the entity whose fair value is significantly higher, the entity that may pay a cash consideration, the entity that issues the new shares.
The acquisition, and accordingly the first consolidation of the acquired entity, will be accounted for on the date on which the acquirer effectively obtains control over the acquired undertaking or assets. When the transaction takes place through a single exchange transaction, the exchange date normally coincides with the acquisition date. However, it is always necessary to check whether there are any agreements between the parties which may involve a transfer of control before the date of the exchange.
The consideration transferred as part of a business combination must be determined as the sum of the *fair value*, at the date of exchange, of the assets sold, the liabilities incurred or assumed and the equity instruments issued by the purchaser in exchange for control.
In transactions involving payment in cash (or when payment is envisaged by means of financial instruments similar to cash), the price is the agreed consideration, which may be discounted if an instalment payment is envisaged for a period longer than the short term; if payment is made by means of an instrument other than cash, i.e. by means of the issue of equity instruments, the price is equal to the *fair value* of the means of payment net of costs directly attributable to the capital issue transaction.
The consideration for the business combination at the acquisition date includes adjustments subject to future events, if provided for in the agreements and only when they are probable, can be reliably determined and are realised within twelve months of the date of acquisition of control, while compensation for reduction in the value of the assets used is not considered because it is already considered either in the *fair value* of the equity instruments or as a reduction in the premium or an increase in the discount on the initial issue in the case of the issue of debt instruments.
These include, for example, professional fees paid to auditors, experts, legal advisors, costs for valuations and auditing of accounts, preparation of information documents required by law, as well as consultancy fees incurred to identify potential targets to be acquired if it is contractually established that payment will be made only in the event of a positive outcome of the combination, and the costs of registering and issuing debt securities or shares.
The acquirer will account for acquisition-related costs as expenses in the periods in which those costs are incurred and the services are received, except for the costs of issuing equity or debt securities which will be recognised in accordance with IAS 32 and IFRS 9.
Business combinations are accounted for using the “acquisition method”, whereby the identifiable assets acquired (including any intangible fixed assets previously not recognised by the acquired company) and the identifiable liabilities assumed (including potential liabilities) are recognised at their fair values at the acquisition date.
In addition, for each business combination, any minority interests in the acquired company may be recorded at fair value (with a consequent increase in the consideration transferred) or in proportion to the share of the minority interest in the identifiable net assets of the acquired companies.
If control is achieved through subsequent purchases, the acquirer must recalculate its previous interest in the acquired company at its fair value at the acquisition date and recognise any difference from the previous carrying amount in the Profit and Loss Account.
The excess of the consideration transferred (represented by the *fair value* of the assets transferred, the liabilities incurred or the equity instruments issued by the purchaser), possibly integrated by the value of the minority interests (determined as above) and by the fair value of the interests already held by the purchaser, and the *fair value* of the assets and liabilities acquired must be recorded as goodwill; if, on the other hand, the latter are higher than the sum of the consideration, the minority interests and the fair value of the shares already held, the difference must be recorded in the Profit and Loss Account.
The accounting for the combination transaction may be provisionally completed by the end of the financial year in which the combination is realised and must be completed within twelve months of the acquisition date.
Entries of further shareholdings in companies already controlled are considered, in accordance with IFRS 10, as a capital transaction, i.e. transactions with shareholders acting in their capacity as shareholders. Accordingly, the differences between the acquisition costs and the book value of the acquired minority interests are entered in the equity; likewise,

the sales of minority interests without loss of control do not generate profits/losses in the Profit and Loss Account but changes in the equity.
Transactions aimed at controlling one or more companies that do not constitute a business activity or at controlling on a transitory basis do not constitute business combinations, or, finally, if the business combination is carried out for reorganisational purposes, accordingly between two or more companies or business activities already controlled, and that does not involve a change in the control structures regardless of the percentage of third party rights before and after the transaction (so-called business combinations of companies subject to common control). These operations are considered to lack economic substance. Accordingly, in the absence of specific indications provided for by IAS/IFRS and in compliance with the assumptions of IAS 8, which requires that - in the absence of a specific principle - the company must make use of its own judgement in applying an accounting principle that provides relevant, reliable and prudent information and that reflects the economic substance of the transaction, they are accounted for safeguarding the continuity of the values of the acquired in the financial statements of the purchaser.
Mergers are part of mergers between companies, representing the most complete form of business combination, as they involve both legal and economic unification of the parties involved.
Mergers, whether they be specific, i.e. by the creation of a new legal entity or by "incorporation" with the confluence of a company into another existing company, are treated according to the criteria set out above, in particular:
- if the transaction involves the transfer of control of an entity, it is treated as a combination transaction within the meaning of IFRS 3;
- if the transaction does not involve the transfer of control, it is accounted for by giving priority to the continuity of the values of the company being acquired

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest revenue

No reclassifications of financial assets were made in 2018.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on total revenue

No reclassifications of financial assets were made in 2018.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

No reclassifications of financial assets were made in 2018.

A.4 FAIR VALUE INFORMATION

QUALITATIVE INFORMATION

Para. 24 of IFRS 13 defines *fair value* as the amount that could be received to sell an asset, or paid to transfer a liability, in an ordinary transaction between market counterparties, in the principal market.
In the case of financial instruments listed on active markets, the *fair value* is determined on the basis of the official listings of the main market, or the most advantageous, to which the Bank has access ("Mark-to-Market"). A market is active if the transactions relating to the asset or liability occur with a frequency and volume sufficient to provide information useful for the determination of the price on an ongoing basis.
In the absence of a listing on an active market or in the absence of regular functioning of the market, i.e. when the market does not have a sufficient and continuous number of transactions, bid-ask spreads and volatility are not sufficiently contained, valuation models fed by market input are used, in particular:
- valuation of listed instruments with similar characteristics;
- discounted cash flow calculations;

- option pricing models, values recorded in recent comparable transactions, prudentially adjusted to take account of the illiquidity of certain market data and other risks associated with specific transactions (reputational, replacement, etc.).

In the absence of market input, valuation models will be based on internally estimated data.

The *fair value* is reported according to a hierarchy based on the quality of the input parameters used to determine it.

The *fair value* hierarchy, in line with that indicated by IFRS 13 and taken from Bank of Italy Circular no. 262, gives decreasing priority to valuations based on different market parameters: the highest priority (Level 1) is assigned to valuations based on prices quoted on an active market for identical assets or liabilities; the lowest priority (Level 3) is assigned to those deriving significantly from parameters that cannot be observed.

The fair value hierarchy associated with assets and liabilities is defined as the minimum level of all significant inputs used. The following levels can be distinguished:

- Level 1: listings (unique and without adjustment) recorded on an active market for the individual financial instrument being valued.
- Level 2: inputs other than the quoted prices referred to in the previous point, which are observable directly (prices) or indirectly (derived from prices) on the market. In this case, the fair value is measured through a comparable approach or through the use of a pricing model that does not leave too large a margin of subjectivity and normally used by other financial operators.
- Level 3: significant inputs not observable on the market and/or complex pricing models. In this case, the *fair value* is determined on the assumption of future cash flows that could lead to different estimates for the same financial instrument between different valuers.

The Bank maximises the use of Level 1 market prices, or when not available, models with observable inputs (Level 2). In the case of Level 3 instruments, subjective parameters and judgements based on experience are used and consequently adjustments to the valuations may be made taking into account the bid-ask spread, liquidity or counterparty risk, as well as the type of valuation model adopted.

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

For assets and liabilities measured at *fair value* on a recurring basis, for which prices directly observable on active markets are not available, fair value is determined on the basis of valuation models or on the basis of prices observed for financial instruments with similar characteristics. These instruments are those belonging to *fair value* classes 2 and 3.

For the purposes of measuring the *fair value* of level 2 instruments, a model for discounting expected future cash flows is used, which makes use primarily of the risk-free curve (in its various forms, i.e. based on swap rates vs. Euribor 6 months or 3 months and other inputs) directly observable on the market.

In particular, in the case of instruments denominated in euros, three *risk-free* curves are concretely used: a curve for simple discounting (based in part on 3 months or on 3 months *Euribor futures*, in part on 6 months for medium-long maturities), 2 curves (one on 3 months and one on 6 months) for the calculation of *forwards* in securities with 3 months Euribor indexed rate or 6 months Euribor rate.

The discounting calculation also applies the *credit spread*, quantified on the basis of prices directly observable on the market (even if not on the stock exchange) and provided by external *contributors*. If no prices are available, it is quantified on the basis of comparables, i.e. by analogy with homogeneous securities in terms of duration and credit quality of the issuer, as well as the sector to which they belong.

The following table provides a summary of the main types of instruments in place, with evidence of the relative evaluation models and the main inputs:

Category of financial instruments	Product	Evaluation model	Input of evaluation models
Debt securities	Government securities, corporate bonds	Updating of expected flows using market parameters, corrected for issuer risk. In the case of structured securities, the optional component is also valued.	Interest rate curves, credit spreads communicated by contributors, credit spreads from comparables
Unquoted equity securities	Holding fees	Method of transactions observed directly on the same instrument or, in the absence thereof, on similar instruments. Alternatively method of market multiples of comparable companies. In the alternative, financial, revenue and equity valuation methods.	Price data provided by contributors, latest available budgets
Investments in UCIs	Hedge funds, private equity funds, real estate funds	NAV made available by the fund administrator or the management company.	n/a
OTC derivatives	Interest rate derivatives - SWAP	Discounting of expected cash flows	Interest rate curves
	Financial derivatives on interest rates - Cap-floor	Model of Black	Volatility matrices, risk free rates

Securities classified level 3 are typically structured securities; in the specific case of the portfolio owned by the institution, these are CMS indexed securities ("*constant maturity swaps*") or structured *inflation-linked* securities or securities for which the quantification of the credit spread is not practicable with the qualitative level mentioned above.
In the case of CMS securities, it should be noted that, in theory, the *forward* rates themselves would be directly observable on the market (implicit in the valuations): however, it is considered that the quality of these forward rates cannot be compared with the quality of the 3-month or 6-month Euribor rate forwards widely used by the market to price similar securities indexed to 3 or 6 months respectively.
In the pricing phase of CMS securities, accordingly, these forwards are used, despite the critical issues highlighted above, without the application of *convexity adjustment* and resorting for the rest (discounting curve and credit spread) to the same operating methods mentioned for Level 2 securities.
For structured *inflation-linked* securities indexed to the minimum Euribor and inflation, the forward curves for the Euribor and the forward inflation curves based on the inflation swap rate curve are used.
For level 3 securities, the credit spread is defined on a case-by-case basis by referring to any external contributions or by converting the results of the creditworthiness analysis based on the latest available Balance Sheets into *credit spreads*.
With reference to the calculation of the *Credit Value Adjustment* ("CVA"), it should be noted that the calculation determines the future credit exposure, taking into account the probability that in the future the current value of the contract, if positive, may increase or, if negative, may turn into a credit position. This probability is linked to the volatility of the underlying market factors and to the residual duration of the contract. Future credit exposure is determined with reference to all contracts, regardless of the portfolio to which they are allocated - with both positive and negative fair values - by multiplying the nominal value of each contract by a percentage determined on the basis of the type of contract and the residual duration of the transactions.
As at 31 December 2018, the exposure at default ("EAD") amounted to approximately euros 1.1 million. It refers to three contracts of which the most important is a plain vanilla swap (against 3-month Euribor), while the less important is an interest rate cap contract for only €20 million of notional amount
The *fair value* of real estate investments held for investment purposes is mainly determined by external valuations, the reference point for which is represented by current prices for similar assets (value per square metre, prices of similar transactions).
The *fair value* thus obtained is classified at level 3 in the *fair value* hierarchy.

A.4.2 Evaluation processes and sensitivity

The application of valuation techniques is carried out by the Investment Service (front office).
The Risk Management Service, hierarchically independent of the *front-office* function, performs a validation at least monthly of the prices expressed by the Investment Service using the interest rate curves and *fair value* valuations provided by the provider of external financial services.
The validation activity consists in the verification of the theoretical correctness of the chosen evaluation model as well as in the autonomous repricing of the single instruments.
The Risk Management Service also validates the newly introduced valuation models, also in relation to the acquisition of new financial instruments.
Among the tools used by the Risk Management Service is the ICVS function for the construction of risk-free curves. The Risk Management Service also validates, on a daily basis, the similar curves adopted by the Investment Service.
In addition, the BVAL (Bloomberg Valuation) tool is used to directly validate the prices themselves. These Bloomberg prices have the following characteristics:

- in the case of liquid securities, BVAL prices can be considered as a weighted average of the existing prices provided by the different *contributors* (in addition, of course, to the stock exchange itself, in the case of a security listed on a regulated market);
- in the cases in which the Stock is not liquid, Bloomberg provides to exploit the contained information in Stock of analogous characteristics, but liquid (and accordingly endowed with reliable prices), in order to correctly price the illiquid Stock. In fact, where existing, it uses the few “liquid” prices of the stock to compare the historical trend of the spread of the stock itself with the analogous of securities belonging to the same *peer group* (defined on a sectorial basis, duration and cds): by leveraging on simple linear regressions, it then reconstructs the spread and the price at the new date;
- when instead the security to be priced is completely, or almost, devoid of significant prices, then BVAL falls back on the direct use of credit proxies of the security to derive either a curved par coupon (using issues of identical creditworthiness) or a *spread curve* (using the data obtained in the previous step or, where possible, issues of the same issuer of the target security), with which then to price the bond.

In the presence of highly complex structured securities (e.g. “delta CMS”), in relation to which level 2 prices are not available (such as the prices offered by Bloomberg contributors), the Risk Management Service makes an estimate based on Monte Carlo simulations in order to provide adequate validation of these market values.
With regard to the sensitivity analysis to be carried out on the “not directly observable” inputs relating to the valuations of level 3 securities, given the above with regard to the CMS indexed securities and the small number of exposures to structured securities, sensitivity analyses were carried out on level 3 debt instruments issued by unlisted entities.
In the latter case, the impact of changes in the input not directly observable, represented by the issuer’s credit spread, is quantified (which for securities of more “liquid” issuers, on the contrary, can be determined with reasonable effectiveness by using similar securities or *comparables* directly observable on the market).

A.4.3 Fair Value Hierarchy

The main factors contributing to transfers between *fair value* levels include changes in market conditions, refinements in valuation models or unobservable inputs. The passage of an instrument from Level 1 to Level 2 and vice versa derives mainly from the loss of significance of the price expressed by the active market of reference for the instrument.
The degree of significance of the input data, in particular of the weight that the non-observable ones assume with respect to the observable ones, determines instead the passage from Level 2 to Level 3 or vice versa. No instruments were reclassified during the year.

A.4.4 Other information

At 31 December 2018, in relation to the requirements of IFRS 13, paragraphs 51, 93 (i) and 96, the following should be noted:

- recurring and non-recurring fair value valuations on the basis of maximum and best use relate to certain properties acquired and for which the Bank has not yet begun operations because, as a rule, the relative planning and operational valuations are still in progress;
- the possibility of measuring fair value at the level of total portfolio exposure was not used, in order to take into account the offsetting of credit risk and market risk of a given group of financial assets or liabilities.

QUANTITATIVE INFORMATION

A.4.5 Fair Value Hierarchy

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

(thousands of euro)		31.12.2018			31.12.2017	
Financial assets/liabilities measured at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets currency at fair value through profit or loss						
a) financial assets held for trading	2,253	1,004	1	202	11,194	99
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets that must be measured at fair value	5	238,452	48,307	-	168,760	18,811
2. Financial assets at fair value with impact on total revenue	506,068	313,099	9,977	725,664	254,545	24,204
3. Hedging derivatives	-	-	-	-	-	-
4. Tangible fixed assets	-	-	-	-	-	-
5. Intangible fixed assets	-	-	-	-	-	-
Total	**508,326**	**552,555**	**58,285**	**725,866**	**434,499**	**43,114**
1. Financial liabilities held for trading	259	1,170	-	531	1,499	-
2. Financial liabilities designated at fair value	-	-	-	-	1,050	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**259**	**1,170**	**-**	**531**	**2,549**	**-**

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

Financial assets measured at fair value on a recurring basis

Financial assets valued on the basis of prices derived from active markets (Level 1) or determined on the basis of observable market parameters (Level 2) represent 94.8% of the carrying amount of financial assets measured at fair value on a recurring basis.
Instruments measured significantly on the basis of parameters that cannot be observed on the market (Level 3) represent a marginal share, equal to 5.2%, of total assets measured at *fair value*e on a recurring basis, and are represented by a limited number of minority equity investments measured on the basis of internal models classified as financial assets measured at fair value with an impact on total revenue and by loans classified at fair value with an impact on the Profit and Loss Account that have not passed the SPPI test, for which *fair value* is measured using internal models.
Financial assets held for trading consist mainly of debt securities held for trading; these are over-the-counter (OTC) contracts whose valuation is carried out using valuation models that significantly use parameters that can be observed on the market or drawn from independent sources (Level 2). Only a residual part is calculated using models that make limited use of market parameters (Level 3).

Financial liabilities measured at fair value on a recurring basis

Financial liabilities held for trading are represented by derivative instruments mainly for trading purposes, the *fair value* of which is obtained through valuation techniques that significantly use observable market parameters (Level 2).

Transfers between fair value levels (Level 1 and Level 2)

No transfers of assets or liabilities measured at fair value from level 2 to level 1 or transfers of financial assets or liabilities measured at fair value from level 1 to level 2 were recorded in 2018.

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

		Financial assets measured at fair value with impact in the Profit and Loss Account							
		Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets that must be measured at fair value	**Financial assets at fair value with impact on total revenue**	**Hedging deriva-tives**	**Tangible fixed assets**	**Activities immate-rial**
(thousands of euro)									
1.	**Opening balance**	**64,473**	**-**	**-**	**64,473**	**11,360**	**-**	**-**	**-**
2.	**Increases**	**5,199**	**6**	**-**	**5,193**	**1,306**	**-**	**-**	**-**
2,1	Purchasing	303	-	-	303	-	-	-	-
2,2	Profits attributed to:	2,834	1	-	2,833	-	-	-	-
2.2.1	Profit and Loss Account	2,834	1	-	2,833	-	-	-	-
	- of which capital gains	2,834	1	-	2,833	-	-	-	-
2.2.2	Equity	-	X	X	X	-	-	-	-
2.3	Transfers from other levels	-	-	-	-	-	-	-	-
2.4	Other increases	2,062	5	-	2,057	1,306	-	-	-
3.	**Decreases**	**21,364**	**5**	**-**	**21,359**	**2,689**	**-**	**-**	**-**
3.1	Sales	3,905	5	-	3,900	28	-	-	-
3.2	Refunds	456	-	-	456	1,253	-	-	-
3.3	Losses attributed to:	4,697	-	-	4,697	259	-	-	-
3.3.1	Profit and Loss Account	4,697	-	-	4,697	-	-	-	-
	- of which capital losses	4,697	-	-	4,697	-	-	-	-
3.3.2	Equity	-	X	X	X	259	-	-	-
3.4	Transfers to other levels	-	-	-	-	-	-	-	-
3.5	Other decreases	12,306	-	-	12,306	1,149	-	-	-
4.	**Closing balance**	**48,308**	**1**	**-**	**48,307**	**9,977**	**-**	**-**	**-**

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

At the Balance Sheet date, there were no financial liabilities measured at fair value level 3 on a recurring basis.

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

(thousands of euro)	31.12.2018				31.12.2017			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets valued at amortised cost	8,488,829	1,104,516	84,716	7,764,386	7,793,090	772,673	7,385,105	543
2. Tangible assets held for investment purposes	13,769	-	-	-	8,890	-	-	-
3. Non-current assets and disposal groups held for sale	12,923	-	-	12,923	-	-	-	-
Total	**8,515,521**	**1,104,516**	**84,716**	**7,777,309**	**7,801,980**	**772,673**	**7,385,105**	**543**
1. Financial liabilities valued at amortised cost	9,101,607	-	567,461	7,999,729	8,501,056	-	7,953,639	13,376
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**9,101,607**	**-**	**567,461**	**7,999,729**	**8,501,056**	**-**	**7,953,639**	**13,376**

Legend		
VB	=	Book value
L1	=	Level 1
L2	=	Level 2
L3	=	Level 3

Assets and liabilities not valued at fair value

For "Non-current assets held for sale and disposal groups held for sale" and "Liabilities associated with assets held for sale", the *fair value* should be indicated only in cases where the amount of the valuation corresponds to the *fair value* or the fair value net of costs of sale (as it is lower than the cost).

Assets and liabilities measured at fair value on a non-recurring basis

For "Non-current assets held for sale and disposal groups held for sale" and "Liabilities associated with assets held for sale", the *fair value* should be indicated only in cases where the amount of the valuation corresponds to the fair value or the fair value net of costs of sale (as it is lower than the cost).
It should be noted that at 31 December 2018 there were assets measured at fair value on a non-recurring basis amounting to €12.9 million, relating to properties acquired as part of foreclosure transactions.
At 31 December 2018 there were no liabilities measured at fair value on a non-recurring basis.

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

On the basis of IFRS 7, paragraph 28, it is necessary to provide evidence of the amount of the "*Day One Profit or Loss*" recorded in the Profit and Loss Account as at 31 December 2018, as well as a reconciliation with the initial balance. Day One Profit or Loss" means the difference between the fair value of a financial instrument acquired or issued at the time of initial recognition (transaction price) and the amount determined at that date using a valuation technique.
In this regard, it should be noted that there are no cases that should be disclosed in this section.

PART B INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: composition

(€ thousands)		31.12.2018	31.12.2017
a)	Cash	83,018	71,359
b)	Free deposits with central banks	-	-
	Total	**83,018**	**71,359**

This item consists of cash and cash equivalents.

Section 2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 20

2.1 Financial assets held for trading: composition by type

(€ thousands)		31.12.2018			31.12.2017		
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A.	**Cash assets**						
	1. Debt securities	2,079	964	1	-	8,196	91
	1.1 Structured Securities	-	-	1	-	608	-
	1.2 Other debt securities	2,079	964	-	-	7,588	91
	2. Equity securities	-	-	-	-	-	-
	3. UCITS units	-	-	-	-	27	8
	4. Loans	-	-	-	-	-	-
	4.1 Repurchase agreements	-	-	-	-	-	-
	4.2 Other	-	-	-	-	-	-
	Total A	**2,079**	**964**	**1**	**-**	**8,223**	**99**
B.	**Derivative instruments**						
	1. Financial derivatives	174	40	-	202	2,971	-
	1.1 held for trading	174	40	-	202	108	-
	1.2 related to the fair value option	-	-	-	-	2,863	-
	1.3 other	-	-	-	-	-	-
	2. Credit derivatives	-	-	-	-	-	-
	2.1 held for trading	-	-	-	-	-	-
	2.2 related to the fair value option	-	-	-	-	-	-
	2.3 other	-	-	-	-	-	-
	Total B	**174**	**40**	**-**	**202**	**2,971**	**-**
	Total (A+B)	**2,253**	**1,004**	**1**	**202**	**11,194**	**99**

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

(€ thousands)	31.12.2018	31.12.2017
A. CASH ASSETS		
1. Debt securities	**3,044**	**8,287**
a) Central Banks	-	-
b) Public Administrations	2,079	
c) Banks	964	608
d) Other finance companies	-	-
of which: insurance companies	-	-
e) Non-finance companies	1	7,679
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other finance companies:	-	-
of which: insurance companies	-	-
c) Non-finance companies	-	-
d) Other issuers	-	-
3. UCITS units	**-**	**35**
4. Loans	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other finance companies	-	-
of which: insurance companies	-	-
e) Non-finance companies	-	-
f) Households	-	-
Total A	**3,044**	**8,322**
B. DERIVATIVE INSTRUMENTS		
a) Banks	-	3,010
b) Other	214	163
Total B	**214**	**3,173**
Total (A+B)	**3,258**	**11,495**

2.3 Financial assets designated at fair value: composition by type

At the reporting date there were no financial assets designated at *fair value*.

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

At the reporting date there were no financial assets designated at *fair value*.

2.5 Other financial assets compulsorily measured at fair value: composition by type

(€ thousands)	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured securities	-	-		-	-	-
1.2 Other debt securities	-	-	487	-	-	-
2. Equity securities	**4**	**7,802**	**-**	**-**	**18,811**	**-**
3. UCITS units	**-**	**47,880**	**8**	**-**	**-**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	182,771	47,812	-	168,760	-
Total A	**4**	**238,453**	**48,307**	**-**	**187,571**	**-**

2.6 Other financial assets compulsorily measured at fair value: composition by borrower/issuer

(€ thousands)	31.12.2018	31.12.2017
1. Equity securities	**7,806**	**18,811**
of which: banks	7,806	9,647
of which: other finance companies	-	2,920
of which: non-finance companies	-	6,244
2. Debt securities	**487**	**-**
a) Central banks	-	-
b) Public administrations:	-	-
c) Banks	-	-
d) Other finance companies	487	-
- of which: insurance companies	-	-
e) Non-finance companies	-	-
3. UCITS units	**47,888**	**-**
4. Loans	**230,583**	**168,760**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other finance companies	182,771	168,760
- of which: insurance companies	182,771	168,760
e) Non-finance companies	47,210	-
f) Households	602	-
Total	**286,764**	**187,571**

Section 3 FINANCIAL ASSETS AT FAIR VALUE WITH AN IMPACT ON COMPREHENSIVE INCOME – ITEM 30

3.1 Financial assets measured at fair value with impact on overall profitability: composition by type

(€ thousands)	31.12.2018			31.12.2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**453,439**	**313,100**	**511**	**725,664**	**233,257**	**1,892**
1.1 Structured securities	-	62,473	–	-	19,921	-
1.2 Other debt securities	453,439	250,627	511	725,664	213,336	1,892
2. Equity securities	**52,629**	**-**	**9,465**	**-**	**43,600**	**-**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**506,068**	**313,100**	**9,976**	**725,664**	**276,857**	**1,892**

3.2 Financial assets at fair value with an impact on comprehensive income: composition by borrower/issuer

(€ thousands)	31.12.2018	31.12.2017
1. Debt securities	**767,051**	**960,566**
a) Central Banks	-	730,755
b) Public administrations	458,457	71
c) Banks	191,190	203,178
d) Other finance companies	65,472	13,492
- of which: insurance companies	-	-
d) Non-finance companies	51,932	13,070
2. Equity securities	**62,093**	**43,847**
a) Banks	6,206	-
b) Other issuers:	55,887	43,847
- other finance companies	11,258	20,117
of which insurance companies	5,840	-
- Non-finance companies	44,629	-
- other	-	23,730
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other finance companies	-	-
- of which insurance companies	-	-
e) Non-finance companies	-	-
f) Households	-	-
Total	**829,144**	**1,004,413**

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

	Gross value				Total value adjustments			
	First stage	of which: instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	**Partial Write-offs total**
(€ thousands)								
Debt securities	767,051	-	-	-	1,340	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31.12.2018	**767,051**	**-**	**-**	**-**	**1,340**	**-**	**-**	**-**
Total 31.12.2017	**1,004,413**							
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

Section 4 FINANCIAL ASSETS MEASURED AT AMORTISED COST – ITEM 40

4.1 Financial assets measured at amortised cost: composition of loans to banks by type

	Total 31.12.2018						Total 31.12.2017					
	Book value			Fair value			Book value			Fair value		
Transaction Type/Values	First and Second Stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and Second Stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
(€ thousands)												
A. Loans to central banks	44,984	-	-	-	44,984	-	104,016	-	-	-	104,016	-
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	44,984	-	-	X	X	X	104,016	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	38,375	-	-	-	34,534	49,024	5,730	-	-	-	5,730	-
1. Loans	3,945	-	-			49,024	5,730	-	-			
1.1. Current accounts and demand deposits	2,049	-	-	X	X	X	3,990			X	X	X
1.2. Term deposits	50	-	-	X	X	X	50			X	X	X
1.3. Other loans:	1,846	-	-	X	X	X	1,690	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Financial leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	1,846	-	-	X	X	X	1,690			X	X	X
2. Debt securities	34,430	-	-	-	34,534	-	-	-	-	-	-	-
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	34,430	-	-	-	34,534	-	-	-	-	-	-	-
Total	83,359	-	-	-	79,518	49,024	109,746	-	-	-	109,746	-

Key		
FV	=	Fair value
BV	=	Book value
L1	=	Level 1
L2	=	Level 2
L3	=	Level 3

The item "Debt securities – other securities" mainly consists of BTP and CCT.

4.2 Financial assets measured at amortised cost: composition of loans to customers by type

Transaction Type/Values	Total 31.12.2018						Total 31.12.2017					
	Book value			Fair value			Book value			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and Second Stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
(€ thousands)												
1. Loans	**6,769,704**	**370,807**	**46**	**-**	**-**	**7,627,966**	**6,250,468**	**542,484**	**-**	**-**	**7,209,045**	**-**
1.1. Current accounts	1,163,272	146,711	46	X	X	X	1,115,427	243,622	-	X	X	X
1.2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	5,001,315	218,817	-	X	X	X	4,557,738	278,709	-	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	117,338	2,528	-	X	X	X	115,677	2,817	-	X	X	X
1.5. Financial leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	487,779	2,751	-	X	X	X	461,626	17,336	-	X	X	X
2. Debt securities	**1,264,959**	**-**	**-**	**1,104,516**	**50,181**	**87,396**	**890,392**	**-**	**-**	**-**	**-**	**-**
2.1. Structured securities	7,183	-	-	-	-	7,203	-	-	-			
2.2. Other debt securities	1,257,776	-	-	1,104,516	50,181	80,193	890,392	-	-			
Total	**8,034,663**	**370,807**	**46**	**1,104,516**	**50,181**	**7,715,362**	**7,140,860**	**542,484**	**-**	**-**	**7,209,045**	**-**

4.3 *Finance leases*

4.4 *Financial assets measured at amortised cost: composition of loans to customers by borrower/ issuer*

	Total 31.12.2018			Total 31.12.2017		
Transaction Type/Values	First and Second Stage	Third stage	of which: impaired acquired or originated	First and Second Stage	Third stage	of which: impaired acquired or originated
(€ thousands)						
1. Debt securities	**1,264,959**	**-**	**-**	**890,400**	**-**	**-**
a) Public administrations	1,125,754	-	-	757,693	-	-
b) Other finance companies	40,377	-	-	65,279	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-finance companies	98,828	-	-	67,428	-	-
2. Loans to:	**6,769,705**	**370,806**	**46**	**6,250,468**	**542,484**	**-**
a) Public administrations	26,828	-	-	34,488	-	-
b) Other finance companies	112,664	21,144	-	134,175	3,358	-
of which: insurance companies	121	-	-	130	-	-
c) Non-finance companies	3,604,361	245,701	46	3,733,792	427,464	-
d) Households	3,025,852	103,961	-	2,348,013	111,662	-
Total	**8,034,664**	**370,806**	**46**	**7,140,868**	**542,484**	**-**

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

	Gross value				Total value adjustments			
	First stage	of which: instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	**Total partial Write-offs**
(€ thousands)								
Debt securities	1,301,928	-	-	-	2,538	-	-	-
Loans	6,205,753	-	673,698	662,550	28,910	31,908	291,744	19,598
Total 31.12.2018	**7,507,681**	**-**	**673,698**	**662,550**	**31,448**	**31,908**	**291,744**	**19,598**
Total 31.12.2017	**7,299,162**	**-**	**-**	**959,518**	**48,557**	**-**	**417,033**	**6,773**
of which: financial assets impaired acquired or originated	X	X	-	201	X	-	156	-

Section 5 HEDGING DERIVATIVES – ITEM 50

5.1 Hedging derivatives: composition by type of hedge and levels

There were no hedging derivatives at the reporting date.

5.2 Hedging derivatives: composition by hedged portfolios and by type of hedge

There were no hedging derivatives at the reporting date.

Section 6 VALUE ADJUSTMENT OF FINANCIAL ASSETS SUBJECT TO MACRO HEDGING – ITEM 60

6.1 Adjustments in value of the hedged assets: composition by hedged portfolios

At the reporting date there were no financial assets subject to macro hedging.

Section 7 SHAREHOLDINGS – ITEM 70

7.1 Equity investments: information on shareholdings

Name	Location	% shareholding	% votes available
A. Wholly controlled subsidiaries			
1. Voba Invest S.r.l. in liquidation	Bolzano	100.00%	100.00%
2. Valpolyella Alta Società Agricola S.r.l.	Bolzano	100.00%	100.00%
3. Quartiere Brizzi S.r.l.	Bolzano	100.00%	100.00%
B. Jointly controlled subsidiaries			
C. Companies subject to significant influence			
1. Casa cure Villa S. Anna S.r.l.	Merano	35.00%	35.00%
2. Three S.r.l.	Trento	30.00%	30.00%

7.2 Significant equity investments: book value, fair value and dividends

The company had no significant interests at the reporting date.

7.3 Significant equity investments: accounting information

The company had no significant interests at the reporting date.

7.4 Non-significant equity investments: accounting information

Name	Book value of the equity invest-ments	Total assets	Total liabilities	Total revenues	Profit (loss) from current operations after tax	Profit (Loss) of groups of assets held for sale after tax	Profit (Loss) for the year (1)	Other income components after tax (2)	Overall profitability (3) = (1)+(2)
(€ thousands)									
A. Wholly controlled subsidiaries									
1. Voba Invest S.r.l. in liquidation	2,078	2,191	113	123	(37)	-	(37)	-	(37)
2. Valpolyella Alta Società Agricola S.r.l.	2,830	4,387	4,482	261	(117)	-	(117)	-	(117)
3. Quartiere Brizzi S.r.l. (*)	-	6,031	5,795	499	(119)	-	(119)		(119)
B. Jointly controlled subsidiaries									
C. Companies subject to significant influence									
1. Casa di cura Villa S. Anna (*)	672	7,549	5,414	6,029	522	-	522	-	522
2. Three S.r.l. (*)	165	367	285	1	(2)	-	(2)	-	(2)

(*) The data on the investee companies refers to the last available financial statements.

7.5 Equity investments: annual changes

(€ thousands)	31.12.2018	31.12.2017
A. Opening balances	**5,793**	**6,913**
B. Increases	**123**	**38**
B.1 Purchasing	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	123	38
C. Decreases	**171**	**1,158**
C.1 Sales	-	-
C.2 Value adjustments	-	-
C.3 Write-downs	-	-
C.4 Other changes	171	1,158
D. Closing inventories	**5,745**	**5,793**
E. Total revaluations	**-**	**-**
F. Total adjustments	**-**	**-**

Items B.4 and C.4 "Other changes" are due to changes in the value of equity investments as a result of profits or losses recorded by investee companies and recognised in the net assets.

Results of impairment tests on equity investments
As described in "Part A – Accounting policies", equity investments are tested for impairment in order to assess the recoverability of the book value indicated in the financial statements.
In identifying signs of potential impairment, particular significance was attributed to the analysis of financial performance after the date of acquisition of control and, where available, the outlook for future income.
To reveal any situations of impairment, the book value of the investment was compared with its recoverable amount. According to IAS 36, the recoverable amount consists of the higher between fair value net of selling costs and the value in use.

On the basis of the above, the impairment test on the values as at 31 December 2018 did not determine a need to make value adjustments.

7.6 Commitments to equity investment in joint ventures

At the reporting date there were no commitments to equity investments in joint ventures.

7.7 Commitments to invest in companies subject to significant influence

At the reporting date there were no commitments to invest in companies subject to significant influence.

7.8 Significant restrictions

On the reporting date, there were no significant restrictions on equity investments.

7.9 Other information

For most equity investments, the closing times of the year-end financial statements are not compatible with the closing times of Volksbank's financial statements. The application of the equity method refers to the latest available accounting report, consisting in most cases of the half-yearly financial report or, if not available, by the financial statements for the previous year.
If the accounting reports of the investee company used in the application of the equity method refer to a date other than the date of reference of the Volksbank financial statements, any adjustments made take into account the known effects of significant transactions or events that occurred between the date of the accounting statement and the date of reference of the financial statements.

Section 8 PHYSICAL ASSETS – ITEM 80

8.1 *Physical assets for functional use: composition of assets measured at cost*

	(€ thousands)	31.12.2018	31.12.2017
1	**Owned assets**	**123,512**	**131,689**
	a) Land	34,949	37,205
	b) Buildings	77,956	83,199
	c) Furniture	2,404	2,435
	d) Electronic equipment	5,251	5,876
	e) Other	2,952	2,974
2	**Assets acquired under finance leases**	**-**	**-**
	a) Land	-	-
	b) Buildings	-	-
	c) Furniture	-	-
	d) Electronic equipment	-	-
	e) Other	-	-
	Total	**123,512**	**131,689**

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

At the reporting date, as in the previous year, there were no hedging derivatives

Activity/Values		Total 31.12.2018				Total 31.12.2017			
(€ thousands)		BV	L1	L2	L3	BV	L1	L2	L3
1.	Owned assets	12,453	-	-	-	7,888	-	-	-
	a) Land	1,239				1,239			
	b) Buildings	11,214				6,649			
2.	Assets acquired under finance leases	-	-	-	-	-	-	-	-
	a) Land	-	-	-	-	-	-	-	-
	b) Buildings	-	-	-	-	-	-	-	-
	Total	**12,453**	**-**	**-**	**-**	**7,888**	**-**	**-**	**-**
	of which: obtained through enforcement of guarantees received	-	-	-	-	-	-	-	-

8.3 *Physical assets for functional use: composition of revalued assets*

At the reporting date there were no revalued physical assets for functional use.

8.4 *Physical assets held for investment purposes: composition of assets measured at fair value*

There were no tangible assets held for investment purposes at fair value fair value.

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

At the reporting date there were no inventories of physical assets subject to IAS 2.

8.6 Physical assets for functional use: annual changes

(€ thousands)		Land	Buildings	Furniture	Electronic equipment	Other	Total
A.	**Gross opening balances**	**37,205**	**127,939**	**43,165**	**35,463**	**43,678**	**287,450**
	A.1 Total net impairment losses	-	44,740	40,730	29,587	40,704	155,761
	A.2 Net opening balances	37,205	83,199	2,435	5,876	2,974	131,689
B.	**Increases:**	**256**	**603**	**386**	**1,225**	**1,012**	**3,482**
	B.1 Purchasing	68	273	386	1,225	1,012	2,964
	B.2 Capitalised improvement costs	188	330	-	-	-	518
	B.3 Write-backs	-	-	-	-	-	-
	B.4 Fair value gains recognised in:	-	-	-	-	-	-
	a) Shareholders' equity	-	-	-	-	-	-
	b) Income statement	-	-	-	-	-	-
	B.5 Exchange rate gains	-	-	-	-	-	-
	B.6 Transfers from properties held for investment purposes	-	-	X	X	X	-
	B.7 Other changes	-	-	-	-	-	-
C.	**Decreases**	**2,512**	**5,846**	**417**	**1,850**	**1,034**	**11,659**
	C.1 Sales	2,512	2,018	6	-	17	4,553
	C.2 Amortisation	-	3,828	411	1,850	1,017	7,106
	C.3 Impairment losses recognised in:	-	-	-	-	-	-
	a) shareholders' equity	-	-	-	-	-	-
	b) income statement	-	-	-	-	-	-
	C.4 Fair value losses recognised in:	-	-	-	-	-	-
	a) shareholders' equity	-	-	-	-	-	-
	b) income statement	-	-	-	-	-	-
	C.5 Exchange rate losses	-	-	-	-	-	-
	C.6 Transfers to:	-	-	-	-	-	-
	a) tangible assets held for investment purposes	-	-	X	X	X	-
	b) assets held for sale	-	-	-	-	-	-
	C.7 Other changes	-	-	-	-	-	-
D.	**Net final inventories**	**34,949**	**77,956**	**2,404**	**5,251**	**2,952**	**123,512**
	D.1 Total net impairment losses	-	45,944	40,637	30,977	39,543	157,101
	D.2 Gross closing balances	**34,949**	**123,900**	**43,041**	**36,228**	**42,495**	**280,613**
E.	Valuation at cost	-	-	-	-	-	-

8.7 Physical assets held for investment purposes: annual changes

(€ thousands)		Land	Buildings
A.	**Opening balances**	**1,239**	**6,649**
B.	**Increases:**	**-**	**8,525**
	B.1 Purchasing	-	8,500
	B.2 Capitalised improvement costs	-	25
	B.3 Fair value gains	-	-
	B.4 Write-backs	-	-
	B.5 Exchange rate gains	-	-
	B.6 Transfers from properties for functional use	-	-
	B.7 Other changes	-	-
C.	**Decreases**	**-**	**3,960**
	C.1 Sales	-	-
	C.2 Amortisation	-	310
	C.3 Negative changes in fair value	-	-
	C.4 Impairment losses	-	3,650
	C.5 Negative foreign exchange differences	-	-
	C.6 Transfers to other asset portfolios	-	-
	a) properties for functional use	-	-
	b) Non-current assets held for sale	-	-
	C.7 Other changes	-	-
D.	**Closing inventories**	**1,239**	**11,214**
E.	**Measurement at fair value**	**-**	**-**

8.8 Commitments to acquire physical assets (IAS 16/74.c)

There were no commitments at the reporting date for the purchase of physical assets.

Section 9 INTANGIBLE ASSETS – ITEM 90

9.1 Intangible assets: composition by type of asset

(€ thousands)	31.12.2018		31.12.2017	
	Defined duration	Indefinite duration	Defined duration	Indefinite duration
A.1 Goodwill	X	99,602	X	99,602
A.2 Other intangible assets	19,129	-	19,612	-
A.2.1 Assets measured at cost:	19,129	-	19,612	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	19,129	-	19,612	-
A.2.2 Liabilities measured at fair value	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**19,129**	**99,602**	**19,612**	**99,602**

Information on intangible assets and goodwill

The application of IFRS 3 to accounting of acquisition transactions may entail the recognition in the financial statements of intangible assets and goodwill. For Volksbank, the acquisition on 25 February 2008 of the business unit consisting of 6 branches of the Banca Intesa Group as well as the merger by incorporation on 1 April 2015 of the Banca Popolare di Marostica Group entailed the accounting recognition of intangible assets and goodwill.
The following table summarises the values of intangible assets and goodwill recognised in the financial statements with the relevant changes during the year, broken down by Cash Generating Unit (CGU).

CGU	31.12.2017	Depreciation	Other var.	31.12.2018
(€ thousands)				
Ex Gruppo Popolare Marostica customer relationship	19,415	(972)	-	18,443
Goodwill	99,601	-	-	99,601
Other	197	(191)	681	687
Total	**119,213**	**(1,163)**	**681**	**118,731**

In respect of intangible assets with a finite useful life, consisting of customer relations and software, the amortisation charges for the year were charged to the income statement (included in item "210. Net adjustments/write-backs on intangible assets") for a total amount of €1.2 million gross of the tax effect. In particular, it should be noted that the client relationship identified as part of the incorporation of the Banca Popolare di Marostica Group was amortised over a period of 22 years.
IAS 36 stipulates that, at least once a year, intangible assets with an indefinite useful life and goodwill are tested for impairment. In addition, for intangible assets with a definite useful life, an impairment test must be performed whenever loss indicators are detected. Impairment testing is designed to determine whether the recoverable amount is equal to or greater than the book value. IAS 36 specifies that the recoverable amount is represented by the greater of the value in use and fair value, net of selling costs.
IAS 36 also states that, when determining the value in use of the intangible assets subject to impairment verification, reference should be made to the cash flows relating to the intangible in its current conditions as recognized at the impairment date, without distinguishing between the cash flows relating to the asset originally recognised when applying

IFRS 3 and those relating to the assets existing at the time of impairment test, as it would be difficult, especially in the case of extraordinary business transactions or asset changes following a significant turnover of the assets, customers, contracts, etc., to distinguish the flows relating to the original asset from the others.
This concept can also be replicated for the purposes of determining, for the purposes of impairment tests of goodwill, the Value in Use of CGUs, the cash flows of which are to be considered with reference to all assets and liabilities included in the CGU, and not only for assets and liabilities for which goodwill has been recognised when applying IFRS 3.
In the case of the impairment tests for the 2018 financial statements, as in the case of previous financial statements, in view of the volatility of the financial markets and the values that they may represent, reference was made to values in use in determining the recoverable amount.
Finally, it should be noted that the methodologies and assumptions underlying the impairment test procedure for intangible assets and goodwill defined by management were approved by the Board of Directors prior to the approval of the draft 2018 financial statements.

Verification of the existence of impairment losses (impairment test) of goodwill

Identification of Cash Generating Unit (CGU)

For Volksbank, the only intangible asset with an indefinite useful life is goodwill, which generates no cash except in combination with all other company assets. As mentioned above, the impairment test was conducted, as permitted by IAS 36, by estimating the value in use.
Firstly, the Cash Generating Unit was identified. In the IAS 36 definition, it is a organisational unit that is relatively autonomous in terms of management, capable of generating cash flows that are essentially independent of those produced by other areas of operation, but interdependent within the organisational unit that generates them.
IAS 36 specifies that impairment testing of goodwill requires identification of the level of management reporting that company management uses to identify government actions and to monitor the trend in results. Accordingly, the definition of the reporting level that is significant for the purposes of impairment testing depends on the organisational structure that is relevant the allocation of management responsibilities within the defined guidelines for operating the activity and the consequent monitoring.
In accordance with the approach adopted for the recognition of goodwill, the recoverable amount for the purposes of impairment testing includes the exploitation of all synergies that Volksbank will obtain from the integration of the assets acquired in the *business* combinations that generated the goodwill.
The Volksbank's management organisational and governance model provides that:

- management decisions are highly centralised in the general management;
- strategies, the identification of new products or services and commercial initiatives are centrally designed and directed, and applied equally by all the territorial commercial structures;
- the management of financial risks is highly centralised, ensuring consistency between the capital allocation policies and financial risks assumed at the company level;
- there are no operating divisions or separate operating segments for homogeneous markets or sectors or for homogeneous economic and developmental characteristics.

Due to its significantly centralised structure, revenue flows are governed by corporate policies formulated at a central level to reflect the balanced development of the entire entity that makes up the Bank.
In addition, the individual corporate departments (Loans, Workout, Operations, Finance, Human Resources, Corporate Commercial and Retail Commercial) have financial flows that are strictly dependent on the policies formulated by corporate management and the Board of Directors. These policies are defined and implemented on the basis of a single management plan, inspired by centralised governance, which is designed to ensure functional and balanced growth across all individual structures and promotes the growth of the company as a whole. Business development strategies, the identification and development of new products and services, processes for defining the limits of financial risk, and the planning and execution of commercial initiatives are centrally designed and directed. Commercial departments are

responsible for channelling the initiatives defined in this manner to their respective network structures and implementing them in specific territorial settings.
As a result, corporate governance is unified, based on an integrated and unified system for activating governance and control processes and monitoring the results obtained, and therefore the CGU of reference, to which goodwill is allocated, consists of the entire banking business.

Criteria for estimation of Value in Use

As is well known, valuations for financial statement purposes, particularly when they express entity-specific valuations, as in the case of value in use, are conventional valuations in the sense that they are in line with accounting standards. Therefore, value in use, as determined for the purposes of goodwill impairment testing, differs both from the value configuration of "*fair value*" and from other value configurations. Value in use is identified by IAS 36 as the present value of the cash flows expected of the asset.
The value in use of the CGU was determined by estimating the present value of future cash flows expected to be generated by the CGU. These cash flows were estimated using the most recent and available business plan, approved by the Board of Directors in the second half of the year. Therefore, the development of estimation methodology is based and relies on the assumption that the business plan reflects realistic assumptions as to the business prospects of the banking operation.
The analytical forecasting period adopted runs over a five-year period. The flow of the last year analytical forecasting is projected into perpetuity using an appropriate "g" growth rate for the purposes of determining the terminal value.
When determining value in use, cash flows must be discounted at a rate that reflects the current valuations of the time value of the money and the specific risks of the asset. In particular, the discount rates incorporate current market values with reference to the *risk free* component and the risk premium related to the equity component observed over a sufficiently long period to reflect market conditions and differentiated economic cycles, and against an observable sample of comparable listed banks.

Estimation of cash flows

Financial matrix valuation criteria, such as those used to estimate value in use, provide that the value of a company at the end of the analytical flow forecasting period (the so-called "terminal value") is generally determined by capitalising infinitely, at an appropriate "g" rate, the cash flow that can be obtained "at full capacity".
In order to develop the method, a minimum level of prudential requirements were assumed, determined on the basis, *inter alia*, of the minimum SREP requirements indicated by the Supervisory Board.
With respect to the impairment test at 31 December 2018, which was in line with impairment tests in previous years, the expected long-term growth rate was determined as the value corresponding to expected long-term inflation.
In particular, with regard to the estimation of cash flows, a two-stage approach was adopted:

- An explicit period 2019 - 2023, on the basis of the Strategic Plan approved by the Board of Directors on 22 December 2018, and according to the minimum level of capitalisation ("Minimum Capital") required to ensure the operability of the banking business.
- A terminal value estimated on the basis of a sustainable dividend for years after the explicit planning period. The sustainable dividend was estimated from the result expected in 2023.

The expected profit for the years 2019-2023 was adjusted to take account of the difference between the net assets underlying projections and net assets calculated on the basis of the distribution/notional capital increase of the excess/deficit capital, arising from the notional minimum capital required for valuation purposes.
Dividends potentially distributable over the explicit projection period were estimated considering:

- The projections for the period 2019-2023 contained in the Strategic Plan;
- the minimum capitalisation requirements with effect from 1 January 2019, assumed to be constant along the projection horizon, announced in the SREP decision of the Bank of Italy dated 27 July 2018: a CET 1 ratio of 7.70%, a Tier 1 ratio of 9.44% and a Total Capital ratio of 11.75%.

The discount rates of the flows

When determining the value in use, cash flows must be discounted at a rate that reflects the current market valuations, the time value of the money and the specific risks of the asset.
In practice, current market conditions require all parameters to be determined on the basis of the most up-to-date information available at the valuation date, for a better consideration of current market valuations.
The long-term perspective of flows used in estimating the value in use is particularly important. In fact, goodwill by definition has an indefinite useful life and therefore the expected cash flows of goodwill are normally projected in perpetuity. The long-term perspective must therefore be reflected in all of the parameters of the discount rate by appropriately selecting of each of them so that they express "normal" long-term conditions.
In the specific case of a banking company, the discount rate, is estimated considering the cost of equity capital (Ke), in a manner consistent with a method of determining flows that, as already noted, includes flows from financial assets and liabilities. In established practice, it is determined using the Capital Asset Pricing Model (CAPM). On the basis of this model, the cost of capital is determined as the sum of the return on risk-free investments and a risk premium, which in turn is dependent on the specific risk level of the asset (understood as both the risk level of the business segment - in the case of the banking sector - and the risk level represented by country risk).
The cost of capital is determined net of taxes, to be consistent with the discounted cash flows.
Because financial flows were determined in nominal terms, discount rates were also determined in nominal terms, i.e. incorporating inflation expectations.
The cost of equity capital, assumed to be 9.56% at 31 December 2018, was estimated according to the following parameters:

- A risk free rate of 2.60% (annual average gross return of BTP over 10 years);
- Beta of 1.27 (average coefficient determined from a sample of comparable companies measured on the basis of weekly observations over 5 years);
- A market risk premium of 5.50% (in line with the most widespread valuation practice on the Italian market).

The following table summarises the relevant parameters for determining value in use.

Goodwill CGU	Risk free	Beta	Risk prem.	Ke	G
31.12.2018	2.60%	1.27	5.5%	9.56%	1.5%
31.12.2017	2.08%	1.35	5.1%	8.95%	1.5%

The results of the impairment test

The results of the impairment test showed that at 31 December 2018, as at 31 December 2017, the value in use of the goodwill CGU was higher than the respective book values. Therefore no write-down was necessary.
The values in use determined for the purposes of impairment testing are higher than the values recorded on the HI-MTF share trading platform. It should be noted in this respect that, in any case, the "fundamental" type of valuation, determined on the date of reference and developed according to the economic benefits offered by the activity and the attendant risks, represented by its value in use, has characteristics that differentiate it from other valuations, such as those designed to determine fair value and the valuations expressed by the market.
Parameters and information used to verify the recoverability of intangible assets with an indefinite useful life, including goodwill, are significantly influenced by the macroeconomic scenario and financial market dynamics that could be subject to changes that are currently unforeseeable. If the macroeconomic scenario indicates a deterioration in the future compared with the assumed scenario, there may be effects on the estimate of financial flows and on the main assumptions adopted in the business plan, as well as on the valuation methods, which could lead to results in future financial years that differ from those projected in these financial statements.

Sensitivity analysis

Since value in use is determined through the use of estimates and assumptions that may be subject to some uncertainty, a sensitivity analysis was carried out, as required by IASs/IFRSs, in view of the recommendations contained in Bank of Italy, Consob and ISVAP document No. 4 of 3 March 2010, in order to assess the sensitivity of the results obtained to changes in certain parameters and underlying assumptions.
The following results emerged from the sensitivity analysis performed on the main measurement parameters adopted:

- Changes of +/-0.25% in the discount rate lead to changes of around 3.2% in the recoverable value;
- Changes of +/-0.25% in the long-term growth rate lead to changes of approximately 0.8% in recoverable value;
- Changes of +/-5.0% in net profit for the Terminal Value lead to changes of approximately 4.6% in recoverable value.

Limit parameters were also considered, on the basis of which the recoverable amount equals the value in use of the CGU:

- A discount rate of 10.25% (discount rate adopted for impairment testing purposes of 9.56%);
- Long-term growth rate of -2.5% (growth rate adopted for impairment testing purposes of 1.50%);
- Net profit for the Terminal value was approximately 9.2% lower, amounting to €88 million (net profit for TV adopted for impairment testing purposes of €97 million);

The following table shows the results of the sensitivity analysis.

Sensitivity to recoverable value			
		Ke	
	9.31%	9.56%	9.81%
Recoverable Value	935	906	879
		g	
	1.25%	1.50%	1.75%
Recoverable Value	899	906	913
		Net Profit 2023	
	91.8	96.6	101.4
Recoverable Value	864	906	947

Therefore on the basis of the results of the impairment test, there was no need to make a value adjustment to the goodwill recognised in the financial statements.
A comparison with the impairment test at 31 December 2017 is shown below:

	Impairment test 31 December 2017	Impairment test 31 December 2018	Change	Change %
Shareholders' equity (€ million)	873	835	(38)	-4.4%
Profits at end of planning horizon (€ million)	86	97	11	12.5%
Risk Free rate	2.1%	2.6%	0.5%	24.8%
Beta	1.4	1.3	(0.1)	-6.1%
Market Risk Premium	5.1%	5.5%	0.4%	7.8%
Ke	9.0%	9.6%	0.6%	6.9%
g	1.5%	1.5%	0.0%	0.0%
Tier 1 target ratio	9.8%	9.4%	-2.1%	-21.4%
Total Capital Ratio target	12.3%	11.8%	-0.5%	-4.1%
Recoverable value (€ million)	941	906	(35)	-3.7%

Verification of the existence of impairment loss (impairment test) of intangible assets with a finite life

Client relationship

The *"client relationship""* intangible asset recognised for the first time in the financial statements of Volksbank as at 31 December 2015 due to the incorporation of the Banca Popolare di Marostica Group, is considered to have a "finite life". Only customers with pre-acquisition relationships were used as a reference for valuing the *client* relationship. The intangible is therefore linked to the status quo before the acquisition date and its *fair value* is of limited duration, following the observed duration of relations between the acquired company and its customers. The ability to generate new relationships is not enhanced in any way, and cannot be separated and transferred to a third party other than by transferring the company as a whole. Therefore this ability to build new relationships constitutes indistinct *goodwill* . The *client relationship* was determined by valuing the following components:

- indirect funding (assets under custody net of own securities, assets under management, funding from insurance business);
- core deposits (ordinary free savings deposits, ordinary current accounts).

The valuation of the *client relationship* was obtained by discounting future net economic flows for the relationship.
The value of this asset was determined with reference to 1 April 2015, the date of effect of the merger. The process of determining the value of this asset was completed prior to the resolution approving the draft financial statements.
Impairment testing of this asset is primarily based on an analysis of the main indicators of asset value (among these, trends in asset volumes). *core deposits* and indirect funding, the trend in the likelihood of relationships being ended (the*"lifting curves"*), changes in the rate curve, changes in profitability, the level of operating charges and cost of capital).
No changes in the these parameters that would require an impairment test were observed in 2018. Therefore, the analyses did not lead to the identification of indicators of *impairment* of the *client relationship* intangible asset.

9.2 Intangible assets: annual changes

(€ thousands)	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Gross opening balances	**99,602**	**-**	**-**	**29,555**	**-**	**129,157**
A.1 Total net impairment losses	-	-	-	9,943	-	9,943
A.2 Net opening balances	**99,602**	**-**	**-**	**19,612**	**-**	**119,214**
B. Increases	**-**	**-**	**-**	**680**	**-**	**680**
B.1 Purchasing	-	-	-	680	-	680
B.2 Increases in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Fair value gains	-	-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to income statement	X	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**1,163**	**-**	**1,163**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments		-	-	1,163	-	1,163
- Amortisation	X	-	-	1,163	-	1,163
- Write-downs		-	-	-	-	-
+ shareholders 'equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value		-	-	-	-	-
- to shareholders' equity	X	-	-	-	-	-
- to income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net final inventories	**99,602**	**-**	**-**	**19,129**	**-**	**118,731**
D.1 Total net value adjustments	-	-	-	11,106	-	11,106
E. Gross closing inventories	**99,602**	**-**	**-**	**30,235**	**-**	**129,837**
F. Valuation at cost	-	-	-	-	-	-

Key
DEF. = definite duration
INDEF. = indefinite duration

9.3 Intangible assets: Other information

At the reporting date, there were no commitments relating to intangible assets.

Section 10 TAX ASSETS AND TAX LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 *Deferred tax assets: composition*

IRES Corporation Tax *(€ thousands)*	**31.12.2018** amount of temporary differences	**31.12.2018** tax effect	**31.12.2017** amount of temporary differences	**31.12.2017** tax effect
- Value adjustments on loans, commitments and guarantees to customers	227,722	62,623	222,004	61,051
- Provisions for risks and charges	13,882	3,818	16,794	4,618
- Statutory/tax misalignments of movable and intangible assets	567	156	1,267	348
- Bank of Treviso Goodwill (released by BPM)	7,904	2,173	7,904	2,173
- BPM+BTV merger goodwill released	47,368	13,027	53,289	14,654
- BPM+BTV merger client relationship released	971	267	971	267
- IRES corporation tax loss, carried forward	6,914	1,901	18,351	5,047
- Excess ACE carried forward	805	221	6,691	1,840
- BPM+BTV tax loss transferred to Volksbank	-	-	20,736	5,702
- Buildings write-down	7,646	2,103	-	-
- Write-downs of loans to banks	49	13	-	-
- Write-down of FVTPL receivables	3,568	981	-	-
- Change in accounting criteria (adoption of IFRS 9)	51,923	14,279	-	-
- Other	2,544	699	2,585	711
- Tax losses of subsidiaries participating in CNM (IRES 24%)	2,922	701	680	163
- AFS Securities Valuation	-	-	5,851	1,609
- Negative OCI reserve for valuation of FVOCI/HTCS bonds	9,494	2,611	-	-
- Components charged to OCI prospectus	1,639	451	1,307	359
Total	**385,918**	**106,024**	**358,430**	**98,542**

IRAP (Regional Business Tax) *(€ thousands)*	**31.12.2018** amount of temporary differences	**31.12.2018** tax effect	**31.12.2017** amount of temporary differences	**31.12.2017** tax effect
- Value adjustments on loans to customers	120,195	6,145	120,195	6,140
- Provisions for risks and charges	13,882	710	16,794	858
- Bank of Treviso Goodwill (released by BPM)	7,904	404	7,904	404
- BPM+BTV merger goodwill (freed up by Volksbank)	47,368	2,421	53,289	2,722
- Client Relationship PPA merger BPM+BTV released	874	45	874	45
- Change in accounting criteria (adoption of IFRS 9)	52,907	2,705	-	-
- Other	8,495	434	10,834	553
- AFS Securities Valuation	-	-	5,851	299
- Negative OCI reserve for valuation of FVOCI/HTCS bonds	9,494	485	-	-
- OCI reserve negative valuations of FVOCI/HTCS equity investments	10,265	525	-	-
Total	**271,384**	**13,874**	**215,741**	**11,021**

Deferred tax assets ("DTAs"), recognised with reference to deductible temporary differences, amount to €119.9 million, of which €97.5 million is taxes recorded as a balancing entry in the income statement and €4.0 million is taxes recorded as a balancing entry in shareholders' equity.

The former mainly refer to the portion not yet offset of the benefits connected with the deductibility in future years of adjustments to loans to customers in previous years (prior to 2016), and provisions for risks and charges, together with the benefit resulting from the realignment of the tax value of goodwill and other intangible assets pursuant to Article 15, paragraph 10, of Decree Law No. 185/2008 and Decree Law No. 98/2011.

Law No. 145 of 30.12.2018 (the 2019 Budget Law) provides that income components deriving exclusively from the adoption of the "IFRS 9" recognised at the time of first adoption of the said standard, are deductible from the IRES (Corporation Tax) and IRAP (Regional Business Tax) at the rate of 10% in the tax period in which IFRS 9 was first adopted, and the remaining 90% on a straight-line basis in the following nine tax periods. The balance of deferred tax assets at 31 December 2018 therefore includes €51.923 million of DTA relating to components with deferred deductibility on the basis of this provision.

Deferred tax assets as a set-off of the net assets almost exclusively relate to taxation on negative valuation reserves relating to financial assets designated at fair value with an impact on overall profitability.

10.2 Deferred tax liabilities: composition

IRES Corporation Tax	**31.12.2018**		**31.12.2017**	
(€ thousands)	**amount of temporary differences**	**tax effect**	**amount of temporary differences**	**tax effect**
- Depreciation of land	2,216	609	2,510	690
- Amortisation of goodwill	25,225	6,937	23,058	6,341
- Property revaluations	50,840	13,981	55,989	15,397
- Capital gains by instalment on disposal of buildings	1,112	306	1,668	459
- Write-backs of loans to FVTPL	1,275	351	-	-
- Write-backs of loans to banks	1	-	-	-
- Change in accounting criteria (adoption of IFRS 9)	-	-	-	-
- Other	-	-	79	22
- AFS Securities Valuation	-	-	8,967	2,466
- Valuation of AFS PEX securities	-	-	70	19
- Positive OCI reserve for valuation of FVOCI/HTCS bonds	1,886	519	-	-
- OCI reserve positive valuations of FVOCI/HTCS equity investments	58	16	-	-
Total	**82,613**	**22,719**	**92,341**	**25,394**

IRAP (Regional Business Tax)	**31.12.2018**		**31.12.2017**	
(€ thousands)	**amount of temporary differences**	**tax effect**	**amount of temporary differences**	**tax effect**
- Depreciation of land	2,216	113	2,510	128
- Amortisation of goodwill	25,099	1,283	22,932	1,171
- Property revaluations	50,840	2,600	55,989	2,860
- Change in accounting criteria (adoption of IFRS 9)	1,824	93	-	-
- Other	-	-	1,577	81
- AFS Securities Valuation	-	-	8,967	458
- Valuation of AFS PEX securities	-	-	1,398	71
- Negative OCI reserve for valuation of FVOCI/HTCS bonds	1,886	96	-	-
- OCI reserve negative valuations of FVOCI/HTCS equity investments	1,162	59	-	-
Total	**83,027**	**4,244**	**93,373**	**4,769**

10.3 Changes in deferred tax assets (as a balancing entry in the income statement)

(€ thousands)		IRES Corporation Tax	IRAP (Regional Business Tax)	31.12.2018	31.12.2017
1.	**Initial Amount**			**107,298**	**119,064**
2.	**Increases**	**5,770**	**2,902**	**8,672**	**1,556**
2.1	Prepaid taxes recognised during the year	5,770	2,902	8,672	1,393
	a) relating to previous years	-	-	-	-
	b) due to change in accounting criteria	-	2,613	2,613	-
	c) write-backs	-	-	-	-
	d) Other	5,770	289	6,059	1,393
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	163
3.	**Decreases**	**17,578**	**896**	**18,474**	**13,322**
3.1	Deferred tax assets cancelled during the year	17,578	896	18,474	9,586
	a) Reversals	15,091	853	15,944	9,586
	b) write-downs due to irrevocability	-	-	-	-
	c) change in accounting criteria	2,487	43	2,530	-
	d) Other	-	-	-	-
3.2	Tax rate reductions	-	-	-	3,736
3.3	Other decreases	-	-	-	-
	a) transformation into tax credits pursuant to Law 214/2011	-	-	-	-
	b) other	-	-	-	-
4.	**Final amount**			**97,496**	**107,298**

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

(€ thousands)		IRES Corporation Tax	IRAP (Regional Business Tax)	31.12.2018	31.12.2017
1.	**Initial Amount**			**69,445**	**79,439**
2.	**Increases**	**-**	**-**	**17**	**-**
3.	**Decreases**	**-**	**-**	**-**	**9,994**
3.1	Reversals	-	-	-	6,150
3.2	Transformation into tax credits	-	-	-	-
	a) deriving from operating losses	-	-	-	-
	b) deriving from tax losses	-	-	-	-
3.3	Other decreases	-	-	-	3,844
4.	**Final amount**	**-**	**-**	**69,462**	**69,445**

10.4 Changes in deferred tax liabilities (as a balancing entry in the income statement)

(€ thousands)		IRES Corporation Tax	IRAP (Regional Business Tax)	31.12.2018	31.12.2017
1.	**Initial Amount**			**27,149**	**27,519**
2.	**Increases**	**947**	**114**	**1,061**	**714**
2.1	Deferred taxes recognised in the year	947	114	1,061	714
	a) relating to previous years	-	-	-	-
	b) due to change in accounting criteria	-	-	-	-
	c) other	947	114	1,061	714
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**2,034**	**368**	**2,402**	**1,084**
3.1	Deferred taxes cancelled in the year	2,034	368	2,402	1,065
	a) reversals	1,672	359	2,031	1,065
	b) due to change in accounting criteria	362	9	371	-
	c) other	-	-	-	-
3.2	Tax rate reductions	-	-	-	-
3.3	Other decreases	-	-	-	19
4.	**Final amount**			**25,808**	**27,149**

10.5 Changes in deferred tax assets (as a balancing entry in net assets)

(€ thousands)		IRES Corporation Tax	IRAP (Regional Business Tax)	31.12.2018	31.12.2017
1.	**Initial Amount**			**2,267**	**4,989**
2.	**Increases**	**2,702**	**1,010**	**3,712**	**10**
2.1	Prepaid taxes recognised during the year	2,552	982	3,534	10
	a) relating to previous years	-	-	-	-
	b) due to change in accounting criteria	2,461	982	3,443	-
	c) other	91	-	91	10
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	150	28	178	-
3.	**Decreases**	**1,609**	**299**	**1,908**	**2,732**
3.1	Deferred tax assets cancelled during the year	1,609	299	1,908	2,732
	a) reversals	-	-	-	-
	b) write-downs due to irrecoverability	-	-	-	-
	c) due to change in accounting criteria	1,609	299	1,908	2,732
	d) other	-	-	-	-
3.2	Tax rate reductions	-	-	-	-
3.3	Other decreases	-	-	-	-
	a) conversion into tax credits (Law 214/2011)	-	-	-	-
	b) other	-	-	-	-
4.	**Final amount**			**4,071**	**2,267**

Changes in deferred tax assets and liabilities relate mainly to the accounting treatment of deferred tax assets as a balancing entry for value adjustments and Write-backs recognised at the time of the initial adoption of the IFRS 9 standard.

10.6 Changes in deferred tax liabilities (as a balancing entry in net assets)

(€ thousands)		IRES Corporation Tax	IRAP (Regional Business Tax)	31.12.2018	31.12.2017
1.	**Initial Amount**			**3,015**	**2,487**
2.	**Increases**	**2,296**	**483**	**2,779**	**528**
2.1	Deferred taxes recognised in the year	16	59	75	528
	a) relating to previous years	-	-	-	-
	b) due to change in accounting criteria	16	59	75	-
	c) other	-	-	-	528
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	2,280	424	2,704	-
3.	**Decreases**	**4,246**	**857**	**5,103**	**-**
3.1	Deferred taxes cancelled in the year	1,761	327	2,088	-
	a) reversals	-	-	-	-
	b) due to change in accounting criteria	1,761	327	2,088	-
	c) other	-	-	-	-
3.2	Tax rate reductions	-	-	-	-
3.3	Other decreases	2,485	530	3,015	-
4.	**Final amount**			**691**	**3,015**

10.7 Other information

Composition of "current tax assets" item

(€ thousands)		31.12.2018	31.12.2017
1.	IRES - IRAP - VAT - tax advances	502	-
2.	Advances of stamp duty, withholdings on interest	13,952	15,836
3.	Withholding taxes incurred	330	3,209
4.	Other current tax assets	40,023	40,496
	Total	**54,807**	**59,541**

Composition of "current tax liabilities" item

(€ thousands)		31.12.2018	31.12.2017
1.	Direct tax liabilities	556	3,102
2.	Indirect taxes	35	79
3.	Withholding taxes at source to be paid	-	-
4.	Other current tax liabilities	-	487
	Total	**4,291**	**3,668**

Probability test on deferred taxation

According to IAS 12, deferred tax assets and liabilities are recognised according to the following criteria:

- taxable temporary differences: a deferred tax liability must be recognised for all taxable temporary differences;
- deductible temporary differences: a deferred tax asset is to be recognised for all deductible temporary differences, if it is probable that taxable income will be generated against which the deductible temporary difference can be used. Deferred tax assets not recognised in the past – as there were no reasons for their recognition – are to be recognised in the year in which the requirements are met.

Accordingly, the amount of the deferred tax assets recognised must be tested each year to determine whether it is reasonably certain that taxable income will be earned in the future and thus that the deferred tax assets may be recovered.

Given the amount of recognised deferred tax assets, an analysis was conducted to assess whether projections of future profitability are sufficient to guarantee their re-absorption and therefore justify their recognition and retention in the financial statements (a "*probability test*").

In particular, in the case of deferred tax assets arising from deductible temporary differences arising from impairment and losses on loans ("qualified deferred tax assets" and "qualified temporary differences"), the observation was made that, with effect from the tax period ended 31 December 2011, deferred tax assets (IRES corporation tax) recognised in the financial statements are converted into tax credits for tax losses arising from the deferred deduction of qualified temporary differences (Article 2, paragraph 56-bis, of Legislative Decree No. 225 of 29 December 2010, introduced by Article 9 of Decree Law No. 201 of 6 December 2011).

As of the 2013 tax period, a similar conversion is established if a net negative value of production emerges from the IRAP tax return, in relation to deferred tax assets (IRAP regional business tax) referring to qualified temporary differences that have contributed to the determination of the net negative value of production (Article 2, paragraph 56-bis.1 of Legislative Decree 225 of 29 December 2010, introduced by Law 147/2013).

This convertibility - in addition to what is already provided for in the event that the individual financial statements result in a loss for the year (Article 2, paragraphs 55 and 56, of Legislative Decree No. 225/2010, as recently amended by Law No. 147/2013) - is intended to ensure the recovery of qualified deferred tax assets in all situations, regardless of the company's future profitability. In fact, if qualified temporary differences exceed taxable income or the net value of production in a given year, the recovery of deferred tax assets does not take the form of a reduction of current taxes, but rather of the recognition of deferred tax assets on the tax loss or net negative value of production, convertible into tax credits pursuant to Article 2, paragraph 56-bis and 56-bis.1 of Law Decree No. 225/2010.

The convertibility of deferred tax assets on tax losses and the negative net value of production resulting from qualified temporary differences is therefore a sufficient condition for the recognition of deferred tax assets in the financial statements, thereby ensuring that the associated probability test is implicitly passed.

This approach is also confirmed in joint Bank of Italy, Consob and ISVAP document No. 5 of 15 May 2012 (issued as part of the coordination table on the application of the IAS/IFRS standards), in relation to the "Accounting treatment of deferred tax assets arising from Law 214/2011", and in the subsequent IAS ABI document No. 112 of 31 May 2012 ("Tax credit arising from the transformation of deferred tax assets: clarification by Consob, the Bank of Italy and ISVAP on the application of the IAS/IFRS standards").

The verification therefore concerned:

- the identification of deferred tax assets other than those relating to write-downs and losses on loans, goodwill and other intangible assets with indefinite useful lives ("non-qualified deferred tax assets") recognised in the financial statements;
- an analysis of the non-qualified deferred tax assets and the deferred tax liabilities recognised in the consolidated financial statements, distinguishing them by type of origin and thus by the foreseeable timescale of recovery;
- a quantification of the Bank's future profitability forecast, in order to verify its capacity to absorb the deferred tax assets indicated in point a) above.

The detailed analysis set out in points b) and c) was not necessary for deferred tax assets (and consequently deferred tax liabilities) recognised for IRAP regional business tax purposes, since there are certain prospects that almost all of them will be used pursuant to Article 2, paragraph 56-bis.1 of Law Decree No. 225/2010, and as the non-qualified IRAP deferred tax assets are negligible.

The analysis revealed that the tax base was expected to be largely sufficient to absorb the deferred tax assets recognised in the financial statements as at 31 December 2018.

Unused tax losses

Prepaid tax assets arising from tax losses carried forward of approximately €7 million were recognised in the 2018 financial statements.

Analyses conducted in relation to the income forecasts included in the 2018-2021 Business Plan confirm the ability of the tax consolidation to use the losses for which DTA was allocated.

Section 11 NON-CURRENT ASSETS, GROUPS OF ASSETS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 Non-current assets and groups of assets held for sale: composition by type of asset

(€ thousands)	31.12.2018	31.12.2017
A. Assets held for sale		
A.1 Financial assets		
A.2 Equity investments		
A.3 Tangible assets	12,923	
of which: obtained through enforcement of guarantees received	-	
A.4 Intangible assets		
A.5 Other non-current assets		
Total (A)	**12,923**	**-**
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3	12,923	
B. Discontinued operations		
B.1 Financial assets designated at fair value through profit or loss	-	-
- financial assets held for trading		
- financial assets designated at fair value		
- other financial assets compulsorily measured at fair value		
B.2 Financial assets measured at fair value with an impact on comprehensive income		
B.3 Financial assets measured at amortised cost		
B.4 Equity investments		
B.5 Tangible assets		
of which: obtained through enforcement of guarantees received		
B.6 Intangible assets		
B.7 Other assets		
Total (B)	**-**	**-**
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		
C. Liabilities associated with assets held for sale		
C.1 Payables		
C.2 Securities		
C.3 Other liabilities		
Total (C)	-	-
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		
D. Liabilities associated with discontinued operations		
Financial liabilities measured at amortised cost		
D.2 Financial liabilities held for trading		
D.3 Financial liabilities designated at fair value		
D.4 Funds		
D.5 Other liabilities		
Total (D)	**-**	**-**
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		

11.2 Other information

There is no other information to report at the reporting date.

Section 12 OTHER ASSETS – ITEM 120

12.1 Other assets: composition

(€ thousands)		31.12.2018	31.12.2017
1.	Items travelling with branches	4,300	2,169
2.	Securities	72	93
3.	Work in progress items	96,097	88,472
4.	Miscellaneous discontinued (items awaiting final allocation)	19,469	22,399
5.	Accrued and past due income to be received	13,900	21,070
6.	Values charged to cashier	358	181
7.	Non-attributable adjustment accounts	758	557
8.	Costs of leased assets	1,526	1,377
	Total	**136,480**	**136,318**

LIABILITIES

Section 1 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST – ITEM 10

1.1 Financial liabilities measured at amortised cost: composition of loans to banks by type

Transaction Type/Values	31.12.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
(€ thousands)								
1. Payables to central banks	**1,120,634**	**X**	**X**	**X**	**994,690**	**X**	**X**	**X**
2. Payables to banks	**297,553**	**X**	**X**	**X**	**155,969**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	120,658	X	X	X	28,931	X	X	X
2.2 Term deposits	42,492	X	X	X	4,863	X	X	X
2.3 Loans	134,131	X	X	X	121,465	X	X	X
2.3.1 Repurchase agreements payable	-	X	X	X	-	X	X	X
2.3.2.Others	134,131	X	X	X	121,465	X	X	X
2.4 Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other payables	272	X	X	X	710	X	X	X
Total	**1,418,187**	**-**	**1,394,796**	**-**	**1,150,659**	**-**	**1,099,733**	**-**

Repurchase agreements against assets sold and not derecognised are detailed in Part E.

1.2 Financial liabilities measured at amortised cost: composition of loans to customers by type

Transaction Type/Values	31.12.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
(€ thousands)								
1. Current accounts and demand deposits	5,665,759	X	X	X	5,410,914	X	X	X
2. Term deposits	337,031	X	X	X	229,127	X	X	X
3. Loans	369,915	X	X	X	172,757	X	X	X
3.1. Repurchase agreements payable	369,915	X	X	X	172,757	X	X	X
3.2. Other	-	X	X	X	-	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Other payables	612,494	X	X	X	584,073	X	X	X
Total	**6,985,199**	**-**	**6,453,322**	**-**	**6,396,871**	**-**	**5,920,529**	**-**

1.3 Financial liabilities measured at amortised cost: composition by type of outstanding securities

Transaction Type/Values	31.12.2018				31.12.2017			
	BV	Fair value			BV	Fair value		
		L1	L2	L3		L1	L2	L3
(€ thousands)								
A. Securities								
1. Bonds	698,220	-	567,461	130,760	934,928	-	928,155	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	698,220	-	567,461	130,760	934,928	-	928,155	-
2. Other securities	-	-	-	-	18,598	-	-	18,598
2.1 Structured								
2.2 Other					18,598			18,598
Total	**698,220**	**-**	**567,461**	**130,760**	**953,526**	**-**	**928,155**	**18,598**

At the reporting date there were no structured payables to banks

1.4 Breakdown of subordinated debt/securities

The main features of the instruments in place at 31 December 2018 are as follows:

	01.8.2017 issue	06.10.2017 issue	03.10.2018 issue
Level of Subordination	Qualifying subordinated liabilities Tier 2	Qualifying subordinated liabilities Tier 2	Qualifying subordinated liabilities Tier 2
ISIN	XS1663201942	XS1694763142	XS1885681228
Amount	5,000,000	100,000,000	25,000,000
Date of Issue	01.08.2017	06.10.2017	03.10.2018
Maturity date	17.08.2029	06.10.2027	30.10.2028
Currency	EUR	EUR	EUR
Rate	5.625%	5.625% per annum, payable in arrears until 06.10.2022 (equal to 5yr MS + 536.8 bps), then reset the rate to mid-swap fixing + 536.8 bps margin.	6.000% per annum, payable in arrears up to 03.10.2023 (equal to 5yr MS + 589.4 bps), then resetting the rate at mid-swap fixing + 589.4 bps margin
Price	99.25	99.56	97.717
Listing	Luxembourg Stock Exchange	Luxembourg Stock Exchange	No

1.5 Breakdown of structured payables

At the reporting date there were no structured payables.

1.6 Payables for finance leases

At the reporting date there were no payables for finance leases.

Section 2 FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 20

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

(€ thousands)	31.12.2018					31.12.2017				
	NV	FV			FV (*)	NV	FV			FV *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Payables to banks	-	-	-	-	-	-	-	-	-	-
2. - amounts due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	-	259	1,170	-	-	-	531	1,499	-	-
1.1 Held for trading	X	259	1,170	-	X	X	531	1,486	-	X
1.2 Related to the fair value option	X	-	-	-	X	X	-	13	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**259**	**1,170**	**-**	**X**	**X**	**531**	**1,499**	**-**	**X**
Total (A+B)	**X**	**259**	**1,170**	**-**	**X**	**X**	**531**	**1,499**	**-**	**X**

Key
FV *fair value*
FV* *fair value* calculated by excluding the changes in value due to the change in the issuer's credit rating since the issue date
NV nominal or notional value
L1 Level 1
L2 Level 2
L3 Level 3

2.2 *Breakdown of "Financial liabilities held for trading": subordinated liabilities*

At the reporting date there were no subordinated financial liabilities held for trading.

2.3 *Breakdown of "Financial liabilities held for trading": structured payables*

At the reporting date there were no financial liabilities held for trading relating to structured debt.

Section 3 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE – ITEM 30

3.1 Financial liabilities designated at fair value: composition by type

(€ thousands)	31.12.2018					31.12.2017				
	NV	FV			FV*	NV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Payables to banks	-	-	-	-	-	1,000	-	1,049	-	1,049
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	1,000	-	1,049	-	X
of which:	-	-	-	-	X	-	-	-	-	X
- commitments to disburse funds	-	-	-	-	X	-	-	-	-	X
- financial guarantees issued	-	-	-	-	X	-	-	-	-	X
2. - amounts due to customers	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:	-	-	-	-	X	-	-	-	-	X
- commitments to disburse funds	-	-	-	-	X	-	-	-	-	X
- financial guarantees issued	-	-	-	-	X	-	-	-	-	X
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2 Other	-	-	-	-	X	-	-	-	-	X
Total	**-**	**-**	**-**	**-**	**-**	**1,000**	**-**	**1,049**	**-**	**1,049**

Key
FV *fair value*
FV* *fair value calculated by excluding the changes in value due to change in the issuer's credit rating since the issue date*
NV nominal or notional value
L1 Level 1
L2 Level 2
L3 Level 3

There are no financial liabilities designated at *fair value* in 2018.

3.2 Breakdown of "Financial liabilities designated at fair value": subordinated liabilities

At the reporting date there were no subordinated financial liabilities measured at *fair value*.

Section 4 HEDGING DERIVATIVES – ITEM 40

4.1 Hedging derivatives: composition by type of hedge and hierarchical levels

There were no hedging derivatives at the reporting date.

4.2 Hedging derivatives: composition by hedged portfolios and by type of hedge

There were no hedging derivatives at the reporting date.

Section 5 VALUE ADJUSTMENT OF FINANCIAL LIABILITIES SUBJECT TO MACRO HEDGING – ITEM 50

5.1 Value adjustment of hedged financial liabilities: composition by hedged portfolios

At the reporting date there were no financial liabilities subject to macro hedging.

Section 6 TAX LIABILITIES – ITEM 60

For information on this section, see Section 10 of the Assets section.

Section 7 LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 70.

For information on this section, see Section 11 of the Assets section.

Section 8 OTHER LIABILITIES – ITEM 80

8.1 Other liabilities: composition

(€ thousands)		**31.12.2018**	**31.12.2017**
1.	Adjustments to illiquid items relating to the bills portfolio	92,394	7,356
2.	Items travelling with branches	-	66
3.	Various sums available (banks, suppliers, etc.)	79,043	36,413
4.	Sums available to customers	69,146	72,247
5.	Work in progress items (transfers etc.)	12,071	58,020
6.	Other items for various creditors	3,252	4,090
7.	Non-attributable adjustment accounts	-	-
8.	Withholding and taxes to be refunded	10,323	10,732
	Total	**266,229**	**188,924**

Section 9 EMPLOYEE SEVERANCE INDEMNITIES – ITEM 90

9.1 Employee severance indemnities: annual changes

(€ thousands)		**31.12.2018**	**31.12.2017**
A.	**Opening balances**	**19,752**	**20,524**
B.	**Increases**	**565**	**361**
	B1. Provisions for the year	302	361
	B2. Other changes	263	-
C.	**Decreases**	**1,204**	**1,133**
	C1. Liquidations performed	1,204	959
	C2. Other changes	-	174
D.	**Closing inventories**	**19,113**	**19,752**

9.2 Other information

As described in Part A - Accounting policies, following the supplementary pension reform, the employee severance indemnity recognised in this balance sheet item refers solely to the portion accrued until 31 December 2006.

The provision does not therefore include sums that, as a result of the said reform, are paid into supplementary pension schemes or into the treasury fund of INPS, the Italian National Social Welfare Institution. In this case, employee severance indemnities accruing as of 1 January 2007 constitute a "defined contribution plan" and are recognised under staff costs in the "severance indemnity" sub-item, on the basis of contributions due without the application of actuarial calculation methods, as a balancing entry to the recognition of the "Other liabilities" item or an outgoing of cash and cash equivalents.

The actuarial valuation of the severance pay was based on the "accrued benefits" method according to the Projected Unit Credit criterion, governed by paragraphs 70-74 and 75-98 of IAS 19, and is based on the following main demographic, economic and financial assumptions:

Key demographic and actuarial assumptions for the valuation of the employee severance fund	
Employee survival rate	RG48 survival table published by the State General Accountant.
Frequency and amount of severance pay advances	These were determined on the basis of historical experience, distinguished by length of service. A value of 1.50% was used for the current year.
Disability	INPS tables broken down by age and gender
Turnover rates	Determined based on historical experience for the company and similar companies broken down by age and gender and amounting to 2.00%.
Probability of retirement	100% upon reaching the retirement requirement of the General Compulsory Insurance (AGO).
Annual discount rate	In accordance with the provisions of paragraph 83 of IAS 19, the Iboxx Eurozone Corporate AA Index, in line with the duration of the benefits recognised to company employees, was 1.13% at the measurement date.
Annual inflation rate	1,50% over the entire reference horizon
Annual rate of increase in employee severance benefits	2,625% over the entire reference horizon

Other information	**31.12.2018**
Service cost per year future	0.00
Duration of the plan	9.5

Note that the criteria underlying the demographic and actuarial assumptions shown above are essentially in line with those used in the previous year.

Taking into account the content of IAS 19 and the absence of specific instructions from regulatory bodies, it is believed that the identification and selection of the rate in question represents one of the numerous valuations and estimates that IFRS accounting standards require in the preparation of the financial statements. In particular, the specific principle is that the discount rate must be determined with reference to market returns, at the reporting date, of the securities of leading companies in the country in which the entity operates ("*high quality corporate bond yield*") and, alternatively, in the absence of a market for such securities, with reference to government bond market yields.

For 2018, the annual discount rate used to determine the present value of the obligation was inferred, again in accordance with paragraph 83 of IAS 19, from the Iboxx Corporate AA Index with a duration of 7-10 years, recognised at the measurement date. To this end, the yield with a duration comparable to the duration of the group of workers being evaluated was selected.

The reference to the "AA" rating class is the result of clarifications provided by the IFRS Interpretations Committee in the second half of 2013, according to which "primary quality" is to be understood in absolute terms and therefore cannot be changed from one year to another to take account of the number of companies that are issuers in the "*high quality corporate bond yield*" basket.

In particular, the IFRS Interpretations Committee specified that the significance of the *high quality corporate bond yield*" basket must be evaluated including bonds issued by companies in other countries, as long as they are denominated in the same currency in which the employee benefits will be paid.

Sensitivity analysis

In accordance with IAS 19, the following additional information is provided:

- sensitivity analysis for each significant actuarial assumption at year end, showing the effects that would have resulted from changes in actuarial assumptions reasonably possible at that date, in absolute terms;
- an indication of the contribution for the following year;
- an indication of the average financial duration of the obligation for defined-benefit plans.

Sensitivity analysis of the main valuation parameters on the data at 31.12.2018 (values represent the change generated on the IAS value of the plan)	**Valuation parameters**	**DBO**
(€ thousands)		
Turnover rate	+1.00%	18,993.3
Turnover rate	-1.00%	19,221.3
Inflation rate	+0.25%	19,366.2
Inflation rate	-0.25%	18,841.8
Discount rate	+0.25%	18,684.6
Discount rate	-0.25%	19,533.4

Section 10 PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 Provisions for risks and charges: composition

(€ thousands)		**31.12.2018**	**31.12.2017**
1.	Provisions for credit risk relating to commitments and guarantees given	6,849	1,131
2.	Provisions for other commitments and guarantees given	-	-
3.	Company pension funds	-	-
4.	Other provisions for risks and charges	13,879	16,792
	4.1 legal and tax disputes	13,879	16,792
	4.2 payroll and costs	-	-
	4.3 Other	-	-
	Total	**20,728**	**17,923**

10.2 Provisions for risks and charges: annual changes

(€ thousands)		**Pension provisions**	**Other provisions for risks and charges**	**Total**
A.	**Opening balances**	**-**	**16,792**	**16,792**
B.	**Increases**	**-**	**5,507**	**5,507**
	B1. Provisions for the year	-	5,463	5,463
	B2. Changes due to the passage of time	-	-	-
	B3. Changes due to changes in the discount rate	-	44	44
	B4. Other changes	-	-	-
C.	**Decreases**	**-**	**8,419**	**8,419**
	C1. Utilisation during the year	-	7,975	7,975
	C2. Changes due to changes in the discount rate	-	-	-
	C3. Other changes	-	444	444
D.	**Closing inventories**	**-**	**13,880**	**13,880**

10.3 Provisions for credit risk relating to commitments and guarantees given

	Provisions for credit risk relating to commitments and guarantees given			
	First stage	Second stage	Third stage	Total
(€ thousands)				
1. Commitments to disburse funds	1,050	585	415	2,050
2. Financial guarantees issued	759	995	3,045	4,799
Total	**1,809**	**1,580**	**3,460**	**6,849**

10.4 Provisions for other commitments and guarantees given

At the reporting date there were no provisions for other commitments and other guarantees issued.

10.5 Defined-benefit company pension funds

There were no defined-benefit pension funds at the reporting date.

10.6 Provisions for risks and charges - other provisions

The item "Provisions for risks and charges", sub-item "Other provisions for risks and charges" of €13.9 million, includes provisions for ongoing litigation, including the relative costs.

Section 11 REDEEMABLE SHARES – ITEM 120

11.1 Redeemable shares: composition

There were no redeemable shares at the reporting date.

Section 12 COMPANY ASSETS - ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 Share capital and treasury shares: composition

	31.12.2018	**31.12.2017**
- Number of treasury shares or units	50,498,438	49,859,929
of which treasury shares in portfolio	1,533,352	1,533,352

At 31 December 2018, the share capital amounted to €201,993,752 and consisted of 50,498,438 ordinary shares with no par value. Accordingly, the share capital attributable to each share may be determined by dividing the total share capital by the number of shares in issue.

The increase compared with the previous year is entirely due to the issue, free of charge, of 638,509 new ordinary shares, by allocating available reserves totalling €2,554,036 to the share capital. The increase results from ascertainment of the prerequisites for the free allocation of shares provided for in the agreements for merger by incorporation of the Banca Popolare di Marostica Group.

The shares were issued with dividend rights as of 1 January 2018 and without charge to the beneficiary, and are entered, in accordance with current regulations, into the centralised management system in dematerialised form. For more information on this change, see the specific section on significant events during the year.

At 31 December 2018, Volksbank holds 1,533,352 treasury shares.
All ordinary shares in circulation are subscribed and fully paid up. Shares have no restrictions or privileges of any kind and each share has the same rights in terms of dividend collection and capital redemption. There are no classes of shares other than ordinary shares.

12.2 Share capital - number of shares: annual changes

		Ordinary	Other
A.	**Shares existing at beginning of year**	**49,859,929**	**-**
	- fully paid-up	49,859,929	-
	- not fully paid-up	-	-
A.1	Treasury shares (-)	(1,533,352)	-
A.2	**Outstanding shares: opening balances**	**48,326,577**	**-**
B.	**Increases**	**638,509**	**-**
B.1	New issues	638,509	-
	for payment:	-	-
	- business combinations	-	-
	- bond conversion	-	-
	- warrant exercise	-	-
	- other	-	-
	free of charge:	638,509	-
	- for employees	-	-
	- for directors	-	-
	- other	638,509	-
B.2	Sale of treasury shares	-	-
B.3	Other changes	-	-
C.	**Decreases**	**-**	**-**
C.1	Cancellation	-	-
C.2	Purchase of treasury shares	-	-
C.3	Company sale transactions	-	-
C.4	Other changes	-	-
D.	**Outstanding shares: closing balance**	**48,965,086**	**-**
D.1	Treasury shares (+)	1,533,352	-
D.2	Shares existing at year end	50,498,438	-
	- fully paid-up	50,498,438	-
	- not fully paid-up	-	-

12.3 Share capital: other information

There was no further information to report at the reporting date.

12.4 Earnings reserves: other information

(€ thousands)		**31.12.2018**	**31.12.2017**
1.	Legal reserve	118,700	116,000
2.	Extraordinary reserve	138,330	126,611
3.	Reserve for purchase of treasury shares	-	-
4.	Concentration reserve (Law 30.07.1990/218)	8,584	8,584
5.	Other reserves	(15,880)	33,171
	Total	**249,734**	**284,366**

Pursuant to Article 2427 (1) (7-bis) of the Italian Civil Code, a summary of the items of Shareholders' Equity is provided, broken down according to their origin and indicating the possibility of use and distribution as well as their use in the previous three years.

Nature/description *(€ thousands)*	Amount	Possibility of use	Unit available	Summary of use in the previous three years	
				Coverage of losses	Other uses
Capital	**201,994**	**-**	**-**		
Treasury shares	**(18,554)**	**-**	**-**		
Share premium	**383,158**	**A,B,C**	**383,158**		**4,100**
- Earnings reserves					
- Legal reserve	118,700	A(2),B	78,301		
- Extraordinary reserve	138,330	A,B,C	138,330		
- Reserve pursuant to Article 6 of Legislative Decree 38/2005	629	B (*)	-		
- other:					
a) Special reserve Law 218/90	8,584	A,B,C (3)	8,584		
b) FTA reserve	(16,384)	A,B,C	-		
c) Reserves from the sale of equity securities measured at fair value with an impact on overall profitability	(125)	A,B,C	-		
- Valuation reserves					
Equity instruments designated at fair value with an impact on overall profitability	(9,249)	(*)	-		
Financial assets (other than equity securities) measured at fair value with an impact on overall profitability	(3,786)	(*)	-		
Actuarial gains (losses) relating to plans defined benefit plans	(2,352)	(*)	-		
Equity instruments	**-**		**-**		
Profits carried forward	**34,257**		**-**		
Total	**835,202**				**4,100**

A = for a free capital increase
B = to cover losses
C = for distribution to shareholders
(*) the reserve is unavailable pursuant to Article 6 of Legislative Decree No. 38/2005
(1) Only the part of the reserve exceeding the amount necessary for the legal reserve to reach one-fifth of the share capital may be distributed (Article 2431 of the Italian Civil Code).
(2) Only the part of the reserve exceeding one fifth of the share capital may be used (Article 2430, paragraph 1 of the Italian Civil Code).
(3) If not allocated to capital, the reserve may be reduced only in compliance with the provisions of paragraphs 2 and 3 of Article 2445 of the Italian Civil Code. The use of the reserve to cover losses cannot give rise to the distribution of profits until the reserve is supplemented or reduced correspondingly. The reduction must take place by resolution of an extraordinary general meeting, without compliance with the provisions of paragraphs two and three of Article 2445 of the Italian Civil Code. Where distributed to shareholders, it contributes to forming the company's taxable income.

Uses refer to the share swap and acquisition of a minority interest in Banca di Treviso as part of the merger by incorporation of the Banca Popolare di Marostica Group.

12.5 Equity instruments: composition and annual changes

At the reporting date there were no capital instruments other than ordinary shares.

12.6 Other information

There is no further information to report at the reporting date.

OTHER INFORMATION

1. *Financial commitments and guarantees given (other than those designated at fair value)*

	Nominal value on financial commitments and guarantees issued			31.12.2018	31.12.2017
	First stage	Second stage	Third stage		
(€ thousands)					
1. Commitments to disburse funds				**2,346,503**	**409,638**
a) Central banks				-	-
b) Public administrations	103,973			103,973	18,151
c) Banks	4,964			4,964	867
d) Other finance companies	36,596	13,827		50,423	8,803
e) Non-finance companies	1,700,410	99,039	19,540	1,818,989	317,547
f) Households	330,602	36,736	816	368,154	64,270
2. Financial guarantees issued				**453,079**	**440,500**
a) Central banks				-	-
b) Public administrations	242			242	-
c) Banks	17,452		-	17,452	16,178
d) Other finance companies	7,212	41	10	7,263	7,078
e) Non-finance companies	316,275	46,303	8,218	370,796	361,375
f) Households	42,907	13,993	426	57,326	55,869

Irrevocable commitments to provide funds for uncertain use to customers mainly relate to corporate customers.

2. *Other commitments and guarantees given*

No other commitments or guarantees were given at the reporting date.

3. *Assets pledged as collateral for own liabilities and commitments*

(€ thousands)	**31.12.2018**	**31.12.2017**
1. Financial assets designated at fair value through profit or loss	946,492	980,838
2. Financial assets measured at fair value with impact on overall profitability	-	-
3. Financial assets measured at amortised cost	-	-
4. Physical assets	-	-
of which: tangible assets constituting inventories	-	-

Assets pledged as collateral for own liabilities and commitments for repos amounted to €326.5 million, while securities pledged as collateral for other transactions came to €620.0 million.
Note also that at the reporting date there were securities of €233.0 million not shown in the table, as the relevant securities, relating to retained securitisation transactions, are not recognised as assets on the balance sheet. These securities are fully pledged as collateral for transactions with the Central Bank in order to support any liquidity requirements.

4. *Operating lease information*

There were no operating lease assets and liabilities at the reporting date.

5. Management and intermediation on behalf of third parties

Services type	Amount
(€ thousands)	
1. Execution of orders on behalf of clients	**-**
a) Purchasing	-
1. Regulated	-
2. Unregulated	-
b) Sales	-
1. Regulated	-
2. Unsettled	-
2. Individual portfolio management	**-**
3. Securities Administration and Custody	**5,645,637**
a) Third-party securities on deposit: related to the operation of a custodian bank (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) Third-party securities on deposit (excluding portfolio management): other	1,482,227
1. securities issued by the reporting bank	743,856
2. other securities	738,371
c) Third-party securities held with third parties	1,464,300
d) Own securities held by third parties	2,699,110
4. Other transactions	**-**

6. Financial assets presented on a net basis, subject to master netting agreements or similar agreements

At the reporting date, there were no financial assets presented on a net basis, subject to master netting agreements or similar agreements.

7. Financial liabilities presented on a net basis, subject to master netting agreements or similar agreements

At the reporting date, there were no financial liabilities presented on a net basis, subject to master netting agreements or similar agreements

8. Securities lending transactions

At the reporting date there were no securities lending transactions.

9. Disclosure of joint operations

At the reporting date there were no joint operations.

PART C INFORMATION ON THE INCOME STATEMENT

Section 1 INTEREST – ITEMS 10 AND 20

1.1 *Interest income and similar revenues: composition*

Items/Technical forms *(€ thousands)*	**Debt securities**	**Loans**	**Other transactions**	**31.12.2018**	**31.12.2017**
1. Financial assets designated at fair value through profit or loss					
1.1 Financial assets held for trading	672	-	52	724	1,283
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets compulsorily measured at fair value	4,011	812	-	4,823	4,071
2. Financial assets measured at fair value with impact on overall profitability	6,663	-	X	6,663	8,789
3. Financial assets measured at amortised cost					
3.1 Loans to banks	-	24	X	24	121
3.2 Loans to customers	17,531	160,015	X	177,546	160,882
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	4,614	6,110
Total	**28,877**	**160,851**	**52**	**194,394**	**181,256**
of which: interest income on impaired financial assets	-	18,717	-	18,717	8,619

It should be noted that the comparative figure at 31 December 2017 for: "interest income on impaired financial assets" does not include the component due to the passage of time (included in item CE 130), which amounted to €22.0 million. In the financial statements as at 31 December 2018, this amount is included in the item "10 Interest receivable and similar income" and amounts to €11.8 million.
This item also includes interest income on securities subject to repurchase agreements.
Interest income on loans to customers item includes the effects of amortisation, according to the effective interest rate method, of the fair value of the receivables identified during the Purchase Price Allocation (PPA) process of the Banca Popolare di Marostica Group.
The "Other transactions" column of the item "Financial assets held for trading" includes positive differentials or margins relating to derivatives contracts associated with financial assets and liabilities designated at fair value (Fair Value Option), as well as those associated with financial assets and liabilities classified in the trading portfolio.

1.2 *Interest receivable and similar income: other information*

1.2.1 *Interest income on foreign-currency denominated financial assets*

(€ thousands)	**31.12.2018**	**31.12.2017**
a) on foreign currency assets	406	82

1.2.2 *Interest income on finance lease transactions*

There were no interest income on finance lease transactions during the year.

1.3 Interest expenses and similar charges: composition

Items/Technical forms *(€ thousands)*	Payables	Securities	Other transactions	31.12.2018	31.12.2017
1. Financial liabilities measured at amortised cost					
1.1 Payables to central banks	(51)	X	X	(51)	(122)
1.2 Loans to banks	(2,507)	X	X	(2,507)	(2,048)
1.3 Loans to customers	(11,790)	X	X	(11,790)	(13,312)
1.4 Outstanding securities	X	(14,645)	X	(14,645)	(13,502)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities measured at fair value	(9)	-	-	(9)	(337)
4. Other liabilities and funds	X	X	-	-	
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	-	-
Total	**(14,357)**	**(14,645)**	**-**	**(29,002)**	**(29,321)**

1.4 Interest expenses and similar charges: other information

1.4.1 Interest expenses on foreign-currency liabilities

(€ thousands)	31.12.2018	31.12.2017
a) on liabilities in foreign currency	(2,143)	(1,286)

1.4.2 Interest expenses on finance lease transactions

There were no interest expenses on finance leases during the year.

1.5 Differentials relating to hedging transactions

During the year, there were no differentials relating to hedging transactions.

Section 2 COMMISSIONS – ITEMS 40 AND 50

2.1 Commission income: composition

Service type/Values *(€ thousands)*	31.12.2018	31.12.2017
a) Guarantees given	**3,647**	**3,611**
b) Credit derivatives	**-**	**-**
c) Management, brokerage and advisory services:	**29,785**	**29,041**
1. trading in financial instruments	-	-
2. currency trading	741	758
3. portfolio management	-	-
3.1 Individual	-	-
3.2 Collective	-	-
4. custody and administration of securities	332	362
5. custodian bank	-	-
6. placement of securities	15,223	15,414
7. order reception and transmission activity	890	943
8. consultancy activity	105	-
8.1 on investment	-	-
8.2 on financial structure	105	-
9. distribution of third party services	12,494	11,564
9.1 portfolio management	-	-
9.1.1 Individual	-	-
9.1.2 Collective	-	-
9.2 insurance products	8,053	7,476
9.3 other products	4,441	4,088
d) Collection and payment services	**8,052**	**8,010**
e) Servicing for securitisation transactions	**-**	**-**
f) Services for factoring transactions	**-**	**-**
g) Tax collection and treasury services	**-**	**-**
h) Management of multilateral trading facilities	**-**	**-**
i) Current account maintenance and management	**41,286**	**41,799**
j) Other services	**16,510**	**15,434**
Total	**99,280**	**97,895**

2.2 Commission income: distribution channels for products and services

Channels/Values *(€ thousands)*	31.12.2018	31.12.2017
a) At its own branches:	**27,717**	**26,978**
1. portfolio management	-	-
2. placement of securities	15,223	15,414
3. third party services and products	12,494	11,564
b) Indirect sales channels:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
c) Other distribution channels:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-

2.3 Commission expenses: composition

Services/Values *(€ thousands)*		31.12.2018	31.12.2017
a)	**Guarantees received**	**(291)**	**(282)**
b)	**Credit derivatives**	**-**	**-**
c)	**Management and brokerage services:**	**(2,302)**	**(2,164)**
	1. trading in financial instruments	(1,814)	(1,658)
	2. currency trading	(166)	(156)
	3. portfolio management:	-	-
	3.1 own	-	-
	3.2 delegated by third parties	-	-
	4. custody and administration of securities	(322)	(350)
	5. placement of financial instruments	-	-
	6. indirect sales channels for financial instruments, products and services	-	-
d)	**Collection and payment services**	**(549)**	**(560)**
e)	**Other services**	**(7,026)**	**(6,683)**
	1. POS, ATM data transmission fees	(4,014)	(3,638)
	2. banking network transmission fee	(758)	(778)
	3. others	(2,254)	(2,267)
Total		**(10,168)**	**(9,689)**

Section 3 DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: composition

Items/Income	**31.12.2018**		**31.12.2017**	
(€ thousands)	**Dividends**	**Similar income**	**Dividends**	**Similar income**
A. - financial assets held for trading	-	-	-	-
B. Other financial assets compulsorily measured at fair value	80	818	-	-
C. Financial assets measured at fair value with impact on overall profitability	2,226	-	192	4,284
D. Equity investments	-	-	-	-
Total	**2,306**	**818**	**192**	**4,284**

Section 4 NET RESULT OF TRADING – ITEM 80

4.1 Net result of trading

Trades/Income components *(€ thousands)*		**Capital gains (A)**	**Trading profits (B)**	**Capital losses (C)**	**Trading losses (D)**	**Net result [(A+B) – (C+D)]**
1.	**Financial assets held for trading**	**12,943**	**20,700**	**(17,758)**	**(12,699)**	**3,186**
1.1	Debt securities	80	57	(40)	(66)	31
1.2	Equity securities	-	-	-	-	-
1.3	UCITS units	-	-	-	-	-
1.4	Loans	-	-	-	-	-
1.5	Other	12,863	20,643	(17,718)	(12,633)	3,155
2.	**Financial liabilities held for trading:**	**-**	**-**	**-**	**-**	**-**
2.1	Debt securities	-	-	-	-	-
2.2	Payables	-	-	-	-	-
2.3	Other	-	-	-	-	-
3.	**Other financial assets and liabilities: differences in exchange rates**	**X**	**X**	**X**	**X**	**-**
4.	**Derivative instruments**	**571**	**1,702**	**(114)**	**(2,519)**	**(360)**
4.1	Financial derivatives:	571	1,702	(114)	(2,519)	(360)
	- on debt securities and interest rates	571	1,598	(114)	(2,391)	(336)
	- on equity securities and share indices	-	104	-	(128)	(24)
	- on currencies and gold	X	X	X	X	-
	- other	-	-	-	-	-
4.2	Credit derivatives	-	-	-	-	-
	of which: natural hedges associated with fair value option	X	X	X	X	-
	Total	**13,514**	**22,402**	**(17,872)**	**(15,218)**	**2,826**

The sub-item "Financial derivatives – on debt securities and interest rates" relates to margins and spreads on trading IRS, futures and options on securities and rates.
The "Net profit" column includes gains, losses, capital gains and capital losses on currency transactions and currency and gold derivatives.

Section 5 NET RESULT OF HEDGING – ITEM 90

5.1 Net result of hedging: composition

There were no hedging transactions during the year.

Section 6 GAINS (LOSSES) ON SALE/REPURCHASE – ITEM 100

6.1 Gains (losses) on sale/repurchase: composition

Income items/components (€ thousands)		31.12.2018			31.12.2017		
		Earnings	Losses	Net result	Earnings	Losses	Net result
	Financial assets						
1.	Financial assets measured at amortised cost	3,147	(2,329)	818	1,078	(3,949)	(2,871)
	1.1 Loans to banks	-	-	-	-	-	-
	1.2 Loans to customers	3,147	(2,329)	818	1,078	(3,949)	(2,871)
2.	Financial assets measured at fair value with impact on overall profitability	3,770	(2,165)	1,605	20,033	(6,755)	13,278
	2.1 Debt securities	3,770	(2,165)	1,605	20,033	(6,755)	13,278
	2.2 Loans	-	-	-	-	-	-
	Total assets	**6,917**	**(4,494)**	**2,423**	**21,111**	**(10,704)**	**10,407**
	Financial liabilities						
1.	Payables to banks	-	-	-	-	-	-
2.	- amounts due to customers	-	-	-	-	-	-
3.	Outstanding securities	308	-	308	421	-	421
	Total liabilities	**308**	**-**	**308**	**421**	**-**	**421**

Section 7 NET RESULT OF OTHER ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

7.1 Net result of other financial assets and financial liabilities measured at fair value through profit or loss: composition of financial assets and liabilities designated at fair value

Trades/Income components (€ thousands)	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) – (C+D)]
1. Financial assets	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables to banks	-	-	-	-	-
2.3 - amounts due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	-
Total	-	-	-	-	-

7.2 Net result of other financial assets and financial liabilities measured at fair value through profit or loss: composition of financial assets and liabilities compulsorily designated at fair value

Trades/Income components (€ thousands)	Capital gains (A)	Gains on disposal (B)	Capital losses (C)	Losses on disposal (D)	Net result [(A+B) – (C+D)]
1. Financial assets	**2,496**	**682**	**(5,484)**	**(3,669)**	**(5,975)**
1.1 Debt securities	20	90	(1,039)	-	(929)
1.2 Equity securities	1,201	592	(876)	-	917
1.3 UCITS units	-	-	-	(169)	(169)
1.4 Loans	1,275	-	(3,569)	(3,500)	(5,794)
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	-
Total	**2,496**	**682**	**(5,484)**	**(3,669)**	**(5,975)**

Section 8 NET ADJUSTMENTS/WRITE-BACKS ON CREDIT RISK – ITEM 130

8.1 *Net value adjustments for credit risk relating to financial assets measured at amortised cost: composition*

Trades/Income components *(€ thousands)*	**Value adjustments (1)**			**Write-backs (2)**		**Total 31.12.2018**	**Total 31.12.2017**
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Other				
A. Loans to banks	**(49)**	**-**	**-**	**23**	**-**	**(26)**	**-**
- Loans	(11)	-	-	1	-	(10)	-
- Debt securities	(38)	-	-	22	-	(16)	-
of which: impaired receivables acquired or originated	-	-	-	-	-	-	-
B. Loans to customers	**(34,226)**	**(6,368)**	**(60,226)**	**38,639**	**23,951**	**(38,230)**	**(52,047)**
- Loans	(32,721)	(6,368)	(60,226)	38,627	23,951	(36,737)	(52,047)
- Debt securities	(1,505)	-	-	12	-	(1,493)	-
of which: impaired receivables acquired or originated	-	-	-	-	-	-	-
C. Total	**(34,275)**	**(6,368)**	**(60,226)**	**38,662**	**23,951**	**(38,256)**	**(52,047)**

8.2 *Net value adjustments for credit risk relating to financial assets measured at fair value with an impact on overall profitability: composition*

	Trades/Income components *(€ thousands)*	**Value adjustments (1)**			**Write-backs (2)**		**Total 31.12.2018**	**Total 31.12.2017**
		First and second stage	Third stage		First and second stage	Third stage		
			Write-off	Other				
A.	Debt securities	(1,050)		-	291	-	(759)	(5,064)
B.	Loans	-	-	-	-	-	-	-
	- To customers	-		-	-	-	-	-
	- To banks	-		-	-	-	-	-
of which: impaired financial assets acquired or originated		-	-	-	-	-	-	-
	Total	**(1,050)**	**-**	**-**	**291**	**-**	**(759)**	**(5,064)**

Section 9 GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS WITHOUT WRITE-DOWNS – ITEM 140

9.1 *Profit (loss) from contractual amendments: composition*

This item includes the effect of changes in conditions applied to credit positions without this resulting in the cancellation of the original position.

Section 10 ADMINISTRATIVE EXPENSES – ITEM 160

10.1 Personnel expenses: composition

Type of Charges/Values *(€ thousands)*	31.12.2018	31.12.2017
1) Employees	(96,987)	(98,477)
a) wages and salaries	(67,522)	(67,909)
b) social charges	(19,038)	(19,000)
c) severance indemnities	-	-
d) social security costs	-	-
e) Provision for employee severance indemnities	(3,049)	(3,130)
f) provision for retirement pensions and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(3,844)	(3,893)
- defined contribution	(3,844)	(3,893)
- defined benefit	-	-
h) costs arising from payment agreements based on own equity instruments	-	-
i) other employee benefits	(3,534)	(4,545)
2) Other personnel in service	-	-
3) Directors and Auditors	(1,344)	(1,294)
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	-	-
6) Reimbursement of expenses for third-party employees seconded to the company	-	-
Total	**(98,331)**	**(99,771)**

Item 3 "Directors and Auditors" includes remuneration paid to members of the company's Board of Directors and Board of Statutory Auditors.

10.2 Average number of employees by category

	31.12.2018	31.12.2017
1. Employees	**1,216**	**1,246**
a) Managers	38	40
b) Managers	508	505
c) Other employees	670	701
2. Other personnel	**-**	**-**
Total	**1,216**	**1,246**

The average number of employees does not include directors and auditors. Part-time employees are traditionally considered at 50%.

10.3 Defined-benefit pension funds: costs and revenues

There were no defined benefit pension provisions during the year.

10.4 Other employee benefits

Other employee benefits, the costs of which are shown in Table 9.1 (i) above, mainly include costs of €1.3 million for meal vouchers, personnel training expenses of €0.6 million and costs for insurance policies covering employees of €0.3 million.

10.5 Other administrative expenses: composition

	(€ thousands)	31.12.2018	31.12.2017
1.	Machine and software rental fees	(1,444)	(1,508)
2.	Vehicle, food and travel expenses reimbursement	(1,940)	(2,036)
3.	Professional fees	(9,339)	(7,289)
4.	Membership fees	(955)	(718)
5.	SEC management costs (data processing centre)	(12,401)	(11,188)
6.	Donations	(636)	(640)
7.	Building rental expenses	(4,435)	(4,521)
8.	Stamp duty and tax on stock exchange contracts	(13,563)	(13,207)
9.	Indirect taxes	(954)	(1,000)
10.	Insurance premiums	(954)	(897)
11.	Transport expenses	(936)	(999)
12.	Security expenses	(1,197)	(1,098)
13.	Electricity, heating and service charges	(2,130)	(2,044)
14.	Office supply expenses	(1,275)	(1,035)
15.	Information and title search costs	(2,684)	(2,878)
16.	Legal collection costs	(4,455)	(3,546)
17.	Property, furniture and plant maintenance expenses	(5,116)	(4,630)
18.	Advertising and entertainment expenses	(2,921)	(3,013)
19.	Cleaning costs	(972)	(1,002)
20.	Telephone, postal, data and telex charges	(2,893)	(2,577)
21.	Taxes and charges	(3,049)	(2,711)
22.	Treasury Consortium	(67)	(104)
23.	Other expenses	(8,486)	(6,014)
	Total	**(82,802)**	**(74,655)**

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 given: composition

	(€ thousands)	Total 31.12.2018	Total 31.12.2017
a)	Net provision for commitments to provide funds	(917)	(139)
b)	Net provision for financial guarantees issued	1,744	74
c)	Use for enforcement of guarantees	104	13
Total		**931**	**(52)**

11.2 Net provisions relating to other commitments and other guarantees issued: composition

At the reporting date there are no provisions relating to other commitments and other guarantees.

11.3 Net provisions for other provisions for risks and charges: composition

(€ thousands)	31.12.2018	31.12.2017
a) Provisions for various civil actions, bankruptcy clawbacks and other charges	(5,506)	(3,006)
b) Net provisions for other personnel expenses	-	-
c) Release of provisions	443	316
Total	**(5,063)**	**(2,690)**

Section 12 NET ADJUSTMENTS/WRITE-BACKS TO TANGIBLE ASSETS – ITEM 180

12.1 Net value adjustments to tangible assets: composition

Asset/income component (€ thousands)	Amortisation (a)	Value adjustments for deterioration (b)	Write-backs (c)	Net profit (a+b-c)
A. Intangible assets				
A.1 Own	(7,416)	(1,520)	-	(8,936)
- for functional use	(7,106)	-	-	(7,106)
- for investment	(310)	(1,520)	-	(1,830)
- inventories	-	-	-	-
A.2 Acquired under finance leases	-	-	-	-
- for functional use	-	-	-	-
- for investment	-	-	-	-
Total	**(7,416)**	**(1,520)**	**-**	**(8,936)**

Value adjustments relate to the results of valuations, performed under IFRS 5, of tangible assets classified as "assets held for sale".

Section 13 NET ADJUSTMENTS/WRITE-BACKS ON INTANGIBLE ASSETS – ITEM 190

13.1 Net value adjustments on intangible assets: composition

Asset/income component (€ thousands)	Amortisation (a)	Value adjustments for deterioration (b)	Write-backs (c)	Net profit (a+b-c)
A. Intangible assets				
A.1 Own	(1,163)	-	-	(1,163)
- generated internally by the company	-	-	-	-
- Other	(1,163)	-	-	(1,163)
A.2 Acquired under finance leases	-	-	-	-
Total	**(1,163)**	**-**	**-**	**(1,163)**

The results of the recoverability tests of the goodwill recorded in the financial statements did not determine any value adjustments for the 2018 financial year.
For further information on the determination of impairment losses on goodwill, see Part A - Accounting policies.
For a description of the methods of impairment testing of goodwill, see "Part B, Section 9, Intangible Assets" of these explanatory notes.

Section 14 OTHER OPERATING INCOME/EXPENSES – ITEM 200

14.1 Other operating expenses: composition

(€ thousands)	**31.12.2018**	**31.12.2017**
1. Cash differences, materiality and management	(36)	(81)
2. Losses for receivables from the Deposit Protection Fund	-	-
3. Other expenses	(2,947)	(1,810)
Total	**(2,983)**	**(1,891)**

14.2 Other operating income: composition

(€ thousands)	**31.12.2018**	**31.12.2017**
1. Building rental expenses	814	821
2. Recovery of operating expenses	6,027	6,278
3. Charges to third parties for various recoveries	13,993	13,771
4. Other income	1,186	2,021
Total	**22,020**	**22,891**

Section 15 PROFITS (LOSSES) ON EQUITY INVESTMENTS – ITEM 220

15.1 Profits (losses) on equity investments: composition

Income/Values Component *(€ thousands)*	**31.12.2018**	**31.12.2017**
A. Income	193	90
1. Revaluations	-	-
2. Profits from disposal	-	-
3. Write-backs	193	90
4. Other income	-	-
B. Expenses	(171)	-
1. Write-downs	-	-
2. Impairment losses	(171)	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net result	**22**	**90**

Section 16 NET RESULT OF MEASUREMENT AT FAIR VALUE OF TANGIBLE AND INTANGIBLE ASSETS – ITEM 230

16.1 Net result of measurement at fair value (or at the revalued value) or the presumed realisable value of tangible and intangible assets: composition

During the year and in the previous year, there were no gains or losses from measurement at fair value of tangible and intangible assets.

Section 17 VALUE ADJUSTMENTS FOR GOODWILL – ITEM 230

17.1 *Value adjustments for goodwill: composition*

The results of the verifications of the recoverability of the goodwill carried in the financial statements did not result in any impairment losses for 2018.
See the information provided in "Part A - Accounting policies" for a detailed analysis of the method of determining impairment losses on goodwill.
For a description of the methods of impairment testing of goodwill,see "Part B, Section 9" - Intangible Assets of these explanatory notes.

Section 18 PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 250

18.1 *Profits (losses) on disposal of investments: composition*

Income/Values Component *(€ thousands)*	**31.12.2018**	**31.12.2017**
A. Real property	2,158	249
- Profits from disposal	2,158	249
- Losses on disposal	-	-
B. Other assets	18	57
- Profits from disposal	28	58
- Losses on disposal	(10)	(1)
Net result	**2,176**	**306**

Section 19 INCOME TAXES ON CURRENT OPERATIONS – ITEM 270

19.1 *Income taxes on current operations*

	Income/Values Component *(€ thousands)*	**IRES Corporation Tax**	**IRAP (Regional Business Tax)**	**31.12.2018**	**31.12.2017**
1.	Current taxes (-)	-	-	-	(1,442)
2.	Change in current taxes over previous years (+/-)	-	-	-	657
3.	Reduction of current taxes for the year (+)	35	-	35	-
4.	Change in deferred tax assets (+/-)	(11,807)	2,005	(9,802)	351
5.	Change in deferred taxes (+/-)	1,086	254	1,340	351
5 bis.	Transfer from tax provision item 270 to tax provision item 60a SP	-	-	(1,390)	-
6.	Income taxes for the year (-)(-1+/-2+3+/-4+/-5)			(9,817)	(8,626)

19.2 Reconciliation between the theoretical tax charge and the actual tax charge in the financial statements

(€ thousands)	IRES Corporation Tax	%
IRES tax with application of nominal rate	**12,120**	**27.50%**
Capital losses on exempt equity investments	47	0.11%
Non-deductible interest expense	-	0.00%
Non-deductible costs	744	1.69%
Total tax effect of increases	**791**	**1.80%**
Dividends	(670)	-1.52%
Capital gains/revaluations of PEX equity investments	(446)	-1.01%
Other decreases	(2,533)	-5.75%
Total tax effect of decreases	**(3,649)**	**-8.28%**
Corporation tax charged to the income statement	**9,262**	**21.02%**

(€ thousands)	IRAP (Regional Business Tax)	%
IRAP tax with application of nominal rate	**2,253**	**5.11%**
Personnel expenses	142	0.32%
Net value adjustments for impairment	-	0.00%
Non-deductible interest expense	-	0.00%
Other increases	942	2.14%
Total tax effect of increases	**1,084**	**2.46%**
Dividends	(59)	-0.13%
Losses on disposal of FVOCI equity investments	(7)	-0.02%
Other decreases	(2,716)	-6.17%
Total tax effect of decreases	**(2,782)**	**-6.32%**
IRAP taxes charged to the income statement	**555**	**1.25%**

The higher values subject to substitute tax are considered to be recognised for tax purposes as of the beginning of the tax period during which the substitute tax is paid.

Section 20 PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX - ITEM 290

20.1 Profit (Loss) on discontinued operations after tax

There were no profits or losses from discontinued operating activities after tax during the year for which to report composition.

20.2 Detail of income taxes relating to discontinued operations

No income taxes were levied on discontinued operations during the year.

Section 21 OTHER INFORMATION

21.1 Collection of receivables on behalf of third parties: adjustment to debit and credit

(€ thousands)	**31.12.2018**	**31.12.2017**
a) 'Debit' adjustments	**745,285**	**742,200**
1. Current accounts	188,749	169,949
2. Central Portfolio	550,134	564,866
3. Cash	6,100	7,310
4. Other accounts	302	75
b) 'Credit' adjustments	**837,679**	**749,556**
1. Current accounts	205,821	182,173
2. Assigned effects and documents	630,761	566,371
3. Other accounts	1,097	1,012

Section 22 EARNINGS PER SHARE

The methods of calculating basic earnings per share are defined by IAS 33 Earnings per Share. Basic earnings per share is defined as the relationship between the net income attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.
Diluted earnings per share reflects the dilutive effects of the conversion of potential ordinary shares, defined as financial instruments that grant their holders the right to obtain ordinary shares. Accordingly, when calculating the account, the numerator and denominator of the ratio are adjusted to take account of the effects of the additional shares that would have been outstanding if all potential ordinary shares with dilutive effects were converted.

	31.12.2018	**31.12.2017**
Basic earnings per share	0.70	0.49
Diluted earnings per share	0.70	0.49

Earning per Share (or EPS) is a performance measure that provides an indicator of shareholder participation in the result for the year and is obtained by comparing profit for the year with the weighted average of outstanding shares.

	31.12.2018	**31.12.2017**
Weighted average of ordinary shares	48,965,086	49,259,191
Dilution adjustment	-	544,332
Weighted average of ordinary shares with diluted capital	48,965,086	49,803,523

At the reporting date there were no operations with dilutive effects. The dilutive effects existing at 31 December 2017, relating to the loyalty bonus granted to the shareholders of the Banca Popolare di Marostica Group during the merger by incorporation that took effect on 1 April 2015, were extinguished during the year as a result of the free capital increase completed following the fulfilment of the established requirements.

22.1 Average number of ordinary shares with diluted capital

At the reporting date there were no transactions with dilutive effects on the number of shares.

22.2 Other information

There is no significant information other than that indicated in the preceding sections.

Part D Overall profitability

Analytical statement of comprehensive income

Items *(€ thousands)*		31.12.2018	31.12.2017
10.	**Profit (Loss) for the year**	**34,257**	**24,277**
	Other income not reversed to the income statement	(9,018)	78
20.	Equity securities designated at fair value with an impact on overall profitability	(9,227)	-
	a) change in fair value	(9,103)	-
	b) transfers to other components of shareholders' equity	(124)	-
30.	Financial liabilities designated at fair value through profit or loss (changes in creditworthiness)	-	-
	a) change in fair value	-	-
	b) transfers to other components of shareholders' equity	-	-
40.	Hedging of equity instruments designated at fair value with an impact on overall profitability	-	-
	a) change in fair value (hedged instrument)	-	-
	b) change in fair value (hedging instrument)	-	-
50.	Physical assets	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(332)	108
80.	Non-current assets and groups of assets held for sale	-	-
90.	Share of valuation reserves of equity investments measured at equity	-	-
100.	Income taxes relating to other income components not reversed to income statement	541	(30)
	Other income components reversed to income statement	(9,588)	6,147
110.	Hedging of foreign investments:	-	-
	a) changes in fair value		
	b) reversal in income statement		
	c) other changes		
120.	Exchange rate differences:	-	-
	a) changes in value		
	b) reversal in income statement		
	c) other changes		
130.	Cash flow hedges:	-	-
	a) changes in fair value		
	b) reversal in income statement		
	c) other changes		
	of which: result of net positions		
140.	Hedging tools (Non-designated items):		
	a) changes in value		
	b) reversal in income statement		
	c) other changes		
150.	Financial assets (other than equity securities) measured at fair value with an impact on overall profitability	(14,594)	9,370
	a) changes in fair value	(12,073)	7,674
	b) reversal in income statement	(2,521)	1,696
	- adjustments for credit risk	758	-
	- gains/losses on disposal	(3,279)	1,696
	c) other changes	-	-
160.	Non-current assets and groups of assets held for sale	-	-
	a) changes in fair value		
	b) reversal in income statement		
	c) other changes		
170.	Share of valuation reserves of equity investments measured at equity	-	-
	a) changes in fair value		
	b) reversal in income statement	-	-
	- impairment adjustments		
	- gains/losses on disposal		
	c) other changes		
180.	Income tax on other income components reversed to the income statement	5,006	(3,223)
190.	**Total other income components**	**(18,606)**	**6,225**
200.	**Overall profitability (item 10+190)**	**15,651**	**30,502**

PART E INFORMATION ON RISKS AND RELATED HEDGING POLICIES

In view of the significant regulatory changes and the complexity of the operating environment, Volksbank attaches particular importance to risk management and control, which must be safeguards for the creation of value in a context of controlled risk, in line with the objectives of current and prospective profitability as defined by the competent decision-making bodies.

The progressive refinement of the concept of the *Risk Appetite* Framework, together with the definition of operating limits and the parameters for assessing compliance with them, particularly with regard to loan disbursement and management processes, are the main areas operational focus as defined by the Board of Directors.

In this context, Volksbank's internal control system ensures:

- clear identification of the responsibilities for assuming risks;
- measurement and control systems aligned with current best practice;
- organisational separation between functions responsible for management and functions responsible for control.

INTERNAL AUDIT

In accordance with the provisions of the Supervisory Regulations issued by the Bank of Italy and in accordance with the Combined Bank of Italy - Consob Regulations, in implementation of Article 6, paragraph 2-bis of the Italian Consolidated Finance Act of 29 October 2007, the Internal Audit Office of Volksbank (hereinafter the Office) assumes the role of internal audit function.

Internal Audit activities are designed on one hand to monitor, in terms of third level checks and on-site inspections, the propriety of operations and the evolution of risks, while on the other hand, to assessing the completeness, adequacy, functionality and reliability of the organisational structure and other components of the Internal Control System, bringing possible improvements to the attention of corporate bodies, particularly with regard to the Risk Appetite Framework (RAF), the risk management process, and the instruments for measuring and controlling them.

The Office operates within the context of an integrated corporate assessment model for the internal control system, on the basis of a risk-based, process-oriented approach, primarily designed to enable company departments to conduct integrated risk analysis and organisational and control measures.

The integration is based primarily on the use of a corpus of information shared between all the departments involved (primarily company control functions, but also the operational functions concerned from time to time) and on increasing interaction between the company control functions. In addition to the creation of specific reciprocal information flows, a particularly important role has been played by the Internal Control Committee since its establishment in 2014. The Committee is composed of the heads of the three corporate control functions with a mission of facilitating operational coordination, the exchange of information and the generation of synergies in the performance of their respective duties.

The Office operates independently and does not report hierarchically to any Head of operational departments. It reports directly to the Board of Directors, including through the Risk Committee. These bodies are systematically kept up to date with the results of verifications performed and are specifically advised of any critical issues encountered during the course of the Office's activities.

The Office has budgetary autonomy, which enables it to avail itself, ***inter alia***, of external consultancy. It also has a right of access to all activities performed by the Bank at its central offices, branches and with outsourcers.

The appointment and dismissal of the Head and the Deputy Head of the Office is the exclusive responsibility of the Board of Directors, following consultation with the Board of Statutory Auditors. the Board also approves the rules for Internal Audit.

The Office operates in accordance with the annual/multi-year plan of action drawn up by the Head of the Office, using a risk-based and process oriented approach that is approved by the Board of Directors. In this regard, the Office:

- assesses the completeness, adequacy, functionality and reliability of the other components of the internal control system, the risk management process and other corporate processes, while also assessing the ability to identify errors and irregularities. In this context, it subjects, ***inter alia***, the company's Risk Management and Compliance/Anti-Money Laundering departments to verification;

- assesses the effectiveness of the process for definition of RAF, the internal consistency of the overall plan, the compliance of company operations with the RAF, and their compliance with strategies approved by company bodies;
- verification, including by means of inspections:
    - of the regularity of the various corporate activities, including outsourced activities, and the evolution of risks both in the Bank's central offices and in the branches;
    - of compliance with the regulations at all company levels;
    - of compliance, in the various operating sectors, with the limits established by delegation mechanisms, and of full and proper use of the information available in the various activities;
    - of the effectiveness of the powers of the risk control function to give preliminary opinions on the consistency of major transactions with the RAF;
    - of the adequacy and correct functioning of processes and methods for assessing corporate assets, in particular financial instruments;
    - of the adequacy, overall reliability and security of the information system (by means of ICT audit);
    - of the elimination of anomalies detected in the operation and functioning of controls (follow-up activities);
- performs regular tests of the functioning of operating and internal control procedures;
- performs detection duties, including in relation to specific irregularities;
- regularly performs verifications of the business continuity plan;
- in the event that, in the context of collaboration and exchange of information with the entity responsible for the statutory audit, it becomes aware of critical issues that may arise during the statutory audit of the accounts, it ensures that the competent company departments adopt the safeguards necessary to overcome such critical issues.

In order to perform its activities correctly and effectively and efficiently, the Office:

- has access to all company documentation and information;
- may use any necessary external support to obtain any technical or specialist skills, or skills any other kind, on the basis of a formal agreement. Any such agreement shall not result in the Office delegating any of its responsibilities;
- in cases where it has not participated directly, it is kept informed of relations with the Authorities, and in particular with the Supervisory Authorities;
- collaborates with the various levels of the Organisation, with the Board of Statutory Auditors, and with other entities responsible for control activities (in particular with Risk Management, Compliance/Anti-Money Laundering, etc.).

In pursuit of its mission, the Office is inspired by the rules of conduct (the Code of Ethics) established by the Board of Directors of the Institute of Internal Auditing (hereinafter the "IIA"), which each auditor must comply with. These rules are based on four principles briefly described below:

- integrity. Internal auditing is undertaken with the utmost care, honesty, diligence and professionalism. Operators in the Office must not knowingly engage in any illegal activity or take any action that could bring the profession or the organisation for which they operate into disrepute;
- objectivity. The assessments made must take into account all material facts and must not be influenced by other persons or specific interests. The person who makes an assessment must therefore maintain their independence of judgment, analysis and constructive criticism. Office operators must report all known significant facts, the omission of which could provide an altered picture of the activities analysed;
- confidentiality. Persons operating in the Office are bound by the confidentiality of the information that they disclose during the course of their work and are therefore required not to disclose such information without prior authorisation, unless they are required to do so for legal and/or ethical reasons. Information obtained must not be used for personal benefit or in a manner that is contrary to law or to the ethical and legitimate objectives of the organisation;
- expertise. Office operators must only perform services for which they have the necessary knowledge, expertise and experience. They are also required to continually improve their level professional qualification and the effectiveness and quality of their services. It should be noted in this regard that Office personnel follow a path of skill enhancement and development through participation in courses and conferences on specific thematic/regulatory areas and through an ongoing process of professional self-training.

The Office possesses an Internal Audit Charter that includes the principal elements of professional standards, covering: purpose, authority, independence, objectivity, responsibility, services and activities, types and methods of audits, the internal control system, risk assessment and code of ethics.
In addition to the Charter, the Office uses an "Operating Manual" that describes the main operating methods of the Internal Audit unit, such as the methodological approach for the execution of an audit, standardised work plans for process audit and standardised work plans with control points for audits of the commercial network.

COMPLIANCE DEPARTMENT

The Compliance Department's mission is to identify, mitigate and monitor compliance risk, which is understood as the risk of non-compliance laws, regulations, and internal and external codes of conduct, while also protecting the company's reputation and the quality of services provided to customers.
The Compliance Department operates independently and autonomously within the corporate structure, functionally reporting only to the Board of Directors, which is the natural recipient of institutional assessments. The current mandate of the Compliance Department was approved by the Board of Directors at its meeting of 22 September 2017.

The main responsibilities of the Compliance Department concern:
- governance and management of the compliance process in oversight of all of the Bank's activities, according to an approach based on the degree of risk of non-compliance. For each activity that exposes the Bank to compliance risk, the tools and methods are identified to achieve pre-established objectives of regulatory and operational compliance, with the activation specialised safeguards where necessary;
- oversight of the effectiveness over time of organisational safeguards for the purposes of mitigating the risk of non-compliance and, where necessary, activating mitigating measures to eliminate or in any case minimise risks;
- ongoing identification the rules applicable to the Banca Popolare dell'Alto Adige and assessment of their impact on company processes and procedures, where necessary alerting the competent organisational units to the necessary adjustments;
- consultancy, support and training in compliance, provided to both senior management and to functional structures within the organisation;
- assessment and periodic verification of the overall state of conformity;
- reporting to senior management and corporate bodies;
- management of relations with banking and financial supervisory authorities and with public institutions that control the conduct of certain sectors of the economy (authorities).

During the 2018 financial year, the Compliance Department systematically monitored legislative and regulatory developments, informing the internal services involved. It interacted on a daily with company bodies and structures, through *ex-ante* consultancy and verification activities, regarding the adequacy of safeguards put in place to mitigate the risks of non-compliance and *ex-post* verification of the consistency of operational conduct. These activities were structured and formalised through:
- annual planning of ordinary activities;
- regulatory alerts to internal organisational units
- analytical reports on the organisational impact of the new regulations;
- ordinary verification reports in implementation of the annual plan, and extraordinary reporting if necessary;
- regulatory consultancy reports when requested by the various company departments when developing new projects and services or planning organisational changes;
- on the basis of such reports, informing corporate departments of the organisational measures necessary to achieve and maintain compliance with regulations;
- verification of the correct adoption by company departments of organisational measures following compliance reports;
- training on regulations that effect corporate organisational functions;
- periodic interim reports to the Board of Directors and its committees;

- the annual report for the 2018 financial year, submitted to and approved by the Board of Directors.

The Compliance Department operates within the "System of internal controls - Coordination, integration and information flows between the control functions", the activities of which are coordinated within the Internal Control Committee, which is composed of the heads of the Bank's second and third level control functions. The objective of the System is to increase, including by the establishment of regulations, the level of awareness of risks on the part of the bodies responsible for company management.

Its activities mainly concerned the following areas:

- corporate governance;
- company strategies and policies;
- remuneration and incentive systems;
- management of conflicts of interest;
- investment services;
- market abuse;
- credit and anti-usury processes;
- regulatory reporting;
- new products and services;
- the Transparency and Payment Service Directive (PSD);
- Insurance mediation;
- Taxation;
- Support for management of the Organisational Model pursuant to Legislative Decree 231/2001 and the Code of Ethics;
- the internal control system;
- privacy and data protection: in this context, following the resolution adopted by the Board of Directors in its capacity as Data Controller, a member of the Compliance Function has been assigned the role of Data Protection Officer, which has been mandatory for the Bank since 25 May 2018, in application of the European Data Protection Regulation.

The Compliance Department plays a decisive role in protecting the reputation of its clientèle and the community at large: it is therefore also responsible for compliance with the Code of Ethics that the Board of Directors adopted since 2005. Efficient and effective compliance monitoring in this area contributes to the establishment and growth of reputational assets. The Compliance Department therefore represents a benefit both for consumers, who have a point of contact within the company for their rights and grievances, and for the company itself, by virtue of the creation of reputational value that this safeguard can produce.

RISK MANAGEMENT

With the mandate of the Risk Management Department, the first draft of which as approved on 20 December 2012 and reviewed in December 2018, the Board of Directors formalised the duties and competences of the risk control department, which was established in Volksbank in 2003. The mandate implements all the most recent national and international legislation on the role and requirements of the company control functions, to which the Risk Management Department belongs, within the wider internal control system, and which specifically establish:

- independence requirements for all corporate control functions;
- adequate professionalism for managers and staff of departments, excluding their responsibility or direct participation in operational areas subject to control;
- specific planning and reporting of control activities to be provided annually to company bodies.

The mandate therefore establishes that the Risk Management Department is hierarchically and functionally dependent directly on the Board of Directors. The head of the Risk Management Department communicates and reports on his/her work to the Board of Directors and fulfils the mandate granted to the Department independently.

Within the Internal Control System, the purpose of risk control is to implement Volksbank's risk governance policies through an adequate risk management process.
In 2015 the Risk Committee was established pursuant to Bank of Italy Circular No. 285/2013 as an internal advisory committee within the Board of Directors to advise the Board on the risks and internal control system. It is composed of between three and five non-executive directors and has the task of:
- identifying and proposing the appointment of heads of company control functions;
- examining in advance the programmes of activity and annual reports of the functions;
- providing assessments and opinions to the Board of Directors on compliance with the principles to which the Internal Control System and the company organisation must conform, and on the requirements to be fulfilled by the company control functions, drawing the Board's attention to any weaknesses and the resulting corrective actions to be taken;
- verifying that the corporate control functions comply correctly with the Board's instructions and guidelines and assisting the Board in drafting the coordination document;
- defining and approving the strategic guidelines and risk governance policies (RAF), performing the assessment and proactive activity necessary for the Board, acting as a strategic supervisor, to define and approve the risk objectives and tolerance threshold;
- supporting the Board of Directors in verifying proper implementation of risk governance strategies, policies and the RAF;
- supporting the Board of Directors in defining the policies and processes for assessment of corporate activities, including verifying that the price and terms of transactions with customers are consistent with the business model and risk strategies.

Also in 2018, efforts were stepped up to ensure the deeper penetration and dissemination, at all management and management levels, of the contents of the Volksbank Risk Management Policy, the annual review of which was approved by the Board of Directors on 21 December 2018. This fundamental document sets out, in a systematic and systematic manner, the policies for identifying, measuring, managing and controlling risks and the conditions for the informed assumption of such risks.
Primarily, the Policy contains a definition, in accordance with the provisions of the aforementioned Bank of Italy Circular No. 285/2013, of the so-called Risk Appetite Framework (RAF). The RAF is designed to define the business model and strategic plan of the Bank, in line with its maximum risk limits, according to the following fundamental values:
- risk appetite
- tolerance thresholds
- risk limits
- risk governance policies
- the processes of reference necessary to define and implement them.

The objective is to define the risks inherent in the Bank's individual business activities and to describe changes over time in the risk structure in order to guarantee accurate and timely control and management of risks. Any unfavourable changes can thus be identified early thanks to systematic oversight, ensuring the possibility of corrective action to the risk structure. The framework adopted provides for four levels of risk assumption based on the Bank's ability or willingness to take on risk and depends on its capital base, which is set aside to cover risks, its income capacity and the risk it is willing to take on in order to achieve its economic and strategic objectives:
- the potentially hedged risk (the "risk covering potential"), which represents the absolute limit of the risk that the Bank is able to assume, although this may compromise the continuation of its business, while protecting savers and preserving the stability and efficiency of the financial system – thus avoiding a contagion effect on the system. It reflects the Bank's ability to deal with adverse emergency or crisis scenarios;
- the Bank's "risk capacity", which represents the maximum amount of risk that the Bank may incur without compromising it as a going concern. It reflects the Bank's ability to confront and survive adverse, emergency or stress scenarios;
- the risk appetite, which constitutes the overall (or aggregated) level of risk by risk category that the Bank intends to assume in pursuit of its strategic objectives. It reflects the Bank's risk appetite in the context of the normal conduct of its business;

- risk tolerance, which represents the maximum deviation permitted by risk appetite. It represents the physiological deviation of risk accepted by the Bank from its propensity in the normal conduct of economic activity and is fixed in such a way as to ensure in any case that the Bank has sufficient margins to operate, even in stressful conditions, within the maximum risk that may be assumed.

On an annual basis, the body with strategic oversight function, i.e. the Board of Directors, with the support of the risk control function, verifies the adequacy of the RAF, and its compliance with Volksbank's business model, and quantifies risk objectives and any tolerance thresholds for each financial year, in accordance with the strategic objectives, in a document entitled the Risk Appetite Statement (RAS).

With regard to risk assessment, i.e. the activities with which the Bank periodically assesses the relevance and significance of each risk to which it is exposed, an evaluation method and scale is used that conform to the integrated verification method common to company control functions. In particular, the methodology requires that, for each risk category, its relevance takes into account - where possible - the probability that the risk will occur and the resulting impact. Each control function, in respect of its areas of expertise, is involved and shares the outcome of the audit.

Within the Internal Control System (ICS), the "integrated methodology", i.e. methods common to all corporate control functions, defines, in a homogeneous and consistent manner, the objectives, roles, procedures and techniques to be adopted in the design and assessment of the risk mitigation controls to be put in place at the Bank. This method requires involving and empowering process owners and the adoption of a bottom-up approach to identifying and assessing risks. The objective in all cases is to disseminate a risk-aware culture, expressed, *inter alia*, as the need for ever greater involvement of business functions, which must be aware of the risks generated by day-to-day operations and constant protection against them through adequate control measures.

With a direct connection to the main document, during 2018 a series of internal policies and regulations were produced, as always *ex novo*, defining in greater detail methods for managing specific risks. These include, in particular:

- the "Investment Policy" and the annexed "Operational limits and powers for finance and liquidity", which governs the management of market, exchange and interest rate risks;
- the "Liquidity and funding policy" which is structured to define guidelines for the Bank's operational and structural liquidity management, to define the strategies and processes for managing liquidity risk, for monitoring the Bank's net financial position, and for producing its emergency plans;
- the "Credit Risk Policy", which governs, in an integrated manner and in a single internal reference document, the entire complex management of credit risk, in line with the gradual evolution of the control and risk mitigation processes implemented in recent years;
- the "Operational Risk Policy", which provides an organic framework and a single reference document for the operational risk management system, in line with the gradual evolution of the control, monitoring and risk mitigation processes implemented in recent years, which are part of the more general integrated internal control system (SCI);
- the "ALM Policy", which designed to establish guidelines for asset/liability management, i.e. the process of managing assets and liabilities in the balance sheet. The ALM is a model that enables measurement – for all of the Bank's financial operations – of the level of interest rate risk, given the structure and repricing of rates and maturity of asset and liability positions, and a clear expression of the potential loss or profit arising from fluctuations in market rates;
- the "Strategic Risk Policy", which is designed to assist in reaching strategic and planning decisions that are:
    - consistent with and aware of the level of risk appetite assumed, avoiding in any way decisions that could jeopardise the Bank's ability to generate income and/or its capital base;
    - capable of anticipating and/or dynamically governing the risks associated with 'external' sources of randomness in the context of reference.
- the "Reputational Risk Policy", which sets out guidelines for the management of reputational risk at Volksbank. This risk, although difficult to measure and control, is particularly important for the banking sector, the business of which is essentially based on maintaining good fiduciary relationships with its customers and the general public;
- the "Policy for the valuation of company assets" which, for each asset item in the Balance Sheet, establishes rules and methodologies aimed at ensuring the reliability of valuation processes and methodologies, including for accounting purposes, of all corporate assets, integrating processes and methodologies with the risk management

process, ensuring that the valuation of a financial instrument is entrusted to a unit independent of the unit that trades it, ensuring the robustness and replicability of valuation methodologies, taking care to use, where possible, more than one information source, and to promote the verification of valuation methodologies even under stress scenarios;
- the "Model Risk Policy" which, in accordance with guidelines established by the European Banking Authority, governs the risk assessment and monitoring guidelines for potential negative consequences arising from decisions taken on the basis of the quantitative results obtained from unreliable or incorrectly used models;
- The "Stress Testing Policy" which sets out guidelines, operating procedures and organisation methods for the stress test system employed at Volksbank.
- the "Policy for the most significant transactions", which defines the criteria for identifying significant transactions and their valuation process, which also includes the phase of obtaining a prior opinion from Risk Management.

The most significant transactions are those that meet the following conditions:
- they do not come within the deliberative competence of the body with a management function;
- by type and amount, the transaction meets the criteria established in a special list, which is an integral part of the Policy.

As in previous years, in 2018 Volksbank calculated the so-called "first pillar" capital requirements for credit, market and operational risks using the so-called standardised methodology.

With regard to the ICAAP (Internal Capital Adequacy Assessment Process), a fundamental element of the "second pillar" of the Basel Agreement, the methods for calculating and analysing all types of risk and the stress tests to which they are subjected have been refined, with particular regard to credit risk, residual risk and concentration risk. Furthermore, the process was adjusted where necessary to ensure its consistency with both the risk framework and the objectives imposed by the RAF and the Bank's medium-term strategic planning. In this respect the prospective horizon of verifications has been extended to the entire planning period, i.e. 5 years, and the adequacy tests have taken into account the effects of the fully loaded application of the IFRS9 international accounting standards, i.e. with the inclusion of the entire effect of the so-called FTA (First Time Adoption) in the calculation of own funds.

Volksbank's ICAAP process requires two capital adequacy checks during the same financial year:
- the annual report, based on financial statement data and year-end reports, which results in the annual report to be sent to the Supervisory Board;
- the internal interim report, concerning the half-yearly data at the end of June.

During the year, ICAAP process stressed the need to supplement the Bank's capital base with tier 2 capital instruments to a total of €25 million. The issue and placement of subordinated bonds for the same amount, which was finalised in the last quarter of 2018, enables the Bank to pursue its strategic planning objectives in full compliance with the main BPAA risk appetite principles as set out in the RAF and the capital expectations indicated by the Supervisory Authority at the conclusion of the annual SREP (Supervisory Review and Evaluation Process), both of which were more stringent than the regulatory processes (Basel 3), also in view of the fully loaded conditions for inclusion of FTA (First Time Adoption) in the calculation of own funds.

Also in 2018, the Internal Liquidity Adequacy Assessment Process (ILAAP) was performed for the third time in order to assess the adequacy of internal liquidity, with reference to the processes for identifying, measuring, managing and monitoring internal liquidity. This was reported to the Supervisory Authority together with the ICAAP report, in accordance with the orders issued in the first half of 2018 by the Bank of Italy, which adopt the European Banking Authority's guidelines on the matter. The process demonstrated that BPAA's current liquidity management and governance system is robust and adequate to address strategic development programmes. The level of readily liquidable assets is such that the LCR indicator remains above regulatory thresholds and the Bank's short-term liquidity risk appetite with a safety margin that is more than sufficient, the funding plan is capable of supporting business in normal operating conditions and of meeting the medium to long-term liquidity risk appetite, with the NSFR coefficient continuously above the 110% threshold.

In 2018, the risk control function was also involved and consulted in the process of defining and drafting the new Volksbank Strategic Plan covering the five-year period 2019-2023. In this context, a Business Model Analysis process was developed in accordance with the models indicated by the SREP (Supervisory Review and Evaluation Process) and which is designed to assess the Bank's strategic risk in terms of the feasibility and sustainability of its strategies.

Also during 2018, topics relating to the new so-called Basel 3 framework were addressed on several occasions with varying degrees of detail and implementation. By this framework, the supervisory authorities intend to strengthen the prudential rules of the international banking system by introducing a new definition of capital aimed at strengthening capital through stricter requirements in terms of capital-quality instruments, establishing additional measures to reduce the pro-cyclicality of rules (capital buffers), imposing limits on leverage and promoting new liquidity management rules.
Finally, other significant activities of the risk control office concerned:

- the refinement and pervasiveness of quality control activities and the evolution of the Bank's loan portfolio, with particular reference to the consolidation of the processes resulting from the application of the impairment methods in compliance with IFRS9 accounting standards,
- the strengthening of protection against the IT risk, with particular reference to the monitoring of the information system that is outsourced to the SEC service centre in Padua and to data governance and data quality controls.

THE RISKS FACING THE BANK

CREDIT RISK

Credit risk is the risk of the total or partial insolvency of a borrower. This constitutes the main risk factor of Volksbank, in line with its characterisation as a bank oriented towards retail customers and small and medium-sized enterprises.
Consequently, Volksbank's credit risk management is designed on the one hand to improve processes for granting credit facilities to render them consistent with underlying risks, while on the other preventing any deterioration of the solvency of customers with loans through increasingly effective and reliable monitoring systems.
During 2018, credit risk management was entirely based on the provisions of the Credit Risk Policy, which was approved in its first draft in late 2011 and subjected to its annual review in December 2018. This document establishes an organic definition of management guidelines for all possible forms of credit risk, as defined in the more general risk policy (default risk, solvency risk, foreign currency exposure risk, risk of concentration of the loan portfolio, residual risk).
In particular, the document provides:

- the definition of economic risk appetite in relation to customer credit risk;
- the scope of application of the policy, expressly mentioning the Bank's reference values for lending that apply to the annual credit strategy and management policies;
- the organisational model, specifying the minimum responsibilities, roles and activities assigned to each of the company departments involved;
- a description of the credit risk management and control process, broken down into five key phases: the credit grant phase, the control and monitoring phase for assigned positions, the risk measurement and quantification phase, the adverse scenario analysis phase (stress tests), and the non-performing credit management phase;
- for each phase, the essential procedures for execution, monitoring and control are outlined, making regular reference to detailed internal documentation;
- risk mitigation techniques, i.e. the collateral collection and management process, with their implications for capital requirements;
- the "credit position monitoring" system, which relies on five pillars: specific monitoring assigned to periodic reviews, performance monitoring through the internal rating system, performance monitoring of individual exposures by the Risk Management Department as part of level 2 controls, the supervisory system and warning of positions at risk (early warning, GDC) and the monitoring of risk mitigation instruments;
- the model for recording the likelihood of official default of the loan portfolio and quantifying the expected and unexpected loss;
- the effects of credit risk on the Bank's assets and financial statements: identification of capital requirements for credit risk (Pillar I); regulatory and internal limits for concentration risk (Pillar II); criteria adopted for impairment losses on loans.

From an operational standpoint, the credit monitoring process is continuously guaranteed through an automatic system for classifying anomalous positions (GDC, Credit Management). This uses an early warning engine which, based on performance rating and other indicators calculated and entered on a daily basis, can report the emergence of potentially degraded situations. In addition, the system enables the streamlining internal process of classification and management of problem customers, which in turn is governed by a specific regulation that contains the details of the controls to be performed, the procedure for classifying anomalous positions, and the operating instructions for the administration and management of such positions.
In addition to the usual risk classes for non-performing loans established by the supervisory body (bad debts, unlikely to pay positions, impaired past due positions and forborne exposures), the system also establishes three classes of performing loans for customers, which are graduated according to the presence of anomaly indicators which, although not requiring classification into the category of non-performing loans, nevertheless require attentive management of the risk profile.
In particular, there is system in place to monitor and manage "pre-past two" positions, i.e. positions that have constantly overrun for more than 30 days, in order to prevent their deterioration to "past due" status.
With a view to improving credit quality and minimise risk, the following significant measures were adopted in 2017 as part of the credit disbursement, monitoring and periodic review processes:

- enhancement of the business line Workout, an office dedicated to the processing of non-performing positions which is separate from office dealing with performing loans, in particular with regard to the definition and execution of operations for the sale of non-performing loans;
- review of the credit assessment policy in order to incorporate changes introduced by the new IFRS9 accounting standard;
- update of overdraft management with a stricter logic according to the new IFRS9 accounting standards;
- recourse to the guarantee provided by MedioCredito Centrale either directly or in the form of a counter-guarantee to underwriting consortia;
- monitoring of adverse events on registry data through the recourse to an external provider;
- extending and strengthening 2nd level checks by the risk control office on performing credit positions, in addition to ongoing checks on non-performing credit positions.

In 2018, organisational and management methodologies and processes were also defined and implemented following the introduction of the new IFRS9 accounting standard, which replaced IAS39, and which governs the classification, measurement and impairment of financial instruments and therefore also loans to customers.
The adoption of credit risk mitigation methodologies for calculating the capital requirement for credit risk in accordance with Basel 3 regulations continues to require a precise definition of the estimation, assessment and periodic re-evaluation processes for properties used as mortgage guarantees, in order to comply with the eligibility and admissibility criteria for such guarantees. To this end, in 2018 the entire portfolio of mortgage guarantees provided was subjected to periodic revaluation using the services provided by Nomisma.
To ensure correct classification and assessment of credit exposures, the verification of the performance of individual positions by the risk control office was extended and enhanced in 2018. In this context, the Risk Management Department:

- verifies that performance monitoring of both performing and non-performing exposures takes place according to a methodical and systematic approach, in accordance with internal organisational processes;
- ensures that the said monitoring uses methods and procedures that:
  - enable prompt identification and reporting of any anomalies;
  - ensure that adjustments and reported losses are adequate;
- assesses, with regard to credit management:
  - whether classifications are consistent, i.e. whether the breakdown into credit classes complies with the requirements of internal regulations;
  - the adequacy of provisions, i.e. the adequacy of coverage of non-performing loans.
- verifies the adequacy of the debt recovery process, in particular:
  - that non-performing loans are correctly placed;
  - the reliability of estimates of recovery times and of the levels of irrecoverability of non-performing loans;

- the processing of guarantees, including the updating of specialist reports.

The controls performed by Risk Management Department take the form of:

- spot checks, using a predefined logic, of all categories of receivables;
- systematic checks, through the adoption of summary remote indicators applied to all outstanding exposures at every stage of the life of the receivable.

The capital requirement level was constantly monitored during the year as part of the ICAAP process. No significant changes were reported in the average level of weighting of exposures in the individual regulatory portfolios.

The quarterly credit risk report prepared for the Board of Directors serves as the means of reporting on the performance of the lending activities and the associated risks, together with the risk objectives (defined in the "RAF") and the objectives and guidelines defined in medium and long term strategic planning. The report contains, *inter alia*, an assessment of risk indicators (probability of default and estimation of expected losses), the methods adopted for calculations, and scenario analyses to assess the conduct of the loan portfolio in the face of unexpected events. In 2018, the structure and quality of information in the report was partially revised to render it more user-friendly and more responsive to the needs of management and control bodies.

A reduced report containing key information on the composition and overall risk level of the loan portfolio is also prepared on a monthly basis.

The assessment and control of credit risk was also the subject of monthly discussions within the Internal Loan Committee, during which the aforementioned monthly and quarterly reports and the detailed situation of the main non-performing positions were examined in detail.

MARKET RISK

Market risk is defined as the risk of loss on proprietary financial instruments arising from possible fluctuations in the financial market variables (interest rates, volatility, foreign exchange rates, share prices), considering scenarios in which each individual financial instrument is exposed to one or more of these risks. Volksbank then measures market risk as a change in the value of stocks due to market movements.

Volksbank uses a market risk measurement and control system based on the Value-at-Risk (VaR) method, on which it bases a system of maximum tolerable risk and loss limits (risk capital) over various time horizons. The VaR method calculates the maximum potential loss of a portfolio over a given time horizon and with a given probability, under normal market conditions. VaR is a homogeneous measurement system, applicable to all financial instruments, and thus enables a comparison of the risk values calculated from both a temporal and a daily profitability standpoint. In order to calculate the VaR, the Bank uses the parametric model of variance-covariance provided by the company Prometeia, supported by internal models which are used for the necessary verifications and for planning purposes: for example, VaR from Monte Carlo simulations and historical VaR using the Extreme Value Theory are cited for the highest confidence levels.

In addition to VaR and maximum sustainable loss analysis, market risk management is based, through specific limit systems, on the control of counterparty risk, country risk, the sensitivity of the portfolio to market rate risk (basis point value) and credit risk (credit risk sensitivity).

In order to avoid and prevent possible overruns in authorised risk limits, a standardised daily reporting system monitors and raises an alert when the threshold values are approached.

Thee Risk Management Department compiles a detailed and comprehensive monthly report on market risks relating to the proprietary portfolio. Finally, the Risk Management Department is tasked with continuously validating and verifying the pricing system for financial instruments held, in order to maintain a reliable price profile that is consistent with market prices (*fair value*).

COUNTERPARTY RISK

Counterparty risk is the risk that a counterparty to a transaction will fail to fulfil its obligations by the methods and deadlines established in the contract. Counterparty risk is regulated through a specific system of operating limits, based on a series of criteria for assessing the creditworthiness of counterparties, in separate form according to their type (corporate or financial).

The general rule that all financial transactions must be carried out exclusively with contracted counterparties also applies.

The limit for each counterparty is approved by the Board of Directors and may be employed by the Treasury and Investment services on the basis of specific percentage shares of the limit assigned to homogeneous categories of financial instruments.

INTEREST RATE RISK

With regard to the banking book, which corresponds to the Bank's entire commercial operations in relation to the transformation of the maturities of all balance sheet assets and liabilities, treasury, and hedging derivatives, changes in the structure of market interest rates may have unfavourable effects on net interest income and capital, and thus constitute a source of risk (interest rate risk).

The management and investment strategies for this portfolio are based on criteria for optimising the risk/return profile, and are implemented on the basis of expectations for interest rate trends. The Bank's investment policy is therefore focused on optimising interest margins and minimising their volatility (Asset & Liability Management).

The guidelines and regulations for the management of interest rate risk in the banking book are set out in the ALM Policy, together with the associated operating limits and mandates for financial and liquidity management. Two indicators are identified here, relating respectively to the sensitivity of the interest margin and the present value of the assets in the face of unfavourable changes in the rate curve.

The coverage of interest rate risk uses, in particular, the monthly data processing of the Ermas IT procedure of the company Prometei. The model for this procedure has gradually been refined in order to treat all assets and liabilities in the banking book in the most realistic and reliable manner possible.

In 2018 the risk profile of the Bank's banking book remained within the limits imposed by the risk assessment, in terms of both net interest income sensitivity and asset value sensitivity.

The verification and control of the interest rate risk profile is discussed on a monthly basis in the Finance Committee, during which a specific monthly report (ALM report) is presented by the Risk Management Department. In particular, the report includes a so-called fixing analysis that provides a daily illustration of the amount of the most important balance sheet items subject to rate change, broken down by indexing parameter. This enables, *inter alia*, monitoring of the actual natural hedging capacity of the banking book, in terms of both timing and amount, between assets and liabilities.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank may not be able to meet its payment obligations as they fall due and/or finance increases in its assets. It mainly takes the form of:

- inability to raise funds by financing itself on the market (funding liquidity risk);
- inability to mobilise funds by selling assets on the market (asset liquidity risk).

Awareness of the importance of liquidity risk, heightened by the current situation of crisis on the financial markets, in interbank relationships and with sovereign debts, especially with regard to the Euro Area and Italy in particular, was a key and ongoing area of focus in 2018.

In particular, in accordance with the information requirements set out the SREP guidelines of the European Banking Authority, the internal liquidity adequacy assessment process entitled ILAAP (Internal Liquidity Adequacy Assessment

Process) has was carried out once again. The results of this process as of 31 December 2017 were transmitted to the Supervisory Authority in April in the ICAAP/ILAAP Report.
Liquidity management is based on the instructions and operating guidelines set out in the liquidity and funding policy, which is constantly updated. An essential element of management is the distinction between short-term operating liquidity (with a time horizon of 12 months) and structural liquidity with a medium to long-term perspective (with a time horizon of more than 12 months). The former is to avoid situations of sudden liquidity strain caused by specific bank or market systemic shocks; the latter is due to the need to ensure optimal management, from a strategic standpoint, of the transformation of the maturities between deposits and loans, through an adequate balance of the maturities of the assets and liabilities, so as to prevent future liquidity crisis situations.
Methods for the measurement and control of operating and structural liquidity were defined through a system of indicators, limits and periodic reporting, including daily reporting. Furthermore, the organisational structure of the offices and departments responsible for liquidity management and the associated controls and the emergency plans to be implemented in the event of situations of stress or crisis - the so-called Contingency Funding Plan (CFP) - are also clearly defined.
Liquidity risk is calculated using the Liquidity at Risk (LaR) method, which estimates - at different confidence intervals - the liquidity requirement, which cannot be directly influenced by the Bank, over pre-defined time horizons. The cash flows of interest in the LaR analysis are the daily imbalances not attributable to decisions made by the Bank, i.e. flows that are "independent" of the Bank's will and therefore attributable to the activity of customers. This approach is used to verify the level of reserves and to assess, including from an ICAAP perspective, any internal capital requirement to be allocated to cover liquidity risk.
The liquidity situation is constantly monitored by the relevant offices on a weekly and monthly basis. The Contingency Funding Plan also provides a warning system which is monitored on the so-called Liquidity Monitor. This is based on the measurement of early warning indicators from both systemic and specific crisis indicators.
Indicators are appropriately weighted in order to identify five different operating situations that can be traced back to a progressive deterioration of the Bank's liquidity position: normal operating conditions - which in turn are broken down into situations of normality, under observation, and attention - a state of stress (emergency), and a crisis situation (a grave emergency).
The Treasury Service, which is responsible for managing operating liquidity, also employs the so-called liquidity synoptic chart, a daily report that briefly and exhaustively describes the liquidity situation in the short- to medium-term enabling prompt identification of critical situations and the maintenance of the indicator values at the desired levels.
The calculation and forwarding of monthly reports to the supervisory authority, as provided in the Basel 3 regulations, has been under way since 2015. The report contains a short-term indicator, the LCR (Liquidity Coverage Ratio), and a long-term indicator, the NSFR (Net Stable Funding Ratio).
With regard to the risk of excessive financial leverage, i.e. the risk that a particularly high level of indebtedness compared to equity could render the Bank vulnerable, requiring the adoption of corrective measures to its business plan, including the sale of assets involving the recognition of losses that could also entail impairment of the remaining assets, the Board of Directors annually defines, within the RAF, the Bank's risk appetite in terms of leverage, establishing a minimum leverage ratio (Tier 1 to total assets, as defined in Basel 3).
An analysis of the Bank's liquidity situation conducted in 2018 did not reveal any worrying situations of short-term or long-term tension, although, as can be seen from an analysis of systemic indicators, it did operate in a context characterised by low confidence among operators, particularly in view of the country risk associated with several Euro area nations, including Italy.
The Bank's policy has favoured the maintenance of a permanently consistent funding of liquidity reserves which is always sufficient to deal with possible situations of stress. To this end, all available instruments have been used, most recently those implemented by orders of the European Central Bank and the Italian Government. The Bank's proprietary securities portfolio is configured to guarantee an adequate liquidity reserve over time. To this end it has established appropriate investment rules in terms of duration, sector, issuer risk, eligibility, etc.
The ABACO refinancing channel, through which loans that meet specific eligibility requirements can be collateralised with the ECB, was activated extensively in 2016.

OPERATIONAL RISKS

Unlike credit and market risks, which the Bank inevitably assumes against remuneration for risky assets, operational risks can generate losses, without the Bank obtaining any remuneration. Operational risks are naturally inherent in the execution of processes, in the characteristics of the products and services offered, and in the possibility of being the subject of fraudulent or incidental events.
For these reasons, the Bank analyses the causes of operational losses and systematically detects and measures events with the aim of limiting and reducing the relevant risks.
In accordance with the definitions of the Basel Committee, Volksbank considers operational risk to be "the risk of losses arising from errors or inadequacies in internal processes, human resources, systems, or from external events". Legal risks are included but not strategic, reputational or systemic risks.
Thus the definition of operational risk does not include the opportunity risks (missed business), reputational damage, or risks involving the entire banking system.
Since 2003 Volksbank has introduced an internal system for the detection and measurement of operating losses for the purposes of better management of potential sources of danger that could undermine the company's stability.
This system is based on a similar initiative in which the Bank participates, which is undertaken at the national level by the Italian Banking Association (ABI). With the DIPO (Italian Operational Losses Database) project, the ABI intends to raise awareness and assist banks in the implementation of these procedures, as well as to create a national database that will enable banks to obtain broader and more significant statistical information and data.
The operational loss collection process is based on an internal reporting process, which involves the detection and forwarding to a central collection point located at the Risk Management Department, of all listed events arising from legal action, customer complaints, disputes with staff, etc. The systematic collection and analysis of this information over the years has provided valuable insights and suggestions for assessment and optimisation of the Bank's processes and activities.
An assessment of operational risks is also included in the assessment of the company control functions following the the introduction of new products, services or other commercial initiatives, or the introduction or modification of new operating processes.
Management of operational risks is the responsibility of the Risk Management Department and is also the subject of attention, within the Internal Control System, of the Internal Control Committee, which meets on a monthly basis in order to coordinate all company control functions (Internal Audit, Compliance and Risk Management), to share control perimeters and results of verifications, direct corrective actions on operational functions, and to develop and disseminate a risk and control culture among the Bank's operating offices.
Each quarter, the Risk Management Department produces a report on the operational risk situation of the Bank. This report is discussed in the Internal Controls Committee and submitted to the Board of Directors.
As of 2012, the capital requirements for operational risks are calculated in accordance with the standardised Basel II approach requires, *inter alia*, that initiatives be taken to improve the overall level of operational risk management. These include:

- the execution of a comprehensive self-assessment process for the operational risk management system, designed to assess the overall quality of the system in relation to the Bank's organisational structure by assessing the overall level of exposure to operational risks and the system's compliance with applicable regulatory requirements and evaluating the effectiveness of the system in relation to the objectives and programmes of the current strategic plan and the evolution of the market of reference;
- regulations for the correct distribution of operating losses among the Bank's business lines;
- an annual review of the operational risk management system by the Internal Audit department.

"Conduct risk", as defined in the European Central Bank's SREP guidelines, was also integrated into the operational risk management system in the last quarter of 2015. This is the risk of loss from the inadequate provision of financial services, including cases of wilful misconduct or negligence, and arises from any unethical conduct on the part of the Bank's executives and employees, including in violation of properly defined controls and processes: i.e. the result of an unethical corporate culture. This category includes the following risks:

- the fraudulent sale of products in retail and wholesale markets;
- pushed cross-selling of products to private customers, such as packaged bank accounts or additional products that customers do not need;

- conflicts of interest in the execution of transactions;
- the manipulation of reference interest rates, exchange rates, or other financial instruments or indices to improve the profits of entities;
- barriers to switching from a financial product during its life cycle and/or to switching to other financial services providers.

An assessment of the risk is part of the assessment by the company control functions upon the introduction of new products, services, or other commercial initiatives.

In 2018, the internal methodology for assessing so-called model risk was more widely used for those areas of banking activity that, for decision-making and the measurement of certain market variables, employ "models", i.e. methods, systems and quantitative approaches that use theories, techniques and statistical, mathematical, economic and financial assumptions to obtain quantitative results/estimates from the processing of input data.

In 2018, particular attention was paid to the processes of analysis, measurement and processing of IT risk, with particular reference to the SEC service centre in Padua, which continued to be the outsourced IT centre of the Bank, even after its transfer of ownership.

CONCENTRATION RISK

Concentration risk is defined as the risk arising from credit exposures to counterparties, groups of related counterparties, and counterparties of the same economic sector or operating in the same business.

The concentration risk per individual borrower is measured in accordance with the provisions of Bank of Italy Circular 285 (Title III – Chapter 1 – Annex B) according to the Granularity Adjustment (GA) method.

As part of ICAAP, specific methods have been developed, in accordance with applicable legislation, to calculate the concentration risk by geographical area, i.e. the risk arising from exposures to counterparties operating in the same economic sector or geographical area.

A comprehensive limit system is also in place that controls and directs guidelines for limiting the level of concentration risk in the Bank's loan portfolio.

Concentration risk in its various forms is also monitored in the quarterly credit report and is discussed during the quarterly meetings of the Internal Loan Committee.

OTHER RISKS

The Risk Management Policy identifies and defines the following additional categories of risk that are subject to periodic analysis and assessment:

- strategic risk that is divided into the following sub-types in terms of the time horizon of the event:
  - short-term risk (business or commercial risk), i.e. the risk of losses due to unexpected changes in sales volumes (lower revenues) and/or expected margins (higher costs due to technological innovation, the tightening of the tax treatment, a change in the regulatory environment, etc.);
  - strategic risk in the strict sense, or positioning risk, i.e. the risk of current or prospective losses, a fall in profits or capital arising from changes in the operating context or poor company decisions, inadequate implementation of decisions or insufficient reaction to changes in the competitive environment;
- risks arising from securitisation transactions;
- equity investment risk, i.e. the risk that the book value of an equity investment may decrease as a result of a reduction in its price stock markets price, in the case of listed companies, or of the equity default of the investee, which renders it necessary or advisable to revise its carrying value in the financial statements, in the case of unlisted companies;
- reputational risk, i.e. the current or prospective risk of a decline in profits or capital arising from a negative perception of the Bank by stakeholders or by any person with whom the Bank has had a relationship.

THE ANTI-MONEY LAUNDERING OFFICE

Money laundering and terrorist financing are phenomena that, partly because of their possible transnational dimension, pose a serious threat to the legal economy and may have destabilising effects, particularly on the banking and financial system.

The broad legal bases on which the entire system for combating international and internal money laundering and terrorism is based are intended to protect the system from the risk of being exploited, even unknowingly, for the purposes of illegal activity. Operators are required to provide their "active cooperation", i.e. to report transactions that give rise to suspicion as to the unlawful origin of transferred funds. In order to achieve the full effectiveness of the anti-money laundering legislation, it was necessary to implement a significant process of international harmonisation of prevention measures designed to deter those who move illegally sourced funds from taking advantage of the gaps in protection networks implemented in individual countries in what has become an increasingly open and competitive market.

However, some geographical areas and territories remain in which the legislation is not yet in line with international best practice and where stricter anti-money laundering controls, calibrated to the highest risk level, must be applied.

The legislation, both primary and secondary, is copious and is constantly being extended by the various Supervisory Authorities responsible for its implementation. In summary, the system of obligations incumbent on intermediaries, which Volksbank has continuously implemented, is focused on the following three fundamental institutions:

a) adequate verification of the customers with whom relations are established or transactions are executed (customer due diligence);
b) record keeping of relationships and transactions, and preservation of the relevant supporting documents;
c) reporting of suspicious transactions.

The most recent national and European legislative and regulatory provisions are:

- Commission Delegated Regulation (EU) 2018/105 of 27 October 2017 amending Commission Delegated Regulation (EU) 2016/1675 as regards the addition of Ethiopia to the list of high-risk third countries in the table indicated in point I of the Annex, published in the Official Journal of the European Union on 24 January 2018;
- The opinion of the three European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) on the interpretative provisions on customer due diligence published on 25 January 2018;
- Bank of Italy communication dated 01.02.2018 setting out good practice in relation the enhanced due diligence procedures on Politically Exposed Persons (PEP);
- Bank of Italy communication dated 12.02.2018 on anti-money laundering obligations for banking and financial intermediaries;
- Commission Delegated Regulation (EU) 2018/212 of 13 December 2017 amending the Commission Delegated Regulation (EU) 2016/1675, supplementing Directive (EU) 2015/849 of the European Parliament and of the Council with regard to the addition of Sri Lanka, Trinidad and Tobago and Tunisia to the table in point I of the Annex, published in the Official Journal of the European Union on 14.02.2018;
- IVASS (the Insurance Companies Supervisory Authority) letter dated 28 March 2018 containing anti-money laundering obligations for insurance companies and insurance intermediaries that operate in one or more of the business sectors listed in Article 2, paragraph 1 of the CAP (the Italian Private Insurance Code);
- the amendment of Directive (EU) 2017/541 of the European Parliament and of the Council of 15 March 2017 on combating terrorism and replacing Council Framework Decision 2002/475/JHA and amending Council Decision 2005/671/JHA, published in the Official Journal of the European Union on;
- Consultations published by the Bank of Italy on 13.04.2018 concerning provisions on customer due diligence and provisions on anti-money laundering organisation, procedures and controls;
- The publication of final anti-money laundering guidelines by European Supervisory Authorities dated 16.04.2018;
- Instructions published by the Bank of Italy on 24.04.2018 on communications of data and information on suspicious transactions by offices of the public administration;
- Legislative Decree No. 60 of 18 May 2018. Implementation of Council Directive 2016/2258/EU of 6 December 2016 amending Council Directive 2011/16/EU of 15 February 2011 as regards access by tax authorities to information on anti-money laundering;

- Directive (EU) 2018/843 (V Anti-Money Laundering Directive) of the European Parliament and of the Council of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing and amending Directives 2009/138/EC and 2013/36/EU;
- The consultation published by the Bank of Italy on 01.08.2018 regarding specific provisions for the storage and use of data and information for anti-money laundering purposes;
- Commission Delegated Regulation (EU) 2018/1467 of 27 July 2018 amending Commission Delegated Regulation (EU) 2016/1675 supplementing Directive (EU) 2015/849 of the European Parliament and of the Council with regard to the addition of Pakistan to the table in point I of the annex, published in the Official Journal of the European Union on 02/10/2018;
- Instructions for access to the Infostat-UIF portal, published by the Bank of Italy on 12.11.2018
- Regulation (EU) 2018/1672 of the European Parliament and of the Council of 23 October 2018 on checks on cash entering or leaving the Union and the repeal of Regulation (EC) No 1889/2005, published in the Official Journal of the European Union on 12/11/2018;
- Directive (EU) 2018/1673 of the European Parliament and of the Council of 23 October 2018 on combating money laundering through criminal law, published in the Official Journal of the European Union on 12/11/2018;
- The corrigendum to Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council and repealing Directive 2005/60/EC of the European Parliament and of the Council and Directive 2006/70/EC of the Commission, published in the Official Journal of the European Union on 22.11.2018;
- Press Release No. 187 dated 22 November 2018 of the Ministry of Economy and Finance, establishing obligation to settle the bearer passbooks by 31 December 2018.

In 2018, in execution of its annual plan and in implementation of instructions received from the industry supervisory authority and the Internal Audit Unit, the following main activities were launched or continued:

a. the gradual adaptation of internal regulations and processes to the changes introduced by Directive (EU) 2015/849 (the Fourth Anti-Money Laundering Directive);
b. a new self-assessment of the adequacy of anti-money laundering safeguards at the reporting date of 31.12.2017;
c. the collection of due diligence questionnaires on each ongoing relationship and the introduction of a process for keeping them up to date;
d. the recovery of missing information on the beneficial owners of customers that are not natural persons;
e. the introduction of a new process for enhanced due diligence and the performance of periodic checks on persons that present elements of risk;
f. the recognition of politically exposed persons on the basis of lists provided to an external supplier;
g. the verification and parametrisation of data entered on the Unified Database, including verification of the ongoing relationships indicated in point c);
h. verification and optimisation of evidence of anomalous transactions to be assessed for the purposes of suspicious transaction reporting;
i. the planning and development of a system for channelling requests to the Anti-Money Laundering Office and for common reporting to all company control bodies;
j. a qualitative and quantitative increase in training.

Finally, anti-money laundering inspections were conducted by the Bank of Italy at ten branches in the Bank's network. The Anti-Money Laundering Office provided appropriate assistance to those mandated to implement the recommendations made during the inspection.

COMPLAINT MANAGEMENT

Volksbank is convinced that real and lasting growth and development are possible only if the customer is at the heart of every strategic decision taken by the company. This customer-centred approach, the basis of which can be found in the company's Code of Ethics, emerges straight from the design phase of products and services, with constant focus

on quality research, but above all on managing the relationship with the customer in order to provide him or her with the product or service that best suits his or her needs.
Despite the best efforts of employees, given the large number of transactions that are concluded daily, it is not possible to avoid cases in which, from time to time, customer expectations are not met, generating dissatisfaction on the part of those who believe that they have not received an adequate service. On such occasions, customer cooperation is essential in order to identify and eliminate the causes of service failure and to implement appropriate procedural improvements.
Some time ago, the company established an internal office for the handling of complaints and has adhered, in accordance with applicable legislation, to the relevant extrajudicial bodies for the resolution of disputes arising between banks and their customers. With a view to the continuous improvement of the services offered to customers, third party analysis and judgement of complaints received has been guaranteed, and the personnel of the complaints management office are in a position of organisational and hierarchical independence of business units responsible for marketing products and services.
In cases where a customer is not fully satisfied with a proposed solution, he or she can refer to extrajudicial dispute resolution systems which, as they operate as an alternative to the ordinary judicial authorities, are able to provide a faster and less costly means of resolving disputes. Through its commercial network and its website, the company provides customers a set of information containing, *inter alia*, complaint settlement procedures and information on the various extrajudicial dispute resolution systems.
Statistical information on complaints received up to 31 December 2018 was also published. During the year, 496 written complaints were received and processed, 196 of which concerned banking and financial services, and 300 concerned investment services.
Of the 496 complaints filed as at 31 December 2018, 398 were settled, 72 were closed pending settlement, and 26 remain under assessment. A complaint is deemed to be settled when the company has provided complete and exhaustive replies within the established deadlines and the client has not filed any further complaints in relation to the same matter within thirty days. A complaint for which a settlement agreement or an amicable resolution the matter has been reached with the customer is also deemed to be settled.
With regard to complaints received in 2018 in relation to banking and financial services, the company reimbursed customers for total amount of €30,792.49.In terms of loss forecasts for complaints which remain to be settled, a total loss of €564.41 was forecast. This sum was set aside in the relevant provision.
With respect to complaints concerning investment services received in 2018, the total of sums reimbursed to customers stood at €2,650.00. Losses from unsettled complaints are expected to amount to €200,000.00 in total. This amount has been set aside in the relevant provision.
In addition, reimbursements totalling €213,176.73 were made in in 2018 relation to complaints filed in previous years.
A detailed examination of complaints received in 2018 did not reveal any particular procedural, organisational or behavioural shortcomings.
Of particular note is the number of complaints relating to Banca Popolare dell'Alto Adige shares: 292.

THE CODE OF ETHICS

A good reputation implies a vote of confidence in the corporate organisation, which is understood as an institution operating in the market that adopts business and relationship policies for its stakeholders. Protection of the company's reputation derives from the compliance with the values, principles and standards of conduct that are explicitly enshrined in the Code of Ethics of Banca Popolare dell'Alto Adige. The company has adopted internal controls to ensure the propriety of day-to-day business management, in the strict sense of both compliance with legislative provisions, but more specifically in its implementation of sound operating practices by drivers of high value. The Code of Ethics is a key tool for assessment by stakeholders, enabling them to deal with the company in a spirit of serenity, confidence and collaboration. The Code of Ethics constitute the internal regulations of the Bank, which operates in the full conviction that the integrity, honesty, propriety and good faith of all those concerned are essential conditions for its lasting success. The Code of Ethics also supplements the Banca Popolare dell'Alto Adige Organisational Model in safeguarding against the commission of predicate offences pursuant to Legislative Decree 231.2001

The current Code of Ethics was approved by the Board of Directors in 2015. It is founded to the following values, which inspire Volksbank in the conduct of its business:

1. Appreciation: we treat each other with esteem and respect, we behave fairly towards customers, partners, colleagues and supervisors.
2. Confidence: as a result of our reliability in dealings with our customers, partners and associates, we create the basis for mutual trust.
3. Enthusiasm: we take pleasure in our work; our spirit of initiative and commitment transmit enthusiasm to customers and members, contributing to the success of the Bank.
4. Gallantry: everything we do, we do it with fortitude: our positions are clear and even in difficult situations we remain true to our values and principles.
5. Authenticity: we are aware of our strengths as people and as employees; we continue to hone our our skills and believe in the value of our Bank.
6. Attention: we are aware of and mindful of our surroundings; we pay attention to our customers, partners and colleagues, listening to and respecting each of them.
7. Excellence: we achieve excellent results through constant improvements; we seek out new challenges and pursue our goals with sporting ambition.

The rules of conduct set out in the Code of Ethics derive from these ethical principles (the “values”), which are supported and actively experienced by persons operating at the Bank.

In 2018, the compliance of the company activities with the Code of Ethics was verified by the Compliance and Internal Audit Departments and in some respects by the Supervisory Board pursuant to Legislative Decree 231/2001, which reported to the Board of Directors.

CERTIFICATION PURSUANT TO ARTICLE 154 BIS OF THE CONSOLIDATED FINANCE ACT

Legislative Decree 195 of 6 November 2007 implementing Directive 2004/109/EC on the harmonisation of transparency requirements (the “Transparency Directive”), partially extended the provisions of Law No. 262 of 28 December 2005 establishing “Provisions for the protection of savings and regulation of financial markets”, as amended by Legislative Decree 58/1998 (the Consolidated Finance Act) to companies that issue securities which are admitted to trading on a regulated market.

These provisions establish an obligation on the Financial Reporting Officer to produce corporate accounting documents that provide a true and fair representation of the issuer’s financial position, results and cash flows.

To this end, the Financial Reporting Officer certifies in a specific report that the administrative and accounting procedures for the preparation of the annual financial statements and all other financial communications have been adequately and effectively applied, and that the documents correspond to the results as stated in company accounting books and records.

In order to provide this certification, the Financial Reporting Officer conducts a review of the adequacy and efficacy of the internal control system for financial reporting:

- by means of a concise, comprehensive analysis at company level, which is designed to verify the existence of a corporate climate that is committed to reducing the risks of errors or improper conduct in the area of accounting and financial reporting;
- at the process level, through analyses and checks on company operations for the generation and delivery financial reporting, including by the use of results produced by other control bodies. To this end, the scope of the relevant activities must be established before proceeding with identification of the significant processes to be verified.

Accordingly, Volksbank has embarked on an organisational process aimed at defining a reference model, in line with national practice, with a view to strengthening the processes underlying the reliability of financial reporting, i.e. of activities related to the collection, processing and publication of economic and financial information flows.

Section 1 CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

The Bank's lending activities are designed to support the development and consolidation of small and medium-sized enterprises and to accompany families in their financing requirements, with the dual objective of financially supporting the development of the local economies in the territories in which the Bank is operates and of establishing itself as a recognised, competent and lasting partner for its customers.
Volksbank's credit policy has always been based on responding to requests for finance from private customers and businesses, always paying particular attention to the risk/return ratio and the presence of adequate coverage with mortgage guarantees, in particular for medium/long-term exposures.
With regard to private customers, the Bank's activity focuses on mortgage loans and personal loans, for which the Bank provides a broad and complete offer and selects customers on the basis of criteria of reliability and the merit of customers' specific financial requirements and objectives.
For small businesses, on the other hand, demand has mainly concentrated on short-term loans, characterised by a high risk spread, while for medium and large companies, the Bank favoured sought to increase medium-term loans, paying particular attention to loans secured by collateral.
Pooled financing has been employed for better distribution of the risk across larger credits.
Particular attention was paid to selecting economic sectors, with priority given to those deemed to be less risky. Support for businesses has been provided through special finance operations, such as property financing projects which are managed and monitored throughout their and redemption by the use of a specific IT procedure.
In general, the loan portfolio is monitored in order to achieve broad diversification across sectors of economic activity and geographical areas (the provinces of Bolzano, Trento, Belluno, Vicenza, Padua, Treviso, Pordenone and Venice), in order to mitigate the effects of any crisis. Careful and precise controls are imposed on the most significant exposures, taking account of all the legal and economic links between the counterparties, in order to maintain them within limits so that the Bank's financial and economic equilibrium is not put at risk.
In all cases, credit policy is guided by a prudent approach and oriented towards establishing relationships with trusted customers based on mutual confidence and transparency with a view to fostering personalised, long-term relationships.

2. Credit risk management policies

2.1 Organisational aspects

Credit risk is the risk of incurring losses due to a counterparty default, i.e. the risk that a debtor or a counterparty will fail to meet its financial obligations (in particular its obligation to repay loans). It is one of the Bank's main risk factors, covering all financial assets, in particular loans, securities held and all contingent liabilities relating to guarantees or commitments to disburse funds. Credit risk analysis mainly concerns the aspects such as the quality and reliability of debtors and the concentration of risk. In particular, credit risk can take the form of the following types of risk:
- credit default risk is the risk that a borrower will not be able to meet the obligations entered into, generating a loss consisting of the portion of the loan that is not recovered;
- residual risk is the risk that the recognised credit risk mitigation techniques used by the Bank are less effective than expected. Accordingly, residual risk arises in relation to the Credit Risk Mitigation (CRM) techniques used to determine the capital absorption required for the credit risk. Residual risk may manifest as:
- the risk of deterioration in the value of collateral, related to any significant deterioration in the market value of a guarantee provided;
- risk of enforceability of the guarantees, linked to the fact that, at the time of their realisation, the guarantee cannot be enforced due to market illiquidity or for reasons related to the process of administrative management of the guarantees;

- the risk of concentration of guarantors, arising from indirect exposures to individual guarantee providers when they cover a substantial portion of the exposures;
- risk of contagion of the guarantors, which arises in cases of enforcement of personal guarantees and is caused by the possible deterioration of creditworthiness of the guarantor for the payment of the agreed sums.
- forbearance risk, which is linked to the classification (and consequent management) of a debtor in a better risk class than its actual situation demands. The result may be a delay in the emergence of non-performing loans (and bad debts in general) and the necessary value adjustments, with a negative impact on financial stability and resource allocation;
- counterparty credit risk, i.e. the risk that a counterparty to a transaction will fail to fulfil its obligations in the manner and within the deadlines established in the contract;
- credit spread risk, i.e. the risk that an unexpected change in the creditworthiness of a counterparty will generate a corresponding unexpected change in the market value of the exposure. This immediately gives rise to an economic loss for the Bank;
- settlement risk, i.e. the risk of incurring losses if, during the settlement of a transaction, the counterparty is no longer able to fulfil its commitments. Settlement risk arises mainly in swap transactions, and in the case of contracts in which the counterparty is unable to fulfil its obligations (delivery of securities or amounts of money) during the settlement phase, after the Bank has already fulfilled its own obligations;
- the risk of a change in the degree of solvency, linked to a deterioration in the creditworthiness of the borrower and the counterparty, with the result that the borrower is downgraded to a lower rating class, without necessarily resulting in an immediate economic loss for the Bank;
- Concentration risk, which in turn may be broken down into:
    - single name concentration risk, incurred in the case of exposures (investments or loans) to the same entity or groups of interconnected entities;
    - sectoral concentration risk, incurred in the case of exposures (investments or loans) to entities belonging to the same sector of activity or geographical area.
- currency exposure risk, linked to a possible insolvency of the debtor in the event of a worsening in exchange rates and a consequent increase in debt;
- sovereign risk, i.e. the risk of transfer of cross-border payments, which involves a scenario of the potential unwillingness to pay (political risk) or even insolvency (economic risk) of a country. In other words, the risk is associated with the possibility of losses due to the insolvency of a foreign state, measures taken by a foreign state that block international regulations, or default by foreign debtors due to causes that are dependent on macroeconomic variables in the country in which they operate. The EU states that meet the convergence criteria, as well as Switzerland, Norway, Sweden, Denmark and Great Britain, are not regarded as a major country risk in this respect.

From an organisational standpoint, the credit risk management and control process makes use of on special functions, duly defined and regulated, that ensure that controls are performed through various monitoring activities, as provided for in the Supervisory Instructions (Title IV, Chapter 11, Section II). A complex system of internal provisions, constantly subject to efficiency checks and referred to in the "Credit Risk Policy", is designed to clearly define, with the widest possible level of involvement, activities, roles and responsibilities at all phases of the credit process and to ensure the necessary separation between the operational and control functions.

The Internal Credit Committee is the body that analyses and directs all credit risk management policies on a quarterly basis, on the basis of the results of verification and monitoring activities performed continuously by the control bodies and with the support of detailed reporting provided by the Risk Management Department. In particular, the Committee:

- verifies compliance with the limits imposed on the annual "credit strategy";
- verifies the overall quality of the loan portfolio;
- verifies the risk profile and the main risk parameters of the loan portfolio;
- verifies and analyses the main risk phenomena;
- defines the monitoring and control actions to be undertaken;
- analyses internal capital relating to credit risk and current and future capital absorption, even in adverse scenarios;
- identifies, on the basis of the results presented by the individual competent departments, any corrective measures for credit risk measurement, management and mitigation policies;

- formulates proposals for revision/update the oversight limits and thresholds for credit and concentration risks.

The credit risk control processes are broken down into:

- line controls carried out in the first instance by the heads of the organisational units of the commercial network, in particular through checks on overdrafts and unpaid instalments, through the use of appropriate procedures and periodic analysis of performance reports. In the second instance, the services functionally dependent on the Credit Departments also perform their functions. Particularly important in this regard are the controls carried out by the credit assessment services and the Abnormal Loan Analysis Service.
  The former perform control activities for the regular management of credit positions held by branches and corporate centres, such as:
  - the execution of resolutions passed by the competent bodies;
  - the timely renewal/reimbursement of expiring lines of credit;
  - compliance with the deadlines set for the review of positions;
  - the timely extension of term guarantees (e.g. bank guarantees in our favour, guarantees of guarantee consortia);
  - the violation of rules on the powers assigned to concession/management of credit lines;
  - failure to establish or incomplete establishment of economic groups;
  - the use of funds for purposes other than the intended purposes;
  - technically incorrect management of forms of credit (e.g. several lines of credit supported by different guarantees managed on a single account, management of several projects on a single account).

  The second, the Abnormal Loan Analysis Service, is responsible for supervising credit and management/monitoring of classified positions, liaising with the branch and area functions responsible for customer relations. It ensures systematic control of risks associated with loans to customers, overseeing and guaranteeing typical first level, second instance controls and risk containment.
- specialised controls, carried out by the second level independent control functions, i.e. Risk Management and Compliance. The Risk Management Department is responsible for carefully monitoring credit risk. The controls carried out by the Risk Management Department are designed to contribute to the definition of risk measurement methods, verifying compliance with the assigned limits and checking the consistency of the operations in individual production areas with the assigned risk-return objectives. The compliance unit is responsible for verifying that internal procedures are consistent with the objective of preventing the violation of rules of governance (laws and regulations) and self-regulation (codes of conduct, ethical codes) applicable to the Bank in matters of credit. Compliance checks are conducted through a system of controls aimed at identifying misalignments caused by failure to transpose/incorrect transposition of legislative provisions;
- audits carried out by the Internal Audit function, which fulfils its mandate with direct inspections and remote controls, aimed at verifying credit quality, the correctness of the procedures followed, and the decision-making awareness of the competent offices responsible for granting and managing credit.

Each type of control is supported by appropriate IT procedures. The control and management of non-performing financial assets is organised by the following specific corporate functions:

- the Abnormal Loan Analysis Service, which reports hierarchically and functionally to the Workout Department and is made up of operational staff at the head office, is responsible for identifying the positions entrusted to it that show signs of anomaly, placing them under surveillance if necessary, and proposing that their classification be downgraded;
- the Bad Debts Service, which reports hierarchically and functionally to the Workout Department. This service, which is made up of in-house legal staff and administrative and accounting support personnel, is tasked with all activities relating to the management of non-performing positions (judicial and extrajudicial actions for the recovery of receivables).

2.2 Management, measurement and control systems

The first and most important phase of measuring and managing credit risk takes place at the time the loan is granted and on its annual review, especially during the the preliminary process when the borrower's credit rating is assessed. At Volksbank, the process of reviewing the credit facilities is divided into the following two phases:

- collection of evidence and all the documentation necessary to enable an analysis of creditworthiness, including data from external databases;
- analysis of the material collected in order to reach a final decision.

The checks/analyses performed on the applicant are also performed on any guarantors and, in the case of a co-beneficiaries, on all the the named co-holders.
In the case of private customers and small businesses, the disbursement rating system is operational at all branches. The system is an IT tool that is designed to assess credit rating when granting new facilities by the use of internal and external information sources integrated with electronic credit concession procedures.
A structured and prudent system of decision-making autonomy approved by the Board of Directors defines the limits for the granting of credit by the commercial network. Its powers are in all cases limited to sums that are not excessively high. For large amounts and/or low disbursement ratings, the decision-making authority rests with central bodies (the Loan Department, General Management, the Internal Credit Committee, the Central Loan Committee and the Board of Directors).
The granting of credit to corporate customers/entities is the responsibility of managers, within established limits on their amount, or of the central bodies indicated above for larger amounts. Proposals for lending to such customers must be supported by the technical opinion of the Loan Department, compiled by employees of an internal service with specific and qualified expertise to ensure that the network has the necessary investigation, analysis and evaluation resources, and by administrative management of lending practices, including special loans and credits, to ensure compliance with internal and external regulations.
The assigned positions are therefore all subject to periodic reviews with the aim of verifying, in relation to the situations existing during the review, the maintenance of the solvency conditions of the borrower and guarantors, the validity and the level of coverage of the guarantees, and the profitability of the financial terms applied with respect to the risk profile. A periodic review may also be conducted automatically, when a number of prerequisites are met, including that of an adequate performance rating.
As part of the process of monitoring and managing credit risks, the use of the internal rating system is particularly important, as it enables managers of the credit relationship to verify the evolution of customer creditworthiness and promptly identify positions that indicate deterioration in creditworthiness.
The system is based on the determination of a "performance rating" for each customer. On a monthly basis, all customers, both private and corporate, are divided into small business (sole proprietorships, partnerships and corporations with a turnover of less than €1.5 million) and corporate (non-financial partnerships and corporations with a turnover of more than €1.5 million) segments, using performance control measurement methods that take account of internal and system indicators. Each customer is assigned a rating class on a scale of 12 values with increasing risk (AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD, D+).
Information managed within the internal rating system is subject to constant analysis and verification by the Risk Management Department, which is primarily designed to measure and verify the predictive capacity of the system for all types of customers using appropriate statistical techniques.
Performance ratings are used during loan disbursement and review and are one of the factors underlying the structure of decision-making autonomy. During the annual interview, only high-segment corporate clients are required to disclose their performance rating in order to make the consultancy more systematic, unambiguous and structured, and to facilitate the identification of critical issues and potential associated with the customer.
The internal rating system is used, *inter alia,* to calculate the probability of default of the individual rating classes, i.e. the probability that a position belonging to a certain rating class will become insolvent (non-performing, probable defaults, past due and/or impaired exposures, exposures subject to forbearance) within one year. This indicator depends solely on the characteristics and conduct of the counterparties and not on the nature and quality of the guarantees given.

The loan portfolio is also subject to stress tests to assess the potential effects of extraordinary changes in one or more risk factors. Simulations take into account the effects of negative changes in individual risk factors (sensitivity analysis) or negative changes simultaneously affecting multiple risk factors (scenario or crash-test analysis).

With regard to limits on exposures and concentration, it should be noted that the absolute limit of credit that can be granted per economic group or per individual non-banking counterparty or entity belonging to a banking group is set at 10% of Own Funds. This limit may in any case be raised at the full discretion of the Board of Directors. This stated, the provisions of the applicable Bank of Italy supervisory regulations on individual and group limits for the granting of credit ("large-scale risks") are of course fully binding.

All analyses and data on the risk level of the loan portfolio are set out in a quarterly report compiled by the Risk Management Department and submitted for discussion and resolution to the Internal Credit Committee and therefore to the Board of Directors. The quarterly credit risk report plays a central role in monitoring the Bank's lending performance and the related risks, as well as compliance with the objectives and guidelines established in its medium and long-term strategic planning. The report includes an assessment of risk indicators (probability of default and estimation of expected losses), the methods adopted in the calculations and scenario analyses to assess the behaviour of the loan portfolio in response to unexpected events.

Quantitative and qualitative assessments of the composition and degree of risk of the loan portfolio are used to guide the Bank's main credit policy guidelines and for the adoption of adequate operational and management measures with regard to central and peripheral bodies.

The credit monitoring process is continuously guaranteed through an automatic system for the classification of anomalous positions (GDC, Credit Management) which uses an early warning engine that, based on performance rating and a whole series of indicators calculated and entered on a daily basis, is able to promptly detect the emergence of deteriorations.

In accordance with legislative provisions, the Risk Management Department is centrally responsible for verifying that performance of individual exposures, in particular impaired exposures, are correctly monitored and for assessing the consistency of classifications, the appropriateness of provisions, and the adequacy of the recovery process. Among other duties, the Department monitors the operations of operating and debt recovery units, ensuring the correct classification of non-performing exposures and the adequacy of the relevant degree of irrecoverability.

The controls used by the Department are characterised by: up-to-date appraisals, the entry in automatic procedures of all information necessary for the assessment of receivables, the traceability of the recovery process, estimates of recovery times and the discount rates used. Monitoring activities performed during the classification phase (upgrading or downgrading the classification) and during the period when exposure remains at risk.

A downgrade from an initial risk class to a worse risk class may be automatic, subject to the occurrence of objective facts that deteriorate the exposure, or as a result of a real decision-making process.

In the first case, the verifications performed by the Risk Management Department essentially consist of:

- assessment and validation of the automatic procedures that produce the classification in terms of the fairness of the parameters used and the timeliness of the classification;
- statistical monitoring of incoming flows by origin and quantities, the results of which are periodically (at least monthly) sent to the competent bodies.

In the second case, the Risk Management Department reviews decisions taken by decision-making bodies in accordance with their own powers, in particular through participation in an advisory capacity in the Internal Credit Committee.

In addition to classification, the Risk Management Department verifies the adequacy of the specific (analytical) measures proposed by the competent bodies with internal provisions, either on a statistical basis or on the basis of individual positions.

In addition to the classification phase, the Risk Management Department also monitors during the period in which a position is retained in a given risk class in order to continuously verify and justify the appropriateness of the classification and of any specific provision.

2.3 Methods of measuring expected losses

In order to calculate the impairment of an exposure, IFRS 9 requires:
- for performing exposures that do not present a significant increase in credit risk compared to origination, an estimate of the expected loss at 12 months, to include losses arising from events of default that may occur within one year;
- for performing exposures that present a significant increase in credit risk compared to origination, the estimated expected loss over the lifetime horizon, taking account of all losses arising from events of default that may occur during the residual life of the instrument;
- for non-performing positions, cash flows discounted at the effective interest rate of the loan are considered.

The Bank has developed a position allocation model that reflects the various ways of calculating expected loss. In particular, each relationship is assigned according to a system of assignment stages, which identifies:
- stage 1 as performing exposures that have not suffered a significant increase in credit risk since origination;
- stage 2 as performing exposures for which there has been a significant increase in credit risk (Significant Increase in Credit Risk – SICR) between the date of origination and the reporting date;
- stage 3 as non-performing exposures which are therefore classified as non-performing on the reporting date, according to the definition of default adopted by the Bank.

The criteria applied by the Bank for recognising a significant increase in credit risk (and therefore forming the basis for classification as stage 2) can be grouped into two types:
- qualitative criteria, which identify a set of indicators which when present are assumed to significantly increase risk. Three criteria can be distinguished:
  - the presence of forbearance measures (i.e. special concessions, such as amendments to existing contractual terms or refinancing following a substantial change in the economic situation of the counterparty);
  - so-called rebuttable presumption, i.e. the presence of a continuous overrun or expired over 30 days;
  - the presence of the position on the Bank's watch list.
- the quantitative criterion, based on the calculation of the lifetime PD ratio (LtPDR), which is a measure of the increase in the lifetime risk of a position at the reporting date compared to the date of origination; the stage 2 classification of a position according to the quantitative criterion is compared with the LtPDR with a statistically estimated threshold of significance.

The model of *lifetime* PD developed by Volksbank has a decisive role in the calculation of ECL and in the stage allocation of individual credit exposures. In particular, the value of MPD (marginal PD) at time t is used to obtain the expected loss of ECL_t at any time t≤T until maturity T; for stage allocation, on the other hand, the level of risk expressed by the PD over the residual life of an instrument is used to identify positions that show a significant increase in credit risk, and which are consequently classified in stage 2.

The selected estimation method focuses on the estimation of PD lifetime curves with a Weibull function, following the derivation of the Cumulative Default Rates by means of Kaplan-Meier survival analysis. The reasoning behind the choice of this methodology is based on the greater flexibility of the model, the theoretical soundness of the approach and the defined implementation effort, which are consistent with the size, internal organisational structure and the nature, scope and complexity of the Bank's business and credit portfolio.

With reference to the logic of defining impairment for exposures classified as past due or likely to default, the ECL is equal to EAD-LGD. In particular, the formula applied is as follows:

$$IMPAIRMENT = EAD * CCF * \left\{ 1 - \left(\frac{(1 + LGD)}{(1 + EIR)^{TTR}} \right) \right\}$$

where

$$LGD = \frac{EAD - FORECAST\_REC\_OK}{EAD}$$

$$FORECAST\_REC\_OK = min\ \{EAD;RECOVERY\_FORECAST\}$$

For positions classified as "Impaired", the expected loss is:

$$IMPAIRMENT = SVAL\_SPECIFIC$$

In particular, the value of exposures classified as impaired is equal to the estimate of the present value of the cash flows that is expected to be obtained. For secured positions, the value of the cash flows that the Bank expects to recover coincides with the value of the flows deriving from the completion of the process of recovering the value of each guarantee, net of costs incurred, and not contingent on the probability that the enforcement action has been taken. The TTR (recovery time) and the discount rate are necessary to estimate the present value of the cash flows.

With regard to the application of sale scenarios, see the contents of Chapter A "Accounting Policies" of the explanatory notes.

In the context of risk management for the Abnormal Loan Analysis Service within the Loan Department is responsible for ensuring:

- credit control and the management and monitoring of positions, liaising with the branch and area offices responsible for customer relations;
- the proposal, on its own initiative, of rules for the management of positions within the scope of its competence, including with reference to specific dedicated units;
- a contribution to the implementation and maintenance of an information base that enables the assessment and performance control of individual positions and the customer's overall exposure to the Bank;
- correct management of positions, providing the necessary assistance and advice to the units responsible for the customer relationship;
- systematic monitoring of the evolution of performing positions with the tools available, also referring to the early warning model, and promptly identification of positions showing signs of deterioration and which risk slipping into Stage 2;
- the implementation of measures to reduce and/or contain risk exposure for those positions identified by the Early Warning engine in which there is a real risk of slipping into Stage 2.

For the purposes of risk management, it should be noted that the model adopted by the Bank provides for the development of an early e-warning process based on SICR measurement methods developed during the implementation of IFRS 9. In particular, the development of an Early Warning methodology consistent with IFRS 9 methods appears necessary in order to harmonise risk management tools with the accounting framework and consistently integrate the stage allocation process with the credit risk management practices and the way in which these practices are managed for the purposes of recognition and assessment of expected credit losses.

The natural evolution of the Early Warning system is therefore to play a complementary role to stage 2, in which it plays the role of preventing the occurrence of a significant increase in risk.

An effective Early Warning mechanism minimises stage 2 migration, reducing the impact on capital and regulatory ratios, as well as enhancing the tools available for credit risk management. In particular, this methodology involves the identification of a threshold of significance ("SICR") estimated by means of a statistical model of quantile regression that defines the discriminatory level of risk as an estimate of the quantile of the distribution of LtPDRs that optimises the forecast of credit deterioration. In order to ensure that deterioration phenomena are captured sufficiently in advance, the Early Warning model is developed by extrapolating the SICR thresholds downwards, so that positions are identified that are closest to the discriminating SICR threshold for stage 2 classification in terms of lifetime PD variation (ΔPD).

The development of this methodology, which is currently in the definition phase, provides a twofold benefit:

- it enables integration of the two stage allocation and early warning systems, without overlaps, resulting in the harmonious operation in the two operating areas;
- it implements a methodology that is consistent across its classification accounting assessment and its credit risk management aspects. In particular, the focus of the Early Warning model on the LtPDRs (i.e. on the change in the lifetime PD) bases the risk management model on the lifetime PD model adopted for accounting purposes. This model makes reference to the rating system, as it incorporates and reflects its estimates of implicit risk profiles.

2.4 Credit risk mitigation techniques

In order to mitigate credit risk, the Bank uses all the main forms of collateral typical of banking business, both real and personal. The main collateral acquired consist of:
- mortgages on properties;
- pledges on money and various types of securities (government securities, bonds, mutual funds, asset management, insurance policies, certificates of deposit, foreign securities, shares, etc.).

With regard to the management methods, these guarantees are acquired with a regular pledge agreement and by a notarial deed (for mortgages) and are entered into the "Loans and Guarantees" electronic procedure which enables the management, control and monitoring of such guarantees.
Personal guarantees are mainly issued by:
- natural persons in favour of companies of which they are shareholders and/or directors;
- natural persons in favour of other natural persons to whom they are linked by family relationships;
- consortia in favour of individual companies/firms associated with them (following agreements stipulated with the Bank).

To a limited extent, personal guarantees are also provided by companies in favour of other subsidiaries/associates and financial institutions in favour of companies.
An analysis of the characteristics of the guarantees provided does not reveal a particular degree of concentration in the various forms of coverage/guarantee since the guarantees acquired, except in particular cases, can essentially be considered "specific" to each individual position. Furthermore, in general terms, no contractual constraints are in place that could undermine their legal validity.
Finally, in order to verify the legal and operational effectiveness of the guarantees, an information/organisational/legal system (electronic trust practice) is used. This prepares texts and electronic media, according to ABI regulations, for the various guarantees. These include:
- operational procedures regulated by internal regulations, which establish rules regarding the values to be attributed to guarantees acquired (expert estimates, confirmation/verification/monitoring of events with title searches, electronic valuation in real time of the values of listed securities, etc.)
- verification of the authenticity of the signatures on the various guarantees (verification of company documents, witnessing in the presence of our operators, notarial authentication, etc.).

The adoption of Credit Risk Mitigation methodologies for the calculation of the Bank's capital requirements has let to a precise definition of the processes of estimation, assessment and periodic revaluation of properties used as mortgage guarantees, in order to scrupulously comply with the eligibility criteria for such guarantees.

3. Non-performing loan exposures

3.1 Management strategies and policies

The specific and transversal competences for the management of problem and/or non-performing loans ("NPL") are concentrated in the Workout Department, which is independent of the originators of the loan, due to its hierarchical position, and reports directly to the General Manager.
The Workout Department is divided into four organisational units:
- the Abnormal Loan Analysis Service
- the Bad Debts Service
- the Portfolio Management/BO Reporting Service
- the Active Workout Real Estate Service.

The organisational structure is designed to ensure hierarchical independence between the Workout Department and the structures responsible for granting credit, as well as second-level controls, in accordance with the wishes of the Supervisory Authority.
The organisational model described above involves management in activities for the recovery of positions in difficulty up to those concerning the management of positions classified as non-performing.
The central role of Management, also in support of the strategic decisions of the office responsible for strategic supervision, can be identified as its methodological, monitoring, and process management, which is designed and constantly maintained in order to promote active management of the items for which it is responsible.
As part of its non-performing loan management strategy, the Workout Department:
- supports the Board of Directors, in accordance with company objectives, in defining the strategy to be adopted for the management, monitoring and recovery of non-performing debt, which must be formalised in a specific document (the "NPL management strategy");
- supports the Board of Directors in defining the strategic objectives (short/medium/long-term) broken down into homogeneous portfolio classes, identifying an operational model that is appropriate for achieving the aforementioned objectives;
- if requested by the Board of Directors, updates the strategy, which must then be promptly assessed and approved by the Board;
- defines the procedures for access to extraordinary actions to reduce non-performing loans, such as assignments or the support of outsourcers, and monitors their effects in the broader strategy of managing non-performing loans;
- constantly monitors targets for reducing non-performing loans and the progress achieved, submitting the targets to the Board of Directors for review on a quarterly basis;
- identifies and proposes to the Board of Directors measures for the amendment or adjustment of the strategy for management strategy of NPLs in the event of changes in the internal and/or external context, in the event of failure to achieve the established objectives, or in any other case in which a change becomes appropriate and/or necessary.

In performing its duties in relation to the definition of non-performing loan management strategies, the Workout Department is supported by:
- the Risk Management Department, which is responsible for providing management with:
  - historical data on the quality of the past and prospective portfolio;
  - risk indicators for the Bank in its territories of reference;
  - data on current and prospective capital in the short and medium/long term;
  - assessment of the consistency of the operations proposed in terms of strategy with current and prospective capital and risk cost allocations;
- the Performing Loans Department, which is responsible for providing information on the quality of new disbursements and on the evolution of the performing portfolio in terms of volumes and/or composition;
- Planning and Control, which is responsible for providing the Workout Department with data on the annual budget in terms of:
  - data on estimates of growth in the stock of loans;

    - data on the decalage in the existing portfolio and on estimates for the decalage of the newly disbursed portfolio;
    - figures for the multi-year business plan.

Planning and Control is obliged to verify the consistency between the strategy developed by the Workout Department and the economic and capital objectives defined in the Bank's multi-year plan.

The Workout Department is required to provide:

- to the Board of Directors:
    - at least once a year, the updated and revised NPL management strategy to supplement the minimum time horizon desired by the Supervisory Authority (5 years);
    - at least once a quarter, the development of the objectives defined in the strategy with an indication of the results of management operations;
    - on at least a quarterly basis, information on possible extraordinary measures;
- - to the General Manager
    - the trend in recovery performance and any deviations from the short-term targets set in line with the targets set out in the strategy approved by the Board of Directors;
    - on an ongoing basis, any problems in the recovery process and/or the requirements for operational changes to the process;
    - ongoing reporting, indicating the activities performed, the objectives achieved, and costs incurred in recovery activities.
- to Planning and Control, all information necessary to establish annual budget and multi annual plan objectives. The Workout Department is also responsible for providing Planning and Control with the information necessary to monitor the achievement of and/or deviation from the objectives set in the budget in terms of both recovery performance and operational costs incurred.

In the context of the methods for managing non-performing loans, the Workout Department defines the methods for managing positions classified as "Past Due" or "Unlikely To Pay", identifying all measures to be taken in relation to the type of exposure and size of the gross book value. In addition Workout Department:

- defines the scope of direct intervention and/or support for the operating units (Corporate Centres/Branch Managers/Account Managers);
- performs a critical analysis of the positions in order to ensure their correct classification in accordance with the provisions of the Supervisory Board and the internal regulations, identifying actions to be taken and ensuring monitoring of the periodic review of the positions;
- updates the valuations of property guarantees at the time of transition to UTPs;
- defines recovery expectations and proposes and/or approves the relevant accounting write-downs;
- performs recovery and coordination activities for cases classified as UTPs;
- monitors the evolution of the non-performing loan portfolio;
- monitors the operating costs of activities related to the management of cases classified as non-performing.

From the standpoint of the methods for managing non-performing loans, particular importance is attached to NPL management strategy, as required by the Bank of Italy in its "Guidelines for Less Significant Banks in Italy on the management of non-performing loans" published on 30 January 2018. In particular, in the context of the definition of the NPL management strategy, the forecast values of NPL are calculated as the evolution of 2 separate portfolios:

- the stock of loans already disbursed by the Bank and amortised;
- the stock of future loans to be disbursed by the Bank.

The above two portfolios are further divided into 3 sub-portfolios:

- guaranteed by residential properties;
- guaranteed by non-residential properties;
- not guaranteed by the properties.

The model developed by the Bank used as input data:

- analytical forecasts for the stock of non-performing exposures ("NPEs") developed by the Bank as at 31 December 2018. The analytical forecasts were used as the basis for the development of the forecast management model;

- the transition matrices recorded by the Bank over the last two years, adjusted on the basis of internal valuation elements and with reference to the macroeconomic context. The matrices were used to estimate percentage point rate of passage between risk classes;
- the percentages of receipts and cancellations calculated from the financial statements for the last three years;
- the new stock of loans that the Bank intends to grant in the period 2019-2023 in accordance with the plan in place on the date of development of the work;
- the amortisation plan for the stock of existing loans and the newly-disbursed loans;
- the amount of “item 130 a) Net adjustments/write-backs on credit risk of financial assets valued at amortised cost” for the period 2019-2013 as included in the business plan. These values, which constitute model input data, were used to estimate the maximum applicable prospective coverage.

Transfers between the various Bankit risk classes are calculated by applying a specific approach to the individual exposure classes:

- Performing: default rate registered;
- Past Due and UTPs: danger rates and care rates;
- Bad debts: cure rate.

In addition, with regard to loans classified as non-performing positions, other sources of stock reduction have been modelled, such as:

- percentages of historical collections recorded by the Bank for the individual risk classes;
- percentages of historical write-offs recorded by the Bank for the individual risk classes;
- extraordinary cancellations entered as input data in a precise manner as shared with the Bank;
- disposals of NPL portfolios entered as shared with the Bank.

Spot amortisation plans are another source of decline in the stock of loans classified as performing.

3.2 Write-offs

IFRS 9 states that “an entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectation of recovery of all or a portion of it. A write-off constitutes a derecognition event”

The “guidance for banks on NPLs” published by the European Central Bank in March 2017 specifies that “the reduction in the gross book value of a financial asset corresponds to the value of the write-off”.

It goes on to state that, “the derecognition of a financial asset, even a partial one, should be made by the Bank in the year in which the loan or part of it was considered non-recoverable”. It follows that “the derecognition can take place before the final judicial action taken against the debtor to recover the debt has concluded. Derecognition does not imply a waiver by the Bank of its legal right to recover the debt”.

Finally, “once derecognised, an amount may not be reinstated, unlike provisions, the value of which may be reinstated in the profit and loss account if there are changes in the estimate. Derecognition should not be restored and if cash flows or other assets are recovered as a last resort, their value should be recognised in the income statement as part of the income statement.”

Bank of Italy Circular No. 262/2005, in its current version, establishes that “a write-off may concern the entire amount of a financial asset or a portion thereof and corresponds to:

- the reversal of total value adjustments, as a balancing entry to the gross value of the financial asset, and
- for the part exceeding the amount of the total value adjustments, to the loss in value of the financial asset recognised directly in the income statement.

Any recoveries from collections subsequent to the write-off are recognised in the income statement under write-backs. The term “total write-offs” refers to the cumulative amounts of partial and total write-offs on financial assets.”

As part of the implementation process of the new provisions, the scope of positions subject to write-off is defined by the positions, measured at amortised cost and belonging to the Hold To Collect Business Model, which are classified as doubtful or unlikely to pay and are subject to analytical loss projections.

Performing positions, whether in Stage 1 or Stage 2, and positions measured at *fair value* are therefore excluded from the write-off.

At the reporting date there were no derecognised financial assets that are still subject to enforcement proceedings.

3.3 Impaired financial assets acquired or originated

At the balance sheet date, no impaired financial assets had been acquired. Originated impaired assets, although quantitatively insignificant, are managed - in the extrajudicial recovery phase - by the Workout Department. In the event of the insolvency of the position, or situations that are essentially equivalent, property foreclosure proceedings are instigated. This is generally entrusted to external lawyers. Internal procedures require a census of probable non-compliance in all cases involving unpaid instalments, i.e. persistent irregularities or cases of suspension at the legal rate. Designation as non-performing occurs once measures taken for the return of the exposure have been shown to be ineffective.

4. Financial assets subject to commercial renegotiation and exposures subject to forbearance

Exposures subject to forbearance or 'forborne exposures' are exposures subject to tolerance measures in which the Bank grants amendments to the original contractual conditions in the face of a state of ascertained or presumed financial difficulty of the debtor as a result of which it is considered unlikely that the debtor will be able to fully and regularly meet its credit obligations.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Non-performing and performing loan exposures: stocks, value adjustments, dynamic and economic distribution

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

Portfolio/Quality *(€ thousands)*	**Bad debts**	**Unlikely to pay**	**Past due non-performing exposures**	**Past due performing exposures**	**Other performing exposures**	**Total**
1. Financial assets measured at amortised cost	181,323	183,350	6,134	131,738	7,986,284	8,488,829
2. Financial assets measured at fair value with impact on overall profitability	-	-	-	-	767,050	767,050
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets compulsorily measured at fair value	8,117	25,219	-	-	197,733	231,069
5. Financial held for sale	-	-	-	-	-	-
Total at 31.12.2018	**189,440**	**208,569**	**6,134**	**131,738**	**8,951,067**	**9,486,948**
Total at 31.12.2017	**284,676**	**248,513**	**9,294**	**248,000**	**8,132,188**	**8,324,649**

Financial assets measured at amortised cost include non-performing exposures subject to forbearance of €183.5 million, of which €30.0 are due to bad debts and €80.2 are due to unlikely to pay positions, and non-performing exposures subject to forbearance of €73.7 million.

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

Portfolio/Quality *(€ thousands)*	**Non-performing assets**				**Performing assets**			**Total (net exposure)**
	Gross exposure	**Overall value adjustments**	**Net exposure**	**Overall partial write-offs***	**Gross exposure**	**Overall value adjustments**	**Net exposure**	
1. Financial assets measured at amortised cost	662,551	(291,744)	370,807	19,598	8,181,379	(63,357)	8,118,022	8,488,829
2. Financial assets measured at *fair value* with an impact on overall profitability	-	-	-	-	767,050	-	767,050	767,050
3. Financial assets designated at fair value	-	-	-	-	-	-	-	-
4. Other financial assets compulsorily measured at fair value	33,336	-	33,336	-	197,733	-	197,733	231,069
5. Financial held for sale	-	-	-	-	-	-	-	-
Total at 31.12.2018	**695,887**	**(291,744)**	**404,143**	**19,598**	**9,146,162**	**(63,357)**	**9,082,805**	**9,486,948**
Total at 31.12.2017	**1,163,436**	**(494,511)**	**668,925**	**6,773**	**7,702,781**	**(47,057)**	**7,655,724**	**8,324,649**

* value to be indicated for information purposes

Portfolio/Quality	**Assets of evidently poor credit quality**		**Other assets**
(€ thousands)	**Cumulative capital losses**	**Net exposure**	**Net exposure**
1. Financial assets held for trading	-	-	3,258
2. Hedging derivatives	-	-	-
Total at 31.12.2018	**-**	**-**	**3,258**
Total at 31.12.2017	**-**	**-**	**11,496**

A.1.3 Distribution of financial assets by past-due segment (book values)

Risk portfolios/stages	First stage			Second stage			Third stage		
(€ thousands)	1 day to 30 days	Between 30 days and 90 days	More than 90 days	1 day to 30 days	Between 30 days and 90 days	More than 90 days	1 day to 30 days	Between 30 days and 90 days	More than 90 days
1. Financial assets measured at amortised cost	59,929	-	-	21,834	34,518	15,458	3,886	6,697	290,865
2. Financial assets measured at fair value with impact on overall profitability	-	-	-	-	-	-	-	-	-
Total at 31.12.2018	**59,929**	**-**	**-**	**21,834**	**34,518**	**15,458**	**3,886**	**6,697**	**290,865**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: changes in total adjustments and total provisions

Grounds/ Stages of risk	Total value adjustments													**Total provisions for commitments to provide funds and financial guarantees given**	**Total**
	Activities in the first stage				Activities in the second stage				Activities in the third stage						
(€ thousands)	Financial assets measured at amortised cost	Financial assets measured at fair value with impact on overall profitability	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value with impact on overall profitability	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value with impact on overall profitability	of which: individual write-downs	of which: collective write-downs	of which: impaired financial assets acquired or originated		
Opening balances	**2,574**	**-**	**-**	**-**	**1,480**	**-**	**-**	**-**	**3,654**	**-**	**-**	**-**	**-**	**-**	**7,708**
Increase in financial assets acquired or originated	1,134	-	-	-	579	-	-	-	249	-	-	-	-	**-**	**1,962**
Derecognitions other than write-offs	(1,475)	-	-	-	(883)	-	-	-	(806)	-	-	-	-	**-**	**(3,164)**
Net adjustments/write-backs on credit risk:	(424)	-	-	-	227	-	-	-	540	-	-	-	-	**-**	**343**
Contract changes without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Closing inventories	**1,809**	**-**	**-**	**-**	**1,403**	**-**	**-**	**-**	**3,637**	**-**	**-**	**-**	**-**	**-**	**6,849**
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**

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

Risk portfolios/stages	Gross value/nominal value					
	Transfers between stage one and stage two		Transfers between stage two and stage three		Transfers between stage one and stage three	
(€ thousands)	From first stage to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	228,180	206,535	37,008	25,934	28,529	4,159
2. Financial assets measured at fair value with impact on overall profitability	-	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	104,319	79,650	2,112	6,099	1,376	66
Total at 31.12.2018	**332,499**	**286,185**	**39,120**	**32,033**	**29,905**	**4,225**

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

Types of exposure/Values	**Gross exposure**		**Total value adjustments and total provisions**	**Net exposure**	**Partial Write-offs total**
(€ thousands)	**Non-performing**	**Performing**			
A. ON-BALANCE SHEET EXPOSURES					
a) Bad debts	-	X		-	-
- of which: exposures subject to forbearance	-	X		-	-
b) Unlikely to pay	-	X		-	-
- of which: exposures subject to forbearance	-	X		-	-
c) Past due non-performing exposures	-	X		-	-
- of which: exposures subject to forbearance	-	X		-	-
d) Past due performing exposures	X	-		-	-
- of which: exposures subject to forbearance	X	-		-	-
e) Other performing exposures	X	275,669	(157)	275,512	-
- of which: exposures subject to forbearance	X	-		-	-
TOTAL A	**-**	**275,669**	**(157)**		
B. OFF-BALANCE SHEET LOAN EXPOSURES					
a) Non-performing	-	X	-		-
b) Performing	X	22,840	(2)	22,838	-
TOTAL B	**-**	**22,840**	**(2)**	**22,838**	
TOTAL A+B	**-**	**298,509**	**(159)**	**298,350**	**-**

On-balance-sheet exposures include all cash financial assets due from banks, regardless of their accounting portfolio allocation.
Off-balance sheet exposures include all financial transactions other than cash-based transactions (guarantees issued, commitments, derivatives, etc.) involving the assumption of credit risk, regardless of the purpose of the transactions (trading, hedging, etc.).

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

Types of exposure/Amounts (thousands of euro)		Gross exposure Impaired	Gross exposure Not impaired	Total value adjustments and provisions	Net exposure	Partial write-offs overall
A.	**CASH EXPOSURES**					
	a) Bad debts	415,954	X	(226,513)	189,441	19,598
	- of which: exposures subject to concessions	50,916	X	(21,364)	29,552	-
	b) Probable non-compliance	273,273	X	(64,705)	208,569	-
	- of which: exposures subject to concessions	107,409	X	(27,192)	80,217	-
	c) Impaired maturing exposures	6,660	X	(526)	6,134	-
	- of which: exposures subject to concessions	-	X	-	-	-
	d) Maturing exposures not impaired	X	141,093	(9,355)	131,738	-
	- of which: exposures subject to concessions	X	11,161	(1,690)	9,471	-
	e) Other non-impaired exposures	X	8,732,445	(53,845)	8,678,600	-
	- of which: exposures subject to concessions	X	67,594	(3,335)	64,259	-
	TOTAL A	**695,887**	**8,873,538**	**(354,944)**	**9,214,481**	**19,598**
B.	**OFF-BALANCE SHEET CREDIT EXPOSURES**					
	a) Impaired	28,844	X	(3,637)	25,207	-
	b) Not impaired	X	2,748,925	(3,210)	2,745,715	-
	TOTAL B	**28,844**	**2,748,925**	**(6,847)**	**2,770,922**	**-**
	TOTAL A+B	**724,731**	**11,622,463**	**(361,791)**	**11,985,403**	**19,598**

On-balance-sheet exposures include all financial assets held on-balance-sheet with clients, regardless of their accounting allocation portfolio.
“Off-Balance Sheet” exposures include all financial transactions other than cash transactions (guarantees given, commitments, derivatives, etc.) that involve the assumption of credit risk, whatever the purpose of such transactions (trading, hedging, etc.).

A.1.8 On-balance-sheet credit exposures to banks: changes in gross impaired exposures

At that date, there were no impaired exposures to banks.

A.1.8bis On-balance-sheet credit exposures to banks: changes in gross exposures subject to concessions broken down by credit quality

At the time of writing, there were no impaired exposures to banks.

A.1.9 On-balance-sheet credit exposures to clients: changes in gross impaired exposures

Causes/Categories *(thousands of euro)*		**Loans**	**Probable defaults**	**Impaired maturing exposures**
A.	**Initial gross exposure**	**614,893**	**312,389**	**10,118**
	of which: exposures transferred but not derecognised	11,463	16,695	1,886
B.	**Increasing changes**	**55,624**	**68,668**	**5,962**
	B.1 entries from non-impaired exposures	9,316	61,179	5,922
	B.2 entries from impaired financial assets acquired or originated	-	201	-
	B.3.3 transfers from other categories of impaired exposures	43,034	4,001	22
	B.4 contractual changes without cancellation	-	-	-
	B.5 other increases	3,274	3,287	18
C.	**Decreased changes**	**(254,564)**	**(107,783)**	**(9,420)**
	C.1 Expenses to non-impaired exposures	-	(34,304)	(1,347)
	C.2 write-off	(23,892)	(6,233)	(484)
	C.3 Receipts	(2,825)	(8,577)	(605)
	C.4 Proceeds from disposals	(174,109)	(49)	(4)
	C.5 Losses on disposal	-	-	-
	C.6 transfers to other categories of impaired exposures	(29)	(40,139)	(6,888)
	C,7 contractual changes without cancellation	-	-	-
	C.8 other decreases	(53,709)	(18,481)	(92)
D.	**Final gross exposure**	**415,953**	**273,274**	**6,660**
	of which: exposures transferred but not derecognised	5,127	13,369	1,076

A.1.9bis On-balance-sheet credit exposures to clients: changes in gross exposures subject to concessions broken down by credit quality

Causes/Categories *(thousands of euro)*		**Exposures subject to concession impaired**	**Concessionary exposures not impaired**
A.	**Initial gross exposure**	**123,276**	**96,098**
	of which: exposures transferred but not derecognised	8,389	15,350
B.	**Increasing changes**	**21,006**	**37,556**
	B.1 entries from non-impaired exposures not subject to concessions	7,268	23,013
	B,2 entries from non-impaired exposures subject to concessions	10,701	X
	B.3 entries from exposures impaired and subject to concessions	X	14,306
	B.4 other increases	3,037	237
C.	**Decreased changes**	**(39,802)**	**(54,899)**
	C.1 outflows to non-impaired exposures not subject to concessions	X	(24,039)
	C.2 outflows to non-impaired exposures subject to concessions	(17,009)	X
	C.3 Expenses to exposures impaired and subject to concessions	X	(11,062)
	C.4 write-off	(1,751)	-
	C.5 Receipts	(5,150)	(16,853)
	C.6 proceeds of disposals	(13)	-
	C.7 losses on disposal	-	-
	C.8 other decreases	(15,879)	(2,945)
D.	**Final gross exposure**	**104,480**	**78,755**
	of which: exposures transferred but not derecognised	14,186	15,154

A.1.10 On-balance-sheet credit exposures to banks: changes in total value adjustments

Causes/Categories (thousands of euro)		Loans		Probable defaults		Impaired maturing exposures	
		Total	Of which: exposures subject to concessions	Total	Of which: exposures subject to concessions	Total	Of which: exposures subject to concessions
A.	**Total initial adjustments**	**-**	**-**	**-**	**-**	**-**	**-**
	of which: exposures transferred but not derecognised	-	-	-	-	-	-
B.	**Increasing changes**	**-**	**-**	**-**	**-**	**-**	**-**
	B.1 Value adjustments from impaired financial assets acquired or originated	-	X	-	X	-	X
	B.2. other value adjustments	-	-	-	-	-	-
	B.3 Losses on disposal	-	-	-	-	-	-
	B.4 transfers from other categories of impaired exposures	-	-	-	-	-	-
	B.5 contractual changes without cancellation	-	X	-	X	-	X
	B.6 other increases	-	-	-	-	-	-
C.	**Decreased changes**	**-**	**-**	**-**	**-**	**-**	**-**
	C.1. write-backs from valuation	-	-	-	-	-	-
	C.2 value recoveries from collection	-	-	-	-	-	-
	C.3 Gains on disposal	-	-	-	-	-	-
	C.4 write-off	-	-	-	-	-	-
	C.5 transfers to other categories of impaired exposures	-	-	-	-	-	-
	C.6 contractual changes without cancellation	-	X	-	X	-	X
	C.7 other decreases	-	-	-	-	-	-
D.	**Total final corrections**	**-**	**-**	**-**	**-**	**-**	**-**
	of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.1.11 On-balance-sheet credit exposures to clients: changes in total value adjustments

Causes/Categories (thousands of euro)		Loans		Probable defaults		Impaired maturing exposures	
		Total	Of which: exposures subject to concessions	Total	Of which: exposures subject to concessions	Total	Of which: exposures subject to concessions
A.	**Total initial adjustments**	**368,628**	**30,561**	**85,598**	**24,203**	**823**	**-**
	of which: exposures transferred but not derecognised	2,379	-	3,002	336	139	-
B.	**Increasing changes**	**52,996**	**9,007**	**24,263**	**7,438**	**470**	**-**
	B.1 Value adjustments from impaired financial assets acquired or originated	-	X	795	X	-	X
	B.2. other value adjustments	29,953	7,179	23,106	7,247	287	-
	B.3 Losses on disposal	2,084	-	-	-	-	-
	B.4 transfers from other categories of impaired exposures	20,959	1,828	362	191	1	-
	B.5 contractual changes without cancellation	-	X	-	X	-	X
	B.6 other increases	-	-	-	-	182	-
C.	**Decreased changes**	(190,920)	(18,201)	(24,630)	(4,449)	(768)	-
	C.1. write-backs from valuation	**(11,726)**	**-**	**(3,318)**	**(905)**	**-**	**-**
	C,2 value recoveries from collection	(5,803)	(2,099)	(922)	(607)	(50)	-
	C.3 Gains on disposal	-	-	(26)	(10)	-	-
	C.4 write-off	(171,304)	(16,102)	(2,206)	(164)	(41)	-
	C.5 transfers to other categories of impaired exposures	(3)	-	(12,884)	(1,042)	(562)	-
	C.6 contractual changes without cancellation	-	X	-	X	-	X
	C.7 other decreases	(2,084)	-	(5,274)	(1,721)	(115)	-
D.	**Total final corrections**	230,704	21,367	85,231	27,192	525	-
	of which: exposures transferred but not derecognised	**1,327**	**-**	**5,036**	**-**	**81**	**-**

Transactions for the conversion of receivables into equity instruments

During the year, in the context of agreements to restructure impaired positions, no operations to convert receivables into equity instruments were completed.

A.2 Classification of financial assets, commitments to disburse funds and financial guarantees based on external and internal ratings

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees issued: by external rating classes (gross values)

Taking into account the composition of the loan portfolio, consisting mainly of exposures to small and medium-sized businesses, family and craft businesses, professionals and consumer households, the distribution of cash and off-Balance Sheet exposures by external rating classes is not significant.
For prudential purposes, credit risks are measured using the standardised approach. Internally generated rating reviews are not relevant for the purposes of prudential regulation.

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 On-balance-sheet and off-balance-sheet credit exposures to secured banks

At the Balance Sheet date, there were no secured bank exposures.

A.3.2 On-balance-sheet and off-balance-sheet credit exposures to secured clients

(thousands of euro)	Gross exposure value	Net exposure value	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature credits				
								Other derivatives								
			Mortgage properties	Real estate financial leasing	Titles	Other collateral	CLN	Governments and central banks	Other public bodies	Banks	Other subjects	Governments and central banks	Other public bodies	Banks	Other subjects	
1. Guaranteed cash credit exposures:	**6,084,892**	**5,820,241**	**4,364,579**	**-**	**23,125**	**25,658**		**-**	**-**	**-**	**-**	**5,514**	**4,372**	**48,735**	**1,014,635**	**5,486,618**
1.1 fully guaranteed	5,4,472,858	5,259,732	4,252,746	-	14,785	17,251	-	-	-	-	-	5,514	2,242	41,167	921,534	5,255,239
- of which impaired	504,281	339,185	298,510	-	307	730	-	-	-	-	-	-	-	1,731	37,906	339,184
1.2 partially guaranteed	612,034	560,509	111,833	-	8,340	8,407	-	-	-	-	-	-	2,130	7,568	93,101	231,379
- of which impaired	98,186	51,854	34,960	-	709	162	-	-	-	-	-	-	-	313	4,488	40,632
2. Guaranteed off-Balance Sheet credit exposures:	**428,465**	**425,298**	**25,563**	**-**	**3,979**	**12,218**	**-**	**-**	**-**	**-**	**-**	**-**	**812**	**9,171**	**338,735**	**390,478**
2.1 fully guaranteed	363,629	361,858	24,376	-	3,244	10,641	-	-	-	-	-	-	812	8,542	314,005	361,620
- of which impaired	13,733	11,345	160	-	-	87	-	-	-	-	-	-	-	99	10,565	10,911
2.2 partially guaranteed	64,836	63,440	1,187	-	735	1,577	-	-	-	-	-	-	-	629	24,730	28,858
- of which impaired	3,688	2,403	-	-	-	13	-	-	-	-	-	-	-	20	2,351	2,384

A.4 Financial and non-financial assets obtained through the enforcement of guarantees received

At the date there were no assets obtained through the enforcement of guarantees received.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Sectoral distribution of on-balance-sheet and off-balance-sheet credit exposures to clients

Exposures/counterparties		Public administrations		Other public bodies		Financial corporations		Insurance companies		Non-financial corporations	
(thousands of euro)		Net exposure	Value adjustments overall	Net exposure	Value adjustments overall	Net exposure	Value adjustments overall	Net exposure	Value adjustments overall	Net exposure	Value adjustments overall
A.	**Cash credit exposures**										
	A.1 Bad debts	-	-	2,554	2,699	-	-	132,028	176,942	54,859	46,872
	of which: exposures subject to concessions	-	-	182	2,315	-	-	20,364	13,153	9,005	5,896
	A.2 Probable defaults	-	-	18,551	3,634	-	-	145,007	53,743	45,011	7,328
	of which: exposures subject to concessions	-	-	232	3,117	-	-	54,302	19,787	25,683	4,288
	A.3 Impaired maturing exposures	-	-	40	3	-	-	2,001	171	4,093	352
	of which: exposures subject to concessions	-	-	-	-	-	-	-	-	-	-
	A.4 Non-impaired exposures	1,613,118	2,326	401,770	1,274	182,891	-	3,769,029	32,401	3,026,421	27,199
	of which: exposures subject to concessions	-	-	-	-	-	-	38,942	2,565	34,788	2,460
	Total A	**1,613,118**	**2,326**	**422,915**	**7,610**	**182,891**	**-**	**4,048,064**	**263,257**	**3,130,384**	**81,751**
B.	**"Off-balance-sheet" credit exposures**										
	B.1 Impaired exposures	-	-	10	-	-	-	24,124	3,469	1,073	168
	B.2 Non-impaired exposures	104,214	1	57,649	27	-	-	2,160,118	2,077	423,734	1,105
	Total B	**104,214**	**1**	**57,659**	**27**	**-**	**-**	**2,184,242**	**5,546**	**424,807**	**1,273**
	Total at 31.12.2018	**1,717,332**	**2,327**	**480,574**	**7,637**	**182,891**	**-**	**6,232,306**	**268,803**	**3,555,191**	**83,024**
	Total at 31.12.2017	**1,524,094**	**(258)**	**363,628**	**(6,687)**	**164,832**	**(1)**	**4,742,324**	**(462,051)**	**2,493,983**	**(74,647)**

B.2 Geographical distribution of on-balance-sheet and off-balance-sheet credit exposures to clients

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
(thousands of euro)	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash credit exposures										
A.1 Loans	189,122	(226,283)	319	(230)	-	-	-	-	-	-
A.2 Probable defaults	208,036	(64,656)	337	(40)	195	(9)	-	-	-	-
A.3 Impaired maturing exposures	6,127	(525)	7	(1)	-	-	-	-	-	-
A.4 Non-impaired exposures	8,610,033	(62,910)	161,195	(278)	26,815	(2)	11,804	(4)	491	(7)
Total A:	**9,013,318**	**(354,374)**	**161,858**	**(549)**	**27,010**	**(11)**	**11,804**	**(4)**	**491**	**(7)**
B. "Off-balance-sheet" credit exposures										
B.1 Impaired exposures	25,207	(3,637)	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	2,731,541	(3,195)	14,101	(15)	23	-	40	-	10	-
Total B:	**2,756,748**	**(6,832)**	**14,101**	**(15)**	**23**	**-**	**40**	**-**	**10**	**-**
Total at 31.12.2018	**11,770,066**	**(361,206)**	**175,959**	**(564)**	**27,033**	**(11)**	**11,844**	**(4)**	**501**	**(7)**
Total at 31.12.2017	**8,523,825**	**(465,684)**	**56,413**	**(1,014)**	**4,738**	**(15)**	**4,357**	**(9)**	**258**	**(2)**

Exposures/Geographical areas	ITALY NORTHWEST		ITALY NORTHEAST		ITALY CENTRE		SOUTH ITALY AND ISLANDS	
(thousands of euro)	Exposure net	Total value adjustments	Exposure stark	Total value adjustments	Exposure net	Total value adjustments	Exposure net	Total value adjustments
A. Cash credit exposures								
A.1 Loans	8,385	(8,119)	178,710	(213,576)	1,841	(3,820)	185	(768)
A.2 Probable defaults	21,230	(4,102)	186,596	(60,547)	210	(7)	-	-
A.3 Impaired maturing exposures	150	(13)	5,884	(505)	73	(6)	19	(2)
A.4 Non-impaired exposures	251,351	(1,396)	6,577,223	(57,505)	1,766,650	(3,791)	14,811	(217)
Total A:	**281,116**	**(13,630)**	**6,948,413**	**(332,133)**	**1,768,774**	**(7,624)**	**15,015**	**(987)**
B. "Off-balance-sheet" credit exposures								
B.1 Impaired exposures	25	(109)	25,360	(3,351)	-	-	-	-
B.2 Non-impaired exposures	98,382	(27)	2,609,410	(3,334)	20,902	(3)	2,669	(8)
Total B:	**98,407**	**(136)**	**2,634,770**	**(6,685)**	**20,902**	**(3)**	**2,669**	**(8)**
Total at 31.12.2018	**379,523**	**(13,766)**	**9,583,183**	**(338,818)**	**1,789,676**	**(7,627)**	**17,684**	**(995)**
Total at 31.12.2017	**226,177**	**(15,273)**	**6,608,880**	**(442,584)**	**1,676,991**	**(6,680)**	**11,777**	**(1,147)**

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

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
(thousands of euro)	Exposure net	Total value adjustments	Exposure net	Total value adjustments	Exposure net	Total value adjustments	Exposure net	Total value adjustments	Exposure net	Total value adjustments
A. Cash credit exposures										
A.1 Loans										
A.2 Probable defaults	-	-	-	-	-	-	-	-	-	-
A.3 Impaired maturing exposures	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	199,271	(150)	70,578	(6)	5,638	(1)	14	-	11	-
Total A:	**199,271**	**(150)**	**70,578**	**(6)**	**5,638**	**(1)**	**14**	**-**	**11**	**-**
B. "Off-balance-sheet" credit exposures										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	3	-	5,435	2	-	-	-	-	-	-
Total B:	**3**	**-**	**5,435**	**2**	**-**	**-**	**-**	**-**	**-**	**-**
Total at 31.12.2018	**199,274**	**(150)**	**76,013**	**(4)**	**5,638**	**(1)**	**14**	**-**	**11**	**-**
Total at 31.12.2017	**291,318**	**-**	**71,464**	**-**	**6,721**	**-**	**341**	**-**	**5**	**-**

Exposures/Geographical areas	ITALY NORTHWEST		ITALY NORTHEAST		ITALY CENTRE		SOUTH ITALY AND ISLANDS	
(thousands of euro)	Exposure net	Total value adjustments	Exposure net	Total value adjustments	Exposure net	Total value adjustments	Exposure net	Total value adjustments
A. Cash credit exposures								
A.1 Loans	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-
A.3 Impaired maturing exposures	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	86,050	(1)	13,370	(18)	99,851	(47)	-	-
Total A:	**86,050**	**(1)**	**13,370**	**(18)**	**99,851**	**(47)**	**-**	**-**
B. "Off-balance-sheet" credit exposures								
B.1 Impaired exposures	-	-	-	-	-	-	-	-
B.2 Non-impaired exposures	-	-	-	-	3	-	-	-
Total B:	**-**	**-**	**-**	**-**	**3**	**-**	**-**	**-**
Total at 31.12.2018	**86,050**	**(1)**	**13,370**	**(18)**	**99,854**	**(47)**	**-**	**-**
Total at 31.12.2017	**90,353**	**-**	**285**	**-**	**200,680**	**-**	**-**	**-**

B.4 Large exposures

	Number of large exposures exposures	Credit exposure *(thousands of euro)*	Weighted exposure amount for large exposures *(thousands of euro)*
31.12.2018	5	2,150,711	296,361
31.12.2017	5	2,091,347	282,446

The number of large exposures shown in the table is determined by referring to unweighted "exposures" that exceed 10% of the eligible capital, as defined by EU Regulation no. 575/2013 (the so-called "Risk Capital"). CRR), where "exposures" means the sum of cash risk assets and off-Balance Sheet transactions (excluding those deducted from capital) with a client, or group of related clients, without the application of risk weights.

The Balance Sheet table for large exposures also includes entities which - although 0% risk-weighted - have an unweighted exposure of more than 10% of the eligible capital for the purposes of large exposures.

As at 31st December 2018, exposures (including market risks and equity investments) exceeding 10% of regulatory capital concerned 5 groups of clients with a gross exposure of 2.1 billion euro. In detail, the positions concern 1 position belonging to the portfolio of central governments and central banks, 1 position belonging to the portfolio of public sector bodies and 3 positions belonging to the corporate sector.

C. SECURITISATION TRANSACTIONS

QUALITATIVE INFORMATION

Securitisation of residential mortgage loans - S.P.V. VOBA n. 3 S.r.l. (September 2011)

Issue characteristics

In September 2011, Volksbank completed a securitisation transaction through the sale of performing mortgage loans, for a value of approximately 400 million, to the special purpose vehicle Voba n. 3 s.r.l., which financed the purchase by issuing bonds. The transaction was completed on 1 September 2011 with the signing of contracts for the assignment without recourse of the mortgage portfolio and subsequently with the issue of bonds. Volksbank acts as a portfolio servicer in the context of the securitisation transaction.
The portfolio to be sold had the following characteristics

Vehicle company:	VOBA n. 3 S.r.l.
- Interest of the Company in the Special Purpose Vehicle	0%
- Date of assignment of receivables	01.09.2011
- Type of receivables assigned	Mortgage loans
- Quality of receivables assigned	In bonis
- Guarantees on receivables assigned	Mortgage I. Legal grade
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	Individuals and companies
- Number of receivables assigned	3,188
- Price of receivables assigned	euros 387,269,164,82
- Nominal value of receivables assigned	euros 387,269,164,82

The characteristics of the securities issued are as follows:

Tranche	S&P/Moody's Rating	Percentage	Amount (in euro)
Class A1	AAA/Aaa	25.73%	102,500,000
Class A2	AA/Aa3	59.28%	236,100,000
Class C	-	14.99%	59.7,700,000
Total		**100.00%**	**398,300,000**

Class C securities have been fully subscribed by the Company. A total of 132.2 million euro remained, of which 72.5 million euro in the A2 class and 59.7 million euro in the C class. Of this, the 59.7 million C class are held by the Company.

Securitisation of residential mortgage loans - S.P.V. VOBA n. 5 S.r.l. (February 2014)

Issue characteristics

The Board of Directors resolved to carry out a securitisation of a portfolio of loans consisting of performing mortgages and unsecured loans granted to small and medium-sized enterprises (SMEs) called VOBA n. 5 S.r.l..
The operation involved the sale of 4.164 transactions for a total value of euros 479.791.803.44.
As in the case of previous securitisation operations, the purpose of the securitisation is to obtain eligible instruments for refinancing operations with the ECB in support of liquidity requirements.

Vehicle company:	VOBA No. 5 S.r.l.
- Interest of the Company in the Special Purpose Vehicle	0%
- Date of assignment of receivables	01.02.2014
- Type of receivables assigned	Residential mortgage loans
- Quality of receivables assigned	In bonis
- Guarantees on receivables assigned	Mortgage holders
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	SAE 600, 614, 615
- Number of receivables assigned	4,164
- Price of receivables assigned	euros 479,791,803,44
- Nominal value including accrued interest on receivables assigned	euros 479,791,803,44

The characteristics of the securities issued are as follows:

Tranche	DBRS/Fitch Rating	Percentage	Amount (in euros)
Class A1	AAA/AA	41.11%	201,400,000
Class A2	AAA/AA	40.62%	199,000,000
Junior Class	NR	18.26%	89,450,000
Total		**100.00%**	**489,850,000**

Junior class securities have been fully subscribed by the Company. As at 31st December 2017 a total of 214.0 million securities remained, of which 124.5 million were A2 class securities and 89.5 million were Junior class securities. Of these, as at 31 December 2017, the 89.5 million Junior class are held by the Company.

Securitisation of residential mortgage loans - S.P.V. VOBA n. 6 S.r.l. (September 2016)

The Board of Directors resolved to carry out a securitisation of a portfolio of loans consisting of performing mortgages and unsecured loans granted to small and medium-sized enterprises (SMEs) called VOBA n. 6 S.r.l..
The operation involved the sale of 4.014 transactions for a total value of euros 529.5 million.
As in the case of previous securitisation operations, the purpose of the securitisation is to obtain eligible instruments for refinancing operations with the ECB in support of liquidity requirements.

Vehicle company:	VOBA N.6 S.r.l.
- Interest of the Bank in the Special Purpose Vehicle	0%
- Date of assignment of receivables	01/09/2016
- Type of receivables assigned	SMI mortgages
- Quality of receivables assigned	In bonis
- Guarantees on receivables assigned	Mortgage and unsecured loans
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	Private subjects
- Number of receivables assigned	4,014
- Price of receivables assigned	euros 529,495,061,41
- Nominal value of receivables assigned	euros 528,611,984,61

The characteristics of the securities issued and listed on the Dublin Stock Exchange are as follows:

Tranche	DBRS/Moody's Rating	Percentage	Amount (in euro)
Class A1	AAA/Aa2	18.47%	100,000,000
Class A2	AA/Aa3	47.53%	257,400,000
Class B	A/A1	11.01%	59,600,000
Junior Class	NR	23.00%	124,545,000
Total		**100.00%**	**541,545,000**

Junior class securities have been fully subscribed by the Company. A total of 267.7 million euro remained, of which 83.6 million euro of class A2 securities, 59.6 million euro of class B securities and 124.5 million euro of the class Junior securities. The Company holds 124.5 million junior class securities.

Securitisation of residential mortgage loans - S.P.V. VOBA n. 7 S.r.l. (May 2018)

The Board of Directors resolved to carry out a securitisation of a portfolio of loans consisting of performing mortgages and unsecured loans granted to small and medium-sized enterprises (SMEs) called VOBA n. 7 S.r.l..
The operation involved the sale of 4.473 transactions for a total value of euros 750.5 million.
As in the case of previous securitisation operations, the purpose of the securitisation is to obtain eligible instruments for refinancing operations with the ECB in support of liquidity requirements.

Vehicle company:	VOBA N.7 S.r.l.
- Interest of the Bank in the Special Purpose Vehicle	0%
- Date of assignment of receivables	01/05/2018
- Type of receivables assigned	SMI mortgages
- Quality of receivables assigned	In bonis
- Guarantees on receivables assigned	Mortgage and unsecured loans
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	
- Number of receivables assigned	4,473
- Price of receivables assigned	euros 750,469,537,60
- Nominal value of receivables assigned	euros 750,470,731,39

The characteristics of the securities issued and listed on the Dublin Stock Exchange are as follows:

Tranche	S&P/Moody's Rating	Percentage	Amount (in euro)
Class A1	AA/Aa3	18.45%	141,000,000
Class A2	AA/Aa3	46.05%	352,000,000
Class B	BBB/Baa3	19.63%	150,000,000
Junior Class	NR	15,87%	121,319,000
Total		**100.00%**	**764,319,000**

Class A1, A2, B and Junior securities have been fully subscribed by the Company. A total of 700.2 million euro remained, of which 76.8 million euro of class A1 securities, 352.0 million euro of class A2 securities, 150.0 million euro of class B securities and 121.3 million euro of the class Junior securities. In 2018 the Company placed 260.0 million class A2 securities.

QUANTITATIVE INFORMATION

C.1 Exposure arising from the main "own" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of securitized assets/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanines		Junior		Senior		Mezzanines		Junior		Senior		Mezzanines		Junior	
(thousands of euro)	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs
A. Subject of complete cancellation from the budget	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Subject to partial cancellation from the budget	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised from the Balance Sheet	**168,849**	-	**150,000**	-	**395,014**	-	-	-	-	-	-	-	-	-	-	-	-	-
C.1 Voba Finance S.r.l.																		
- Mortgage loans	168,849	-	150,000	-	395,014	-	-	-	-	-	-	-	-	-	-	-	-	-

C.2 Exposures arising from main "third party" securitisation transactions broken down by type of securitised asset and by type of exposure

Type of underlying asset/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanines		Junior		Senior		Mezzanines		Junior		Senior		Mezzanines		Junior	
(thousands of euro)	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs	Book value	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs	Net exposure	Value adjustments/ write-backs
HIPO - 11 -Spanish residential mortgages	487	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Securitisation vehicle company

Securitisation name / Vehicle company name	Registered office	Consolidation	Activities (thousands of euro)			Liabilities (thousands of euro)		
			Credits	Debt Securities	Other	Senior	Mezza-nines	Junior
Voba N.3 S.r.l.	Conegliano (TV)	NO	140,831	-	9,835	72,469	-	59,700
Voba N.5 S.r.l.	Conegliano (TV)	NO	236,195	-	7,020	124,520	-	89,450
Voba N.6 S.r.l.	Conegliano (TV)	NO	271,023	-	18,743	83,543	59,600	124,545
Voba N.7 S.r.l.	Conegliano (TV)	NO	654,263	-	55,011	428,849	150,000	121,319

C.4 Unconsolidated securitisation vehicle companies

At the Balance Sheet date, there were no interests in non-consolidated securitisation companies. Moreover, there are no exposures to these companies and no interventions or support agreements, including financial support, have been approved for these companies.

C.5 Servicer activities - own securitisations: collection of securitised loans and redemption of securities issued by the securitisation vehicle

Vehicle company *(thousands of euro)*	Securitized assets (end of period data)		Receivables collection realised in the year		Percentage share of securities redeemed (end of period data)					
	Impaired	In bonis	Impaired	In bonis	Senior		Mezzanines		Junior	
					Impaired assets	Perfor-ming assets	Impaired assets	Perfor-ming assets	Impaired assets	Perfor-ming assets
Voba 3 S.r.l.	2,456	138,374	1,201	27,105	-	78,60%	-	-	-	-
Voba 5 S.r.l.	2,462	233,736	387	40,077	-	68.90%	-	-	-	-
Voba 6 S.r.l.	13,708	257,545	539	91,344	-	76.62%	-	-	-	-
Voba 7 S.r.l.	945	651,261	239	95,680	-	13.01%	-	-	-	-

D. INFORMATION ON STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION VEHICLE COMPANIES)

QUALITATIVE INFORMATION

At the Balance Sheet date, the company does not have any structured entities that are not consolidated for accounting purposes.

QUANTITATIVE INFORMATION

At the Balance Sheet date, the company does not have any structured entities that are not consolidated for accounting purposes.

E. SALES TRANSACTIONS

The disclosures set out in this Part will apply to all sales transactions, including securitisation transactions.

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

Transactions mainly refer to the use of debt securities in the portfolio for short and medium-term repurchase agreements and to receivables from clients sold in the context of the Voba n. 3 S.r.l., Voba n. 4 S.r.l., Voba n. 5 S.r.l. and Voba n. 6 S.r.l. securitisation transaction. With regard to transactions in debt securities under medium and long-term repurchase agreements, reference should be made to the Notes to the Financial Statements - Part B.

QUANTITATIVE INFORMATION

E.1 Financial assets sold recognised in full and associated financial liabilities: carrying amounts

Technical forms/wallet *(thousands of euro)*		**Financial assets sold recognised in full**				**Associated financial liabilities**		
		Book value	of which: subject to securi-tisation transac-tions	of which: subject to repurchase agreements	of which impaired	Book value	of which: subject to securi-tisation transac-tions	of which: the subject of sales contracts with repurchase agreement
A.	**Cash assets**	**-**	**-**	**-**	**X**	**-**	**-**	**-**
	1. Debt securities	-	-	-	X	-	-	-
	2. Equity securities	-	-	-	X	-	-	-
	3. Financing	-	-	-	X	-	-	-
	4. Derivatives	-	-	-	X	-	-	-
B.	**Other financial assets that must be measured at fair value**	-	-	-	-	-	-	-
	1. Debt securities	-	-	-	-	-	-	-
	2. Equity securities	-	-	-	X	-	-	-
	3. Financing	-	-	-	-	-	-	-
C.	**Financial assets designated at fair value**	-	-	-	-	-	-	-
	1. Debt securities	-	-	-	-	-	-	-
	2. Financing	-	-	-	-	-	-	-
D.	**Financial assets at fair value with impact on total revenue**	62,169	-	62,169	-	61,395	-	61,395
	1. Debt securities	62,169	-	62,169	-	61,395	-	61,395
	2. Equity securities	-	-	-	X	-	-	-
	3. Financing	-	-	-	-	-	-	-
E.	**Financial assets valued at amortised cost**	1,595,922	1,284,382	311,540	13,127	819,547	511,027	308,520
	1. Debt securities	311,540	-	311,540	-	308,520	-	308,520
	2. Financing	1,284,382	1,284,382	-	13,127	511,027	511,027	-
	Total at 31.12.2018	**1,658,091**	**1,284,382**	**373,709**	**13,127**	**880,942**	**511,027**	**369,915**
	Total at 31.12.2017	**1,155,131**	**1,155,131**	**170,254**	**24,525**	**649,155**	**476,398**	**172,757**

Financial liabilities against financial assets sold but not derecognised relate to both securitisations and repurchase agreements against securities recorded as assets. However, repurchase agreements relating to securities received under reverse repurchase agreements are not included.

E.2 Financial assets sold, partially recognised, and associated financial liabilities: book values

At the Balance Sheet date, there were no partially recognised transferred financial assets or associated financial liabilities.

E.3 Transfer transactions with liabilities with recourse exclusively to the assets transferred and not fully derecognised: fair value

Columns A and B show the fair value of the financial assets sold but still recorded, respectively, in full or in part, under the assets of the Balance Sheet, as well as the fair value of the associated financial liabilities recorded following such sale, if the liabilities can only be recourse to the related assets sold. For Volksbank, this case is applicable exclusively to the securitisations VOBA N. 3 S.r.l., VOBA N. 4 S.r.l. and VOBA N. 5 S.r.l. and VOBA N. 6 S.r.l..
In the case of assets sold belonging to two or more accounting portfolios, the associated liabilities must, by convention, be indicated in proportion to the weight that the assets sold (measured at fair value) forming part of a given accounting portfolio have on the total assets sold. This last case was not present at 31 December 2018.

		Full disclosure	Partially taken over	Total	
(thousands of euro)				**31.12.2018**	**31.12.2017**
A.	**Financial assets held for trading**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Equity securities	-	-	-	-
	3. Financing	-	-	-	-
	4. Derivatives	-	-	-	-
B.	**Other financial assets that must be measured at fair value**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Equity securities	-	-	-	-
	3. Financing	-	-	-	-
C.	**Financial assets designated at fair value**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Financing	-	-	-	-
D.	**Financial assets at fair value with impact on total revenue**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Equity securities	-	-	-	-
	3. Financing	-	-	-	-
E.	**Financial assets valued at amortised cost**	**1,366,689**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Financing	1,366,689	-	-	-
	Total financial assets	1,366,689	-	-	-
	Total associated financial liabilities	511,027	-	X	X
	Net value 31.12.2018	1,877,716	-	1,877,716	X
	Net value 31.12.2017	578,002	-	X	578,002

B. Financial assets sold and derecognised in full with ongoing involvement

At the date of the financial statements, there were no financial assets in existence that had been sold or cancelled in full, with the continuous involvement of the company being recorded.

E.4 Covered Bond Transactions

At the Balance Sheet date, there were no covered bond transactions in place.

F. MODELS FOR MEASURING CREDIT RISK

In the context of the measurement of portfolio credit risk, the Risk Management Department uses for management purposes an econometric model input with an extensive set of data and risk variables.
The model makes it possible, through the use of Credit-VaR metrics, to define the probability distribution of credit portfolio losses, with particular reference to exposures assessed collectively and on a lump-sum basis, of ordinary and resident financial clients. This distribution is used to measure the maximum potential loss over an annual time interval and with a specific confidence level.
In particular, in order to obtain this distribution, the calculation engine of the model uses a Monte Carlo simulation approach, through which a sufficiently high number of scenarios is simulated to provide a good empirical approximation of the theoretical distribution of the losses of the loan portfolio. The model used is a structural, asymptotic unifactor-type, which simulates the portfolio's behaviour in relation to the performance of two classes of variables, one representing the environmental market situation, common to all counterparties, the other the specific characteristics of the individual counterparties.
It is used to calculate expected and unexpected losses on the loan portfolio and to perform stress tests to assess the effects of extraordinary but plausible events on the portfolio.
The unexpected loss (credit risk) is defined as the difference between the maximum potential loss, given a certain confidence interval, and the expected loss, over a time horizon of twelve months.
Finally, the portfolio model is periodically subjected to stress tests in order to assess the sensitivity of the portfolio's credit risk to changes, both moderate and extreme (provided they are plausible), in one (so-called sensitivity analysis) or more (so-called scenario analysis) economic and financial factors.

Section 2 MARKET RISKS

2.1 Interest rate risk and price risk - supervisory trading book

QUALITATIVE INFORMATION

A. General

In Volksbank, the supervisory trading book constitutes a very small fraction of the proprietary book, the majority of the financial instruments held being registered in the accounting categories Hold To Collect & Sell (HTCS) and Hold To Collect (HTC) and accordingly belonging to the banking book.
However, the analytical instrumentation used to measure market risks (interest rate risk and price risk) is the same for the entire proprietary portfolio.
Interest rate risk represents the risk associated with the possibility of incurring losses on the Bank's financial assets as a result of unfavourable market interest rates.
Price risk, on the other hand, represents the risk associated with changes in the value of outstanding positions, deriving from fluctuations in market prices. It breaks down into:

- generic risk: a change in the price of an equity instrument as a result of fluctuations in the reference stock market;
- specific risk: change in the market price of a specific equity security resulting from changes in the market's expectations of the issuer's capital strength or prospects.

The proprietary portfolio is managed with a view to prudent management of transactions, geared to limiting market risks and in compliance with the strategic indications and operating limits contained in the "Investment Policy", the document "Operating limits and proxies for finance and liquidity" and the annual "Operating Plan".
The main source of interest rate risk is proprietary bonds; trading is aimed at absolute return targets by maximising portfolio profitability in strict compliance with the Value at Risk (VaR) and Stop-Loss limits, defined in the internal regulations mentioned above. The portfolio's bond portfolio consists of floating-rate and fixed-rate securities with a limited duration. Most of the bonds held refer to securities issued by the Italian Republic or by Italian banks of national importance. The interest rate risk is assumed by the Investment Service, which also uses derivative instruments (futures, IRS) for hedging purposes.
The main source of price risk, on the other hand, is represented by equity positions relating to mainly European companies and only marginally by derivative instruments linked to equity indices. In this case, too, the strategy pursued is geared towards prudent asset management and conscious risk-taking. They also apply to the price risk limits of Value at Risk and Stop-Loss.
Almost all of the financial instruments in the portfolio are denominated in euros, making the exchange rate risk entirely marginal.
The assets in the proprietary portfolio did not undergo significant changes compared to the previous year, except for the average stock that increased in accordance with the strategic planning guidelines.

B. Management processes and methods for measuring interest rate risk and price risk

The internal processes for controlling and managing market risks (interest rates and prices) are contained in the "Investment Policy" and in the document "Operating limits and proxies for finance and liquidity", both of which are subject to periodic reviews and approved by the Board of Directors.
The policy formalises the performance of risk management activities relating to market risks, defines the tasks and responsibilities assigned to the various organisational units with competence in the matter and specifies, in particular, the main operating processes, measurement methods, exposure limits, information flows and any corrective action.
Investment and trading activities are accordingly carried out in compliance with internal policy and are carried out within the framework of an articulated internal regulatory system of delegation of management powers, which provides for management limits defined in terms of negotiable financial instruments, amount, duration, investment markets, types of issues and issuers, sector and rating.

Risk monitoring is the responsibility of the Risk Management Function, which produces daily and monthly reports that are reviewed by special committees. The latter set out risk management policies in the context of the strategy contained in the Annual Operating Plan.
With regard to the processes and methods of market risk control and management, the following are the indicators subject to control, as well as the first and second level internal control processes on the overall operations of the proprietary portfolio. In general, the limits are differentiated between the different types of market risk (interest rate and price), but are nevertheless brought back into a unitary framework, built with homogeneous logic.
The structure of the operating powers of finance is divided into four levels:
- operating limits
- position limits: credit and concentration risk
- Stop-Loss limits
- Value-at-Risk (VaR) limits

The structure of the operating limits requires the use of the following risk indicators:
- interest rate risk: sensitivity (change in profits or losses that would occur in the event of a change of one hundredth of a point in the reference curve, with a parallel shift);
- equity risk: delta equivalent (market value for equity positions and cash equivalent position for equity derivatives);
- maximum amount invested: countervalue of securities/funds at loading prices to ensure compliance with the average stocks allocated.

The position limits are structured on:
- limits on the assumption of credit risk: overall limits are set on exposure to rating classes, in particular below the investment grade bracket;
- sectoral limits;
- credit sensitivity limits (change in profits or losses that would occur in the event of a change of one hundredth of a point in the credit spread);
- limits for maturity bands;
- constraints related to eligibility criteria for Eurosystem purposes;
- country limits: there are limits on the maximum permissible exposure per country depending on the country's rating.

The Stop-Loss limits are checked on the results achieved and not achieved during the last business day, accumulated over the last 5 business days (weekly stop-loss) and accumulated over the last 30 calendar days (monthly stop-loss), reinforced by a cumulative check since the beginning of the year, with a process of reporting to the bodies responsible for the appropriate decisions. The limits are based on the maximum level of loss deemed acceptable in the reference period, in line with the Bank's strategic choices (Risk Capital within the Risk Appetite Framework, RAF) and contained in the Annual Operating Plan. Risk capital is in turn divided among the various asset classes making up the portfolio.
With regard to VaR limits, VaR is defined as the threshold amount above which losses should not occur with a certain level of confidence and over a specific time horizon. VaR is a uniform measurement indicator applicable to all types of trading on the markets and all financial instruments, thus making it possible to compare risk values from the point of view of both time and daily profitability. For the calculation of VaR, the Bank uses the parametric model of variance-covariance provided by Prometeia, supported by internal models used for the necessary checks, as well as for planning purposes: for example, VaR from Monte Carlo simulations and historical VaR using the Extreme Value Theory for the highest levels of confidence. The responsibility for daily checks on operating, position, stop-loss and VaR limits lies with the risk control function, which, in order to avoid and prevent possible overruns of authorised risk limits, checks and verifies the approaching of the thresholds by means of a standardised daily reporting system.
VaR models are for management purposes only and are not used to calculate capital requirements on market risks for which, instead, the standardised methodology is adopted for the purposes of the relative supervisory reporting to the Bank of Italy.

QUANTITATIVE INFORMATION

1. Supervisory trading book: distribution by residual maturity (repricing date) of financial assets and liabilities in cash and financial derivatives

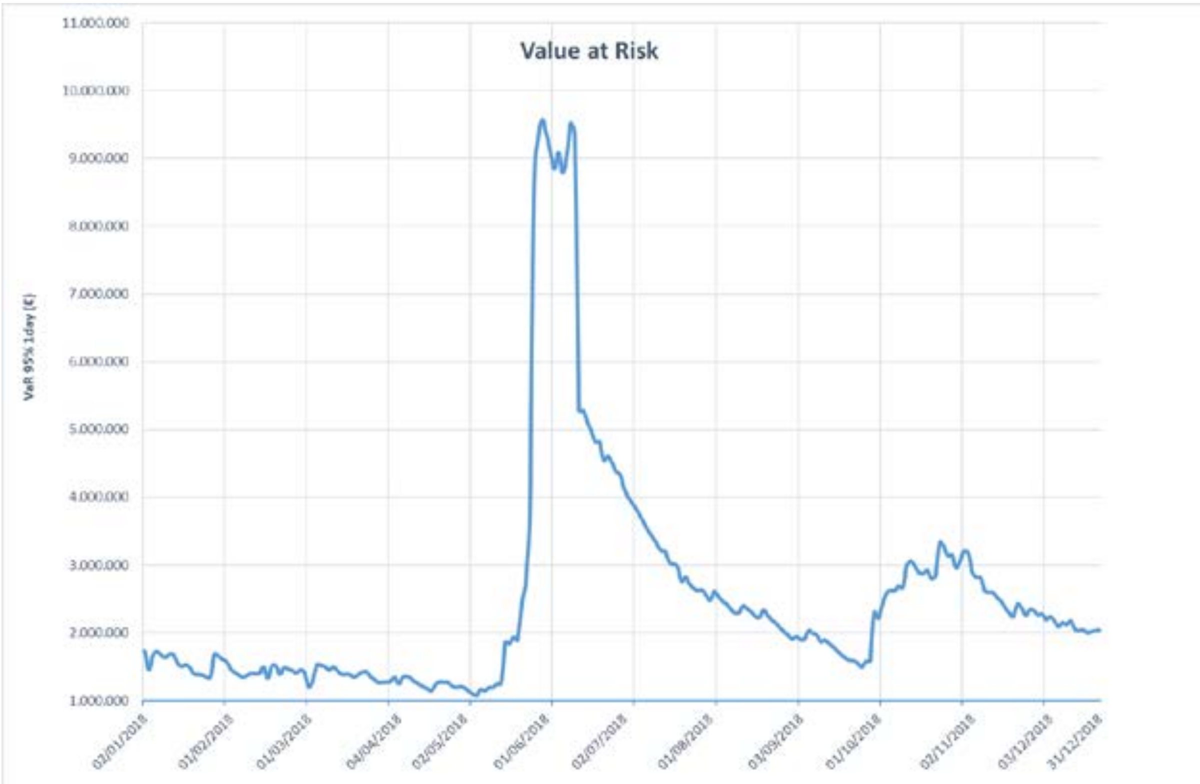
	Type/Remaining time (thousands of euro)	Visible	Up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than 5 years up to 10 years	More than 10 years	Indefinite duration
1.	***Cash assets***	**1**	**964**	**-**	**-**	**-**	**2,072**	**-**	**-**
1.1	Debt securities	1	964	-	-	-	2,072	-	-
	- With early redemption option	-	-	-	-	-	-	-	-
	- Other	1	964	-	-	-	2,072	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	P.C.T. liabilities	-	-	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**34,929**	**10**	**64**	**(4,306)**	**(3,936)**	**(1,759)**	**98**
3.1	With underlying security	-	24,954	-	-	-	-	-	98
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	24,954	-	-	-	-	-	98
	+ Long positions	-	25,026	-	-	-	-	-	98
	- Short positions	-	(72)	-	-	-	-	-	-
3.2	Without underlying security	-	9,975	10	64	(4,306)	(3,936)	(1,759)	-
	- Options	-	-	-	-	5,694	(3,936)	(1,759)	-
	+ Long positions	-	-	-	-	66,356	33,936	5,961	-
	- Short positions	-	-	-	-	(60,662)	(37,872)	(7,720)	-
	- Other derivatives	-	9,975	10	64	(10,000)	-	-	-
	+ Long positions	-	163,675	13,875	2,600	-	-	-	-
	- Short positions	-	(153,700)	(13,865)	(2,536)	(10,000)	-	-	-

2. *Supervisory trading book: distribution of exposures in equities and equity indices for the main countries of the listing market*

At the Balance Sheet date, the Company does not hold any equity securities or equity indices classified in the supervisory trading portfolio.

3. *Supervisory trading book - internal models and other methods for sensitivity analysis*

The following is the trend of the VaR for 2018 (95% confidence, 1-day confidence interval), referring to the entire portfolio owned by Volksbank (excluding, however, what is priced at amortised cost):



In addition to the traditional VaR, a daily VaR of 99.9% is also calculated using the so-called "Extreme Value Theory". The use of this methodology has a considerable advantage in terms of accuracy, especially in the evaluation of extreme events (unlikely situations, but high impact).
At the beginning of 2019, the above figure (VaR 99.9% daily horizon) was €21.8 million, which means that approximately one day every four years the property portfolio could suffer losses equal to or greater than this amount.

2.2 Interest rate risk and price risk - Banking book

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring interest rate risk and price risk

The banking book corresponds to all the Bank's commercial operations, treasury and hedging derivatives. Changes in market interest rate structures may have unfavourable effects on the banking book (interest margin and capital), thus constituting a source of risk. Changes in interest rates have an impact on the Profit and Loss Account because they change the interest margin, as well as the level of other interest-sensitive operating expenses and revenues, but also on the underlying value of assets, liabilities and off-Balance Sheet items, because the present value of future cash flows varies with changes in interest rates.

Interest rate risk on the banking book can have different origins:

- basis risk, which is the risk resulting from an imperfect correlation in the adjustment of lending and borrowing rates on different instruments but with otherwise similar repricing characteristics; as interest rates change, these differences may result in unexpected changes in cash flows and in yield differentials between assets, liabilities and off-Balance Sheet positions with similar maturities or repricing frequencies;
- repricing risk, i.e. the risk arising from time lags in maturity (for fixed-rate positions) and in the rate revision date (for variable-rate positions); they may expose the Bank's revenue and economic value to unexpected fluctuations in interest rates;
- yield curve risk, i.e. the risk that materialises when unexpected changes in the yield curve have negative effects on the Bank's revenue and underlying economic value. In fact, asymmetries in maturities and rate revision times may also expose the Bank to changes in the inclination and shape of the yield curve;
- option risk, i.e. the risk arising from the option right inherent in certain assets, liabilities and off-Balance Sheet instruments of the Bank, such as, for example, various types of bonds or loans with call or put clauses, which give the holder of the option the ability to change over time the characteristics of the rate applied and/or the duration of the contract.

The Bank's banking book management and investment strategies are based on criteria for optimising the risk/return profile and implemented on the basis of expectations regarding interest rate trends. The Bank's investment policy is accordingly focused on optimising interest margins and minimising their volatility (*Asset & Liability Management*).

The guidelines and discipline for the management of interest rate risk are contained in the "ALM Policy" according to a clear and easily understandable model. The measurement of interest rate risk is based on a gap analysis model:

- in respect of the annual interest margin (12 months), the determination of the effect of an instantaneous and parallel shift of the yield curve of one percentage point, which is assumed to occur instantaneously and in parallel on all maturities on the day following the reference date;
- in relation to the present value of assets, the full repricing of assets and liabilities following a parallel shift of two percentage points, and recalculating the difference (the "delta") with respect to the previous situation. The risk indicator represents the ratio between the total change in value and equity.

In order to ensure a realistic treatment of on-demand assets and liabilities (current accounts in euros and in foreign currency and savings deposits), the analysis uses an econometric model parameterised on the basis of the historical behaviour of the items themselves.

The IT procedure used to effectively calculate the impact of rate shifts, and accordingly to calculate the rate risk, is Ermas from Prometeia.

The Risk Management function then calculates monthly the sensitivity of the Bank's net interest revenue and assets to predetermined changes in the interest rate curve on transactions outstanding at the reference date (end of the month). The results of the analysis, together with the interest rate forecasts prepared by the Investment and Treasury Services, are contained in a monthly report and contribute to defining the interest rate risk hedging policy established by the Finance Committee. They are discussed on a monthly basis in the Finance Committee itself. The Treasury and Investment Services are accordingly responsible for implementing the decisions taken in practice.

In order to strengthen the control of interest rate risk, two main indicators have been identified, relating to the sensitivity to interest rate risk of the interest margin and the present value of the assets respectively, for which specific limits have been defined:

- Indicator ΔMI %: Delta Margin of Interest (shock +100bp/-25bp)/Expected Margin of Interest
- ΔVE % indicator: Delta Economic value (shock +200bp/-50bp)/Equity

For the first indicator, a limit of 6% is set and for the second a limit of 16%. The verification of the limits set out in the previous paragraph is the responsibility of the Risk Management Function, which carries out it at least once a month.
As at 31 December 2018, the following sensitivity was observed with regard to net interest revenue:

- for a sudden shock of -25 basis points of the interest rate curve, a negative impact of -1.0% of the margin, quantifiable in a loss of 1.7 million euros;
- for a sudden shock of +100 basis points of the interest rate curve, a positive impact of about 5.5%, quantifiable in a gain of 9.0 million Euros.

With regard to the effects on the economic value of the financial items as a whole, the analysis carried out shows that the profile has become one of liability sensitive:

- in the event of a parallel reduction in rates of 50 basis points, this value would increase by 18.11 million euro, 2.1% of equity;
- assuming an increase of 200 basis points, a loss of 77.8 million euro was estimated, i.e. 9.1% of equity.

The price risk of the banking book refers to changes in the market price of only the assets classified as available for sale. With regard to these activities, the methods for measuring and controlling price risk are based on the calculation model described above, i.e. the daily calculation of the Value at Risk (VaR) at 99% confidence over a 21-day time horizon.
Price risk is also calculated in accordance with the Bank of Italy's current prudential supervisory regulations for banks.

B. Fair value hedging activities

At the Balance Sheet date, there were no fair value hedges.
As regards the accounting treatment of the hedging relationships of the issues both at fixed rate and at structured rate, the Bank uses the accounting method of the *"Fair Value Option"* (FVO). The strategy underlying the hedge is aimed at reducing the duration of the liabilities, i.e. the certainty of the cost of structured issues.
During 2018, the liabilities described above were hedged by means of *interest rate swaps* (unlisted) on OTC derivatives.

C. Cash flow hedging activities

At the Balance Sheet date, there were no cash flow hedges.

D. Hedging of foreign investments

For further information, reference should be made to the section on exchange rate risk.

QUANTITATIVE INFORMATION

1. Banking book: distribution by residual maturity (repricing date) of financial assets and liabilities

Type/Remaining time *(thousands of euro)*	**Visible**	**Up to 3 months**	**More than 3 months up to 6 months**	**More than 6 months up to 1 year**	**More than 1 year up to 5 years**	**More than 5 years up to 10 years**	**More than 10 years**	**Indefinite duration**
1. Cash assets	**2,044,436**	**4,353,279**	**601,197**	**116,552**	**1,230,615**	**907,220**	**203,519**	**-**
1,1 Debt securities	182,771	197,277	438,146	15,584	758,483	656,547	889	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	182,771	197,277	438,146	15,584	758,483	656,547	889	-
1.2 Loans to banks	3,770	45,159	-	-	-	-	-	-
1.3 Loans to clients	1,857,895	4,110,843	163,051	100,968	472,132	250,673	202,630	-
- C/C	1,204,088	18,464	75,353	19,988	32,460	-	-	-
- Other financing	653,807	4,092,379	87,698	80,980	439,672	250,673	202,630	-
- with early redemption option	148,801	3,927,299	28,004	52,494	351,657	246,408	201,835	-
- other	505,006	165,080	59,694	28,486	88,015	4,265	795	-
2. Cash liabilities	**5,857,038**	**1,353,500**	**107,026**	**106,659**	**1,492,537**	**24,796**	**5,068**	**-**
2.1 Due to clients	5,736,108	907,140	16,620	35,890	268,590	-	-	-
- C/C	5,379,814	-	-	-	-	-	-	-
- other debts	356,294	907,140	16,620	35,890	268,590	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	356,294	907,140	16,620	35,890	268,590	-	-	-
2.2 Payables to banks	120,930	172,492	-	-	990,634	-	-	-
- C/C	25,658	-	-	-	-	-	-	-
- other debts	95,272	172,492	-	-	990,634	-	-	-
2.3 Debt securities	-	273,868	90,406	70,769	233,313	24,796	5,068	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	273,868	90,406	70,769	233,313	24,796	5,068	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-
4. Other off-Balance Sheet transactions	**(333,522)**	**2**	**14**	**799**	**26,861**	**87,763**	**218,083**	**-**
+ long positions	50	19,258	14	799	26,861	87,763	218,083	-
- short positions	(333,572)	(19,256)	-	-	-	-	-	-

2. Banking book: internal models and other sensitivity analysis methods

Interest rate risk exposure is measured using an internal model that provides for a full-valuation approach for all the positions constituting the interest-bearing asset and the onerous liability. In detail, the model envisages the following phases:

- calculation of the net present value (NPV) of individual assets and liabilities and off-Balance Sheet items and determination of the economic value (given by the difference between the NPV of assets and liabilities and the NPV of liabilities);
- definition of a scenario relating to a change in the interest rate curve (parallel shift or steepening or flattening of the curve with reference to the maturities considered most relevant);
- recalculation of the NPV of on-Balance Sheet and off-Balance Sheet instruments on the basis of the new interest rate curve and determination of the new economic value;
- determination of the change in economic value as the difference between the pre- and post-shock value of interest rates.

At the end of the year, the modified duration calculated on the assets and liabilities of the entire Balance Sheet and the duration gap were contained.

2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring exchange rate risk

Exchange rate risk is the risk associated with changes in the value of positions expressed in foreign currencies resulting from unexpected changes in cross rates between currencies.
Support for commercial activities in foreign currencies and the trading service for foreign securities are the main source of exchange rate risk for the Bank.
Exchange rate risk management is centralised with the Treasury, whose exposures are extremely limited.
Automatic network systems interfaced with a single position keeping system allow the Treasury Service a continuous and real-time control of currency flows that are instantly transferred to the interbank Forex market.
The integrated IT treasury procedure (Murex) allows efficient management of spot, forward and optional flows within the framework of a pre-established scheme of operating limits, defined in the "Investment Policy" and the annual "Operating Plan".
All currency positions are revalued daily at the reference exchange rates of the European Central Bank and constitute the economic contribution of the foreign exchange business to the overall profitability of the Bank.

B. Exchange rate risk hedging activities

Exposure to exchange rate risk is limited by the Company's extremely prudent attitude, which is expressed in a highly circumscribed currency trading activity.
The exchange rate risk generated by lending and borrowing activities in foreign currencies is also systematically hedged in real time by entering into a hedging and/or borrowing operation in the same currency.

QUANTITATIVE INFORMATION

1. *Distribution of assets, liabilities and derivatives by currency of denomination*

Voices *(thousands of euro)*	Currencies US Dollars	Pounds Sterling	Yen	Canadian Dollars	Swiss Francs	Other currencies
A. Financial assets	**9,002**	**1,383**	**14,299**	**842**	**349**	**655**
A,1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	658	-	-
A.3 Loans to banks	742	-	21	128	16	655
A.4 Loans to clients	8,260	-	14,278	56	333	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**1,342**	**744**	**70**	**325**	**34**	**467**
C. Financial liabilities	**53,284**	**-**	**11,443**	**1,516**	**567**	**866**
C.1 Payables to banks	24,362	-	8,122	790	564	62
C.2 Due to clients	28,922	-	3,321	726	3	804
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**131,858**	**-**	**-**	**182**	**2,656**
- Options	-	131,858	-	-	-	2,273
+ long positions	-	131,858	-	-	-	2,273
- short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	182	383
+ long positions	-	-	-	-	1,434	1,370
- short positions	-	-	-	-	(1,252)	(987)
Total assets	**10,344**	**744**	**14,369**	**1,167**	**383**	**1,122**
Total liabilities	**53,284**	**-**	**11,443**	**1,516**	**567**	**866**
Unbalance (+/-)	**(42,940)**	**744**	**2,926**	**(349)**	**(184)**	**256**

2. *Internal models and other methodologies for sensitivity analysis*

The exchange rate risk generated by the trading and banking books is monitored using an internal model, described in the section "Interest rate risk and price risk - Regulatory trading book" where, in addition to the section "Interest rate risk and price risk - Banking book", the values assumed by this indicator are shown.

Section 3 Derivatives and hedging policies

3.1 Trading derivatives

A. FINANCIAL DERIVATIVES

A.1 Financial derivatives held for trading: notional values at the end of the period

Underlying assets/ Derivative types	**31.12.2018**				**31.12.2017**			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
(thousands of euro)	Central counterparties	With compensation agreements	Without compensation agreements	Organised markets	Central counterparties	With compensation agreements	Without compensation agreements	Organised markets
1. Debt securities and interest rates	**-**	**-**	**62,005**	**-**	**-**		**91,203**	**-**
a) Options	-	-	5	-	-		14,424	-
b) Swaps	-	-	12,000	-	-		11,000	-
c) Forward	-	-	-	-	-		779	-
d) Futures	-	-	50,000	-	-		65,000	-
e) Other	-	-	-	-	-			-
2. Equity securities and equity indices	**-**	**-**	**-**	**-**	**-**			**-**
a) Options	-	-	-	-	-			-
b) Swaps	-	-	-	-	-			-
c) Forward	-	-	-	-	-			-
d) Futures	-	-	-	-	-			-
e) Other	-	-	-	-	-			-
3. Currencies and gold	**-**	**-**	**75,140**	**-**	**-**		**46,133**	**-**
a) Options	-	-	-	-	-			-
b) Swaps	-	-	-	-	-			-
c) Forward	-	-	75,140	-	-		46,133	-
d) Futures	-	-	-	-	-			-
e) Other	-	-	-	-	-			-
4. Goods	**-**	**-**	**-**	**-**	**-**			**-**
5. Other	**-**	**-**	**-**	**-**	**-**			**-**
Total	**-**	**-**	**137,145**	**-**	**-**		**137,336**	**-**

A.2 *Financial derivatives held for trading: gross positive and negative fair value - breakdown by product*

Types of derivatives	31.12.2018				31.12.2017			
	Over the counter				Over the counter			
		Without central counterparties				Without central counterparties		
(thousands of euro)	Central counterparties	With compensation agreements	Without compensation agreements	Organised markets	Central counterparties	With compensation agreements	Without compensation agreements	Organised markets
1. Positive fair value								
a) Options	-	-	40	-	-		58	-
b) Interest rate swaps	-	-	-	-	-		49	
c) Cross currency swap	-	-	-	-	-			-
d) Equity swaps	-	-	-	-	-			-
(e) Forward	-	-	174	-	-		239	-
(f) Futures	-	-	-	-	-			-
g) Other	-	-	-	-	-			-
Total	**-**	**-**	**214**	**-**	**-**	**-**	**346**	**-**
2. Negative fair value								**-**
a) Options	-	-	-	-	-			-
b) Interest rate swaps	-	-	1,170	-	-		1,486	
c) Cross currency swap	-	-	-	-	-			-
d) Equity swaps	-	-	-	-	-			-
e) Forward	-	-	259	-	-		576	-
f) Futures	-	-	-	-	-			-
g) Other	-	-	-	-	-			-
Total	**-**	**-**	**1,429**	**-**	**-**	**-**	**2,062**	**-**

A.3 OTC trading financial derivatives: notional values, gross positive and negative fair values by counterparty

Underlying assets *(thousands of euro)*	Central counterparties	Banks	Other financial companies	Other subjects
Contracts not covered by netting agreements				
1) Debt securities and interest rates				
- notional value	X	62,005	-	-
- *positive fair value*	X	40	-	-
- *negative fair value*	X	1,170	-	-
2) Equity securities and equity indices				
- notional value	X	-	-	-
- *positive fair value*	X	-	-	-
- *negative fair value*	X	-	-	-
3) Currencies and gold				
- notional value	X	70,447	-	4,693
- *positive fair value*	X	170	-	3
- *negative fair value*	X	123	-	136
4) Other values		**-**	**-**	**-**
- notional value	X	-	-	-
- *positive fair value*	X	-	-	-
- *negative fair value*	X	-	-	-
Contracts covered by netting agreements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- *positive fair value*	-	-	-	-
- *negative fair value*	-	-	-	-
2) Equity securities and equity indices	**-**	**-**	**-**	**-**
- notional value	-	-	-	-
- *positive fair value*	-	-	-	-
- *negative fair value*	-	-	-	-
3) Currencies and gold	**-**	**-**	**-**	**-**
- notional value	-	-	-	-
- *positive fair value*	-	-	-	-
- *negative fair value*	-	-	-	-
4) Other values				
- notional value	-	-	-	-
- *positive fair value*	-	-	-	-
- *negative fair value*	-	-	-	-

A.4 Residual life of OTC trading derivatives: notional values

Underlying/Residual life *(thousands of euro)*	**Up to 1 year**	**More than 1 year and up to 5 years**	**More than 5 years**	**Total**
A. 1 Financial derivatives on debt securities and interest rates	52,000	10,000	5	62,005
A. 2 Financial derivatives on equities and equity indices	-	-	-	-
A. 3 Financial derivatives on foreign currencies and gold	75,140	-	-	75,140
A. 4 Financial derivatives on commodities	-	-	-	-
A. 5 Other financial derivatives	-	-	-	-
Total 31.12.2018	**127,140**	**10,000**	**5**	**137,145**
Total 31.12.2017	**87,585**	**41,385**	**8,366**	**212,285**

B. CREDIT DERIVATIVES

B.1 Credit derivatives held for trading: notional values at the end of the period

At the Balance Sheet date, there were no trading credit derivatives.

B.2 Trading credit derivatives: gross positive and negative fair value - breakdown by product

At the Balance Sheet date, there were no trading credit derivatives.

B.3 OTC trading credit derivatives: notional values, gross positive and negative fair values by counterparty

At the Balance Sheet date, there were no trading credit derivatives.

B.4 Residual life of OTC trading credit derivatives: notional values

At the Balance Sheet date, there were no trading credit derivatives.

B.5 Credit derivatives associated with the fair value option: annual changes

At the Balance Sheet date, there were no credit derivatives associated with the *fair value* option.

3.2 Accounting hedges

QUALITATIVE INFORMATION

A. Fair value hedging activities

At the Balance Sheet date, there were no accounting hedges in place.

B. Cash flow hedging activities

At the Balance Sheet date, there were no accounting hedges in place.

C. Hedging of foreign investments

At the Balance Sheet date, there were no accounting hedges in place.

D. Hedging instruments

At the Balance Sheet date, there were no accounting hedges in place.

E. Covered elements

At the Balance Sheet date, there were no accounting hedges in place.

QUALITATIVE INFORMATION

A) Hedging financial derivatives

A.1 Hedging financial derivatives: notional values at the end of the period

At the Balance Sheet date, there were no financial hedging derivatives.

A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by product

At the Balance Sheet date, there were no financial hedging derivatives.

A.3 OTC financial derivatives: notional values, gross positive and negative fair values by counterparty

At the Balance Sheet date, there were no financial hedging derivatives.

A.4 Residual life of OTC hedging derivatives: notional values

At the Balance Sheet date, there were no financial hedging derivatives.

B) Hedging credit derivatives

B.1 Hedging credit derivatives: notional values at the end of the period

At the Balance Sheet date, there were no hedging credit derivatives.

B.2 Hedging credit derivatives: gross positive and negative fair value - breakdown by product

At the Balance Sheet date, there were no hedging credit derivatives.

B.3 OTC hedging credit derivatives: notional values, gross positive and negative fair values by counterparty

At the Balance Sheet date, there were no hedging credit derivatives.

B.4 Residual life of OTC hedging credit derivatives: notional values

At the Balance Sheet date, there were no hedging credit derivatives.

C. NON-DERIVATIVE HEDGING INSTRUMENTS

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and type of hedge

At the Balance Sheet date, there were no hedging instruments other than derivatives.

D. COVERED INSTRUMENTS

D.1 Fair value hedges

At the Balance Sheet date, there were no hedging transactions.

D.2 Hedges of cash flows and foreign investment

At the Balance Sheet date, there were no hedging transactions.

E. EFFECTS OF HEDGING TRANSACTIONS ON EQUITY

E.1 Reconciliation of equity components

At the Balance Sheet date, there were no hedging transactions.

3.3 Other information on derivatives (trading and hedging)

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OTC financial and credit derivatives: net fair value by counterparty

At the Balance Sheet date, there were no hedging transactions.

B.1 OTC financial derivatives: counterparty risk/financial risk - Internal models

For the purposes of calculating the capital requirement for counterparty risk, the Company does not use internal EPE models validated by the supervisory authorities.
For management and capital adequacy assessment purposes (ICAAP process), it uses a risk estimation model for the component represented by over-the-counter (OTC) derivative transactions.
This model uses internal market risk estimation methodologies to determine the potential short-term evolution of the *fair value* of positions, incorporating the benefits of market correlations and including the impacts of guarantee agreements.

Section 4 Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring liquidity risk

Liquidity risk represents the possibility that the Bank is not in a position to meet its payment obligations, jeopardising the Bank's day-to-day operations or financial situation. Within this risk, the following definitions can be distinguished for the individual components of liquidity risk:

- refinancing risk, which in turn can be broken down into:
  - funding liquidity risk, i.e. the risk that the Bank will not be able to meet its payment obligations when they fall due because it is unable or unable to raise the necessary funds;
  - liquidity contingency risk, i.e. the risk that unexpected future events may require a greater amount of liquidity than expected, such as the failure to repay loans, the need to finance new activities, the recall risk, i.e. an unexpected and superior withdrawal of deposits by clients, the risk of drawdown of credit lines, i.e. an unexpected and superior use of credit lines granted to clients.
- risk of an increase in the cost of financing (rollover risk), i.e. the risk of a potential increase in the cost of financing due, for example, to a change in the Bank's rating (internal factor) or the widening of credit spreads (market factor).
- risks associated with the disposal of assets (market liquidity risk), i.e. the risk that the Bank is unable or able to liquidate the assets incurring losses due to market conditions; these risks are managed by the functions responsible for the various trading portfolios and, consequently, are measured and monitored according to the metrics relating to the management of market risks.
- liquidity concentration risk, which in turn can be broken down into:
  - risk of concentration of flows, i.e. the risk of concentration of expected cash flows (inflows) and outflows (outflows) - and of consequent imbalances or surpluses - on specific maturity bands; in this case there is an inadequate granularity of maturities with possible negative impacts on exposure to liquidity risk.
  - funding contingency risk, i.e. the risk of dependence on a single market or on an excessively limited number of markets/counterparties or of concentration on particular technical forms, such that the withdrawal of funds by a limited number of counterparties or the disappearance of a funding channel may entail a substantial revision of the safeguards necessary to deal with liquidity risk.
- risk of non-compliance of flows (liquidity mismatch risk), i.e. the risk of non-compliance between the amounts and/or timing of incoming and outgoing flows.
- margin calls liquidity risk, which refers to a situation in which the Bank is contractually obliged to integrate guarantees and/or margins against positions in financial instruments.
- risk of contractual non-performance (operational liquidity risk), i.e. the risk of non-performance of payment commitments for errors, violations, interruptions or damages due to internal processes, persons, systems or external events, while remaining the solvent bank.

Liquidity risk management is described in the "Liquidity and funding policy" document, which is reviewed and approved annually by the Board of Directors. It defines in detail:

- the organisational model, which assigns roles and responsibilities to the organisational functions involved in the liquidity management and control process;
- operational and structural liquidity management policies, with an indication of the models and metrics used to measure, monitor and control liquidity risk, as well as to perform stress tests;
- the Contingency Funding Plan (CFP) which provides, in addition to a description of the indicators supporting the identification of possible emergency situations, the organisational processes and the actions aimed at restoring the normal condition of liquidity management.

In particular, the policy complies with the provisions on governance and liquidity risk management contained in Bank of Italy Circular No. 298 of 17 December 2013 and subsequent changes. This discipline is based on the principle that the preparation of an adequate system of governance and management of liquidity risk, integrated with the overall risk management system, is fundamental to maintaining the stability of individual banks and the market. It provides for rules on organisation and internal controls, as well as the adoption of precise management tools and public disclosure obligations, which, although proportionate to the operational size, organisational complexity and type of activity carried out by individual banks, require a significant commitment on the part of the latter.

Liquidity risk management is allocated to the Treasury Department, which acts under the direct responsibility of the Finance Department. The definition and control of compliance with operating limits, on the other hand, is the responsibility of the Risk Management Function. The Executive Board is responsible for managing liquidity, both in terms of compliance with defined limits and in terms of tactical and structural funding strategies. In the event of an emergency liquidity situation, the Executive Board is also responsible for activating, managing and coordinating the Bank's Contingency Funding Plan.

An essential element of the management is the distinction between short-term operational liquidity (with a time horizon of up to 12 months) and medium- to long-term structural liquidity (with a time horizon of more than 12 months). The first is aimed at avoiding situations of sudden liquidity tension, caused by specific shocks of the Bank or systemic shocks of the market; the second responds to the need to ensure optimal management, from a strategic point of view, of the transformation of the maturities between deposits and loans, through an adequate balance of the maturities of the assets and liabilities, so as to prevent future liquidity crisis situations.

The containment of exposure to liquidity risk is primarily pursued by means of a structured set of guidelines, management choices and organisational controls, the most significant of which are:

- ensure the ability to meet expected and unexpected cash payment obligations by maintaining a sustainable relationship between cash inflows and outflows;
- maintain an adequate ratio between total liabilities and medium/long-term assets in order to avoid pressure on current and prospective short-term sources;
- centralise liquidity management;
- diversify funding sources in terms of funding instruments, counterparties, geography and currency;
- hold a sufficient stock of assets that can be readily liquidated and used as collateral for financing transactions or directly transferable in situations of tension; in particular, the trading portfolio is expected to be invested mainly in listed financial instruments with a high rating, on the basis of precise and pre-established quantitative and qualitative limits. The high price and rating of the financial instruments help them to be quickly disposed of;
- manage short-term liquidity in compliance with regulatory frameworks;
- issue financial instruments that maintain prudential capital ratio targets;
- to have and maintain an adequate information system for the monitoring and management of liquidity.

The measurement and control of operational liquidity and structural liquidity have been defined by means of a system of indicators, limits and periodic reporting, including on a daily basis. In particular, a so-called maturity ladder has been set up, i.e. a system for monitoring the net financial position that makes it possible to highlight the balances and accordingly the imbalances between expected flows and outflows over predefined time bands and, through the construction of cumulative imbalances, the calculation of the net balance of financial needs (or surpluses) over the considered time horizon.

For the measurement of liquidity risk, the Bank also uses the so-called Liquidity-at-Risk (LaR) model, which is based on the observation of "autonomous" negative net flows of liquidity - considering the historical series of the last 5 years - and on the application of the Extreme-Value-Theory, which allows to improve the precision of the analysis for high levels of confidence. In particular, daily data are used for the following variables: compulsory reserve with the Bank of Italy, interbank deposits, bond issues, securitisations, movements in securities, extraordinary flows. The data are processed in order to determine the daily cash flows attributable exclusively to decisions outside the direct control of the Bank (Treasury Service) and accordingly attributable to client behaviour. The three confidence levels assumed are intended to represent the Bank's liquidity requirements under normal (up to the LaR value with 99% confidence), stress (up to 99.9%) and extreme (up to 99.99%) conditions, 1 day, 1 week (5 working days), 2 weeks (10 working days) and 1 month (20 working days).

Another key liquidity risk management activity concerns the execution of a stress test programme to assess the Bank's vulnerability to exceptional but plausible events. In particular, stress tests are performed in terms of scenario analysis, consistent with the definition of liquidity risk adopted and trying to simulate the behaviour of their cash flows in unfavourable conditions against subjective conjectures based on corporate experience and/or indications provided by regulations and supervisory guidelines. Risk factors included in the tests include, for example:

- increase in levies on sight items
- revocation/notification or reduction renewal of credit lines received
- increase in haircuts of readily liquid securities
- missing/roll-over content of maturing loans and credit lines/initiatives being renewed
- reduction in renewal of interbank funding
- reduction in renewal of interbank funding
- revocation/notification or reduction renewal of credit lines received
- increase in drawdowns of credit lines granted
- increase in haircuts of readily liquid securities
- increase in haircuts on cash receivables

In addition, the policy clearly defines the organisational structure of the structures and functions responsible for liquidity management and related controls and the emergency plans to be implemented in the event of stress or crisis situations (CFPs, Contingency Funding Plans), the declaration of which originates from the problematic development of a predefined series of exogenous and endogenous factors.

As indicated in the above mentioned reference legislation, a "Policy on the internal transfer pricing system" ("TIT") of funds was also defined and introduced in 2011. The system has the following objectives:

- the transfer of interest rate and liquidity risks from the commercial network to the treasury unit, so as to ensure centralised assessment and management of the Bank's exposure to these types of risks;
- the transfer from the commercial network to the treasury unit of contributions resulting from the transformation of maturities;
- the possibility of evaluating in precise ways the actual contribution at the level of each individual business unit and each individual client relationship.

The internal transfer rates at the base of the system, in addition to being differentiated by maturity (multiple TITs), being based on market rates that are effectively negotiable by the treasury, guaranteeing profit margins for the operating units consistent with the Bank's overall profitability, are all made up of several components with different purposes:

- the interest rate free component (TIT risk free), which transfers interest rate risk from commercial units to the treasury unit;
- the liquidity component (TIT), which takes into account the cost of funding (refinancing) that the Bank has to face on the interbank market and the risk-taking capabilities set out in the "Risk Policy" and the "Liquidity Policy";
- the "bonus-malus" component, as a tool for managing any commercial incentives.

Finally, it should be noted that in general during 2018 the analysis of the Bank's liquidity situation did not reveal any particular situations of tension, either in the short or long term, as shown by the reports sent to the Bank of Italy on a weekly basis.

1. *Distribution of financial assets and liabilities over time by residual contractual duration*

Items/Scales of time *(thousands of euro)*		Visible	More than 1 day to 7 days	More than 7 days to 15 days	More than 15 days to 1 month	More than 1 month up to 3 months	More than 3 months up to 6 months	More than 6 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Indefinite duration
Cash assets		**1,169,424**	**10,288**	**24,844**	**183,565**	**286,865**	**364,167**	**555,410**	**3,352,182**	**3,152,811**	**274,801**
A.1	Government bonds	-	-	-	-	47,280	18,414	15,208	740,346	573,282	-
A.2	Other debt securities	33	-	1,881	1,456	6,512	11,965	9,145	362,843	76,396	182,771
A.3	O.I.C.R. units	47,888	-	-	-	-	-	-	-	-	-
A.4	Financing	1,121,503	10,288	22,963	182,109	233,073	333,788	531,057	2,248,993	2,503,133	92,030
	- Banks	4,223	-	-	178	-	-	-	-	-	45,071
	- Client	1,117,280	10,288	22,963	181,931	233,073	333,788	531,057	2,248,993	2,503,133	46,959
Cash liabilities		**6,269,828**	**468,812**	**2,133**	**24,510**	**99,323**	**79,104**	**129,977**	**2,168,597**	**257,169**	**-**
B.1	Deposits and current accounts	6,199,208	25,121	2,062	19,950	14,359	15,913	34,864	266,420	-	-
	- Banks	531,808	23,842	621	18,023	-	-	-	-	-	-
	- Client	5,667,400	1,279	1,441	1,927	14,359	15,913	34,864	266,420	-	-
B.2	Debt securities	-	-	-	4,130	25,358	59,421	92,426	384,536	130,000	-
B.3	Other liabilities	70,620	443,691	71	430	59,606	3,770	2,687	1,517,641	127,169	-
Off-Balance Sheet transactions		**(1,130)**	**19,030**	**15**	**(19,203)**	**62**	**10**	**37**	**-**	**(1,545)**	**-**
C.1	Financial derivatives with exchange of capital	-	(142)	(27)	11	62	10	37	-	-	-
	+ Long positions	-	74,506	7,399	15,871	41,540	1,375	2,600	-	-	-
	- Short positions	-	(74,648)	(7,426)	(15,860)	(41,478)	(1,365)	(2,563)	-	-	-
C.2	Financial derivatives without exchange of capital	(1,130)	-	-	-	-	-	-	-	-	-
	+ Long positions	40	-	-	-	-	-	-	-	-	-
	- Short positions	(1,170)	-	-	-	-	-	-	-	-	-
C.3	Deposits and loans to be received	-	19,214	-	(19,214)	-	-	-	-	-	-
	+ Long positions	-	19,214	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	(19,214)	-	-	-	-	-	-
C.4	Irrevocable commitments to disburse funds	-	(42)	42	-	-	-	-	-	(1,545)	-
	+ Long positions	50	-	42	-	2	14	799	26,861	304,300	-
	- Short positions	(50)	(42)	-	-	(2)	(14)	(799)	(26,861)	(305,845)	-
C.5	Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6	Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7	Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-
C.8	Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-	-	-

DISCLOSURE OF INVESTMENTS IN HEDGE FUNDS

The amount of the hedge fund portfolio at 31 December 2018 was €0.2 million.
The hedge fund portfolio had no effect on the Profit and Loss Account for the year.

Section 5 Operational risk

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring operational risk

In line with supervisory requirements, operational risk is defined as the risk of loans losses due to errors, violations, interruptions, external events or damage resulting from malfunctions in internal processes or inadequacies of persons and/or systems. Operational risks include, but are not limited to, losses resulting from theft and fraud, human error, operational disruption, system unavailability, transaction execution, breach of contract, data processing, property damage and natural disasters.
Within the Internal Control System (ICS), all company control functions (Internal audit, Compliance and Risk management) are responsible for monitoring these risks, based on the following guidelines:

- prevent the occurrence or reduce the probability of events potentially generating operational losses through appropriate regulatory, organisational, procedural and training measures;
- mitigate the expected effects of such events;
- increase overall operational efficiency;
- protect the reputation and image of the Bank.

Certain types of operational risk, due to their importance or peculiarities, are considered as distinct types of risk and their control is also guaranteed by dedicated control functions:

- legal, legal or non-conformity risks;
- risk of money laundering and/or terrorist financing;
- risks of misreporting;
- risk of conditioning by influencers;
- outsourcing risks;
- cyber risk;
- model risk;
- risk of conduct.

Monitoring and measurement of operational losses

The most advanced method of measuring the operational risk profile involves the combined use of information on internal and external historical operating losses, with qualitative factors deriving from scenario analysis and evaluations relating to the control system and the operating context.
With regard to the monitoring of operational risks, it should first of all be noted that the Bank has been a member of the interbank consortium DIPO (Italian Data Base for Operational Losses) promoted by the Italian Banking Association since it was set up in 2002, and accordingly regularly collects information on operating losses.
The internal database of operating losses reports all events with a gross operating loss of more than 500 euros. Reports from the network and the internal organisational units are integrated with losses deriving from passive legal actions and complaints from clients; both the latter types of events are systematically recorded and monitored during their evolution in special internal databases under the responsibility of the Legal Advice office and the Compliance function respectively.
Where a legal and accounting analysis reveals elements that may suggest a probable future disbursement of economic resources, adequate provisions will be made for risks and charges as a precautionary measure and, if possible, settlement policies will be implemented.

The information obtained from the internal and external databases (DIPO), the detailed analysis of the most significant loss events according to their impact and/or their frequency of occurrence, the countermeasures already taken or to be taken are discussed quarterly in the Internal Control Committee. This meeting, also involving the operational functions (*process owners*) concerned from time to time, identifies the main sources of manifestation of operational risks and potential critical situations, the adequacy of existing operational processes with respect to possible sources of loss, the actions to be taken with a view to prevention and mitigation, and the quality of insurance cover. As already indicated, where deemed appropriate, certain categories of operational risks are mitigated through the conclusion of ad hoc insurance contracts. The Bank also has a sophisticated going concern plan, reviewed and verified on an annual basis; it establishes principles, targets and procedures aimed at reducing the damage resulting from accidents and catastrophes to an acceptable level.

The Risk Management Function also carries out numerical analysis and processing activities, entirely based on data from the internal database of operating losses, with the aim of calculating the VaR values of operating losses (*Operational VaR*, or potential losses). The model consists of a Monte Carlo simulation based on 60,000 scenarios. In each scenario, the operating losses incurred in a year are simulated, numerically and as an amount, by acting on 2 independent distributions that model the following key variables:

- distribution of the frequency of loss events (number of events in 1 year); the Poisson distribution is used;
- distribution of the impact (amount) of the loss events ("severity loss distribution"); the generalised Pareto distribution is used according to the methodology of the Extreme-Value-Theory (EVT, model of the extreme values).

The database is made up of the loss events recorded by Volksbank from 2003 to the present day, filtering only events of an amount greater than 500 euros. In December 2018, the model led to an estimate of potential operating losses in one year at €3.0 million, with a confidence interval of 99% (one year every 100). Applying the same model to the DIPO database (loss amount greater than 5,000 euros) for banks belonging to the same peer group as Volksbank with the same confidence interval, potential operating losses are estimated at 3.2 million euros.

For the purposes of calculating capital requirements for operational risk, the Bank has adopted the *Traditional Standardized Approach* since the report of 31 December 2012, in accordance with the regulatory provisions of Regulation (EU) No. 575/2013 of 26 June 2013, which implements the Basle III principles. It provides that the calculation of the overall capital charge will be equal to the average of the so-called TSA contribution, referring to the last three annual observations made at the end of the financial year (31 December). For each year, the TSA contribution is obtained from the sum of the contributions of the individual regulatory business lines (BL, business line), the latter calculated by applying as weighting factors the regulatory coefficients (known as "ß" or risk factors) to the relevant indicator. These ratios have been estimated by the Supervisory Authority on the basis of the ratio between the losses historically recorded by the banking industry in that particular BL and the relative economic indicator. As a relevant indicator, the regulations establish the set of elements taken from the accounting items of the Profit and Loss Account, which are appropriately dealt with.

Processes for identifying and assessing operational risks

A key element for the identification, evaluation and implementation of operational risk containment actions in company operations is the system of company processes, which are constantly updated and revised by their respective *process owners* and which meet the three fundamental criteria:

- client orientation/streamlining of operations,
- efficiency,
- risk monitoring

and have the target of guiding and supporting the functions involved in the pursuit of strategic targets.

The assessment of inherent and residual operational risks is carried out through a process of risk self-assessment by means of which Volksbank analyses all the processes underlying its business activities with respect to the identified risk factors, considering their potential impact. Each type of risk (inherent and residual) is then assigned an overall assessment of its "relevance", using as a guideline a breakdown of the analysis on two dimensions:

- impact of the risk on normal business operations;
- the probability (or frequency) that the risk will occur over a given period of time.

The assessment of the residual risk starts from that of the inherent risk, reducing it on the basis of the degree of mitigation that is expected to be provided by the controls; a greater robustness of the controls leads to a reduction of the residual risk which, by its very definition, cannot be greater than the inherent risk associated. Volksbank uses the following tools to correctly assess the significance of the risks:

- mapping of processes in order to identify critical risk points, interdependencies between different risks, control areas and possible control deficiencies,
- the results of the verification activities carried out by the control functions,
- information of various kinds relating to the probability of entry of a risk and the possible economic damage that may result from it,
- risks for which there is insufficient information on probability of occurrence and causable damage, will, where appropriate, be subject to qualitative estimation analysis.

Control management processes

The monitoring of operational risks, within the Internal Control System, is guaranteed by the adoption of an integrated control model which, in line with the supervisory provisions, is divided into three levels and involves, each with own specific role, the business functions responsible for line controls (or 1st level controls) and the company control functions responsible for 2nd level controls (Risk management and Compliance) and 3rd level controls (Internal audit).
The results of monitoring and control activities are periodically discussed and evaluated by the Internal Control Committee, which is composed of all the company’s control functions and which, in particular, has the task of establishing priorities for action and coordinating the performance of control activities.
In addition, operational risk monitoring makes use of the results of the monitoring and analysis of operational losses contained in the periodic report prepared by the Risk Management Function and the related discussion within the Internal Control Committee itself.

First level controls

The 1st level controls, or line controls, are aimed at ensuring the correct and regular performance of the transactions underlying all company processes and are carried out by the same network production organisational units or in the context of *middle and back-office* activities, preferably through the use of IT procedures/systems.
They are the first line of defence in the operational risk management system.
Line controls are the responsibility of individual *process owners* who are responsible for assessing the design and effectiveness in mitigating the risks inherent in the execution of operational processes.

Second level controls

The 2nd level controls are entrusted to different and independent structures from the production ones and have the purpose of:

- contributing to the definition of risk measurement methodologies, verifying compliance with the assigned limits also in terms of consistency of operations with the set risk/return targets (RAF),
- contribute to the definition of methodologies for the measurement/assessment of conformity risk, identify suitable procedures for the prevention of the risks identified and request their adoption,
- certify/declare the company’s accounting information in accordance with the law.

These controls are mainly aimed at monitoring risks, verifying compliance with risk limits and external and internal regulatory provisions, checking the consistency of the various operations with the strategic targets of risk-return, and reporting conduct or events that differ from the usual operations.
The Risk Management function (as a risk management function) and the Compliance function (which incorporates the regulatory compliance function and the anti-money laundering function) carry out part of their activities within the scope of level 2 controls. In order to ensure the effectiveness of the performance of their duties, the functions responsible for carrying out level 2 checks will be provided with the necessary independence, authority and professionalism.

Third level controls

Level 3 controls are entrusted to structures other than the production ones and are aimed at identifying anomalous trends, violations of procedures/regulations and evaluating the functionality of the overall Internal Control System.
Level 3 controls are entrusted to the Internal Audit Function as the Internal Audit Function.
The purpose of the controls is to identify anomalous trends, violations of procedures and regulations and to assess the overall functionality of the internal control system. This activity was carried out during the year on a continuous basis, periodically or by way of exceptions, both through on-site checks and through the use of remote instruments, in compliance with the Supervisory Instructions.

QUANTITATIVE INFORMATION

Internal reporting for 2018 showed 111 new reports with a gross loss of 1,024,010,94 euro, of which 4.5% came from external or internal fraud (equal to 0.8% of the value), 67.6% from process execution errors (with 64.8% of the value), 27.9% from other factors, counterfeit notes, system failures, legal disputes, etc.. (34.4% of the value).
By way of comparison, in 2017 there were 115 events, corresponding to gross losses of €1,215,983.

PART F INFORMATION ON ASSETS

Section 1 THE COMPANY's ASSETS

A. QUALITATIVE INFORMATION

Capital adequacy is overseen by strategic planning, which defines the optimal size of regulatory capital in accordance with the applicable provisions.
Volksbank assigns a priority role to capital adequacy, with particular reference to the management of operations and risk control. Growth strategy and targets are defined in relation to the ability to create value in a context of adequate profitability, capital strength and liquidity.
Compliance with capital requirements on an ongoing basis is regularly monitored and taken as a constraint at the planning stage, representing a mandatory condition of the company's activities.
Compliance with capitalisation levels is monitored on a quarterly basis, identifying from time to time the main deviations in order to prepare the necessary guidance and control actions on the Balance Sheet aggregates.

A. QUALITATIVE INFORMATION

B.1 Equity: breakdown

Items/Amounts *(thousands of euro)*		**31.12.2018**	**31.12.2017**
1.	**Capital**	**201,994**	**199,440**
2.	**Issue premiums**	**383,158**	**383,159**
3.	**Reserves**	**249,734**	**284,366**
	- of profits:	266,118	254,223
	a) legal	118,700	116,000
	b) extraordinary	138,330	126,611
	c) treasury shares	-	-
	d) other	9,088	11,612
	- other	(16,384)	30,143
4.	**Capital instruments**	**-**	**-**
5.	**(Treasury shares)**	**(18,554)**	**(18,554)**
6.	**Valuation reserves**	**(15,387)**	**682**
	- Equities designated at fair value with impact on total revenue	(9,249)	-
	- Hedging of equity instruments designated at fair value with impact on total revenue		-
	- Financial assets (other than equity securities) measured at fair value with impact on total revenue	(3,786)	2,793
	- Tangible fixed assets	-	-
	- Intangible fixed assets	-	-
	- Hedging of foreign investments	-	-
	- Cash flow hedges	-	-
	- Hedging instruments (non-designated elements)		-
	- Exchange rate differences	-	-
	- Non-current assets and disposal groups held for sale	-	-
	- Financial liabilities designated at fair value through profit or loss (changes in credit rating)		-
	- Actuarial gains (losses) on defined-benefit pension plans	(2,352)	(2,111)
	- Portion of valuation reserves relating to investee companies valued by the equity method	-	-
	- Special revaluation laws	-	-
7.	**Profit (loss) for the year**	**34,257**	**24,277**
	Total	**835,202**	**873,370**

B.2 Valuation reserves for financial assets at fair value through profit or loss: breakdown

Assets/Amounts		**31.12.2018**		**31.12.2017**	
(thousands of euro)		**Positive reserve**	**Negative reserve**	**Positive reserve**	**Negative reserve**
1.	Debt securities	1,271	(5,057)	5,633	(3,412)
2.	Equity securities	1,087	(10,336)	1,718	(1,146)
3.	Financing	-	-	-	-
	Total	**2,358**	**(15,393)**	**7,351**	**(4,558)**

B.3 Valuation reserves for financial assets at fair value through profit or loss: annual changes

(thousands of euro)	Debt securities	Equity securities	Financing
1. Opening balance	**5,800**	**-**	**-**
2. Positive changes	**1,482**	**1,909**	**-**
2,1 Increases in fair value	431	1,300	-
2,2 Value adjustments for credit risk	1,050	X	-
2.3 Transfer to Profit and Loss Account of negative reserves on disposal	1	X	-
2.4 Transfers to other equity components (equity securities)	-	13	-
2.5 Other changes	-	596	-
3. Negative changes	**(11,068)**	**(10,416)**	**-**
3.1 Decreases in fair value	(8,566)	(10,278)	-
3.2 Value reinstatements for credit risk	(292)	X	-
3.3 Transfer to Profit and Loss Account from positive reserves: - from sale	(2,210)	X	-
3.4 Transfers to other equity components (equity securities)	-	(138)	
3.5 Other changes	-	-	-
4. Closing balance	**(3,786)**	**(8,507)**	**-**

B.4 Valuation reserves relating to defined benefit plans: annual changes

(thousands of euro)	31.12.2018		31.12.2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Employee benefit plans	-	(2,352)	-	(2,111)
Total	**-**	**(2,352)**	**-**	**(2,111)**

(thousands of euro)	
1. Opening balance	**(2,111)**
2. Positive changes	**91**
2.1 Gains due to changes in the discount rate	
2.2 Other changes	91
3. Negative changes	**(332)**
3.1 Losses due to changes in the discount rate	(332)
3.2 Other changes	-
4. Closing balance	**(2,352)**

Section 2 EQUITY AND VIGILLANCE COEFFICIENTS

The body of legislation on prudential supervision and corporate governance of banks consists of the Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR) issued by the European Parliament in 2013 and implemented in Italy by Bank of Italy Circular No. 285.

2.1 Equity

A. QUALITATIVE INFORMATION

Equity, risk-weighted assets and solvency ratios at 31 December 2018 were determined on the basis of the harmonised rules for banks and investment firms contained in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transpose the standards defined by the Basle Committee on Banking Supervision (Basle III framework) into the European Union, and on the basis of the Bank of Italy Circulars.

The prudential ratios as at 31 December 2018 take into account the adjustments provided for in the transitional arrangements for 2018.

As permitted by the CRR, primary Class 1 Capital has taken into account the profit for the year, net of the expected dividend. To this end, it was verified that the conditions set out in particular in Article 26 of the RCRC for the inclusion of profit for the period had been met.

With reference to the introduction of IFRS 9, on 12 December 2017 the European Parliament issued Regulation (EU) 2017/2395, which updates the CRR, inserting the new article 473 bis "Introduction of IFRS 9", which offers the possibility of mitigating the impact on equity resulting from the introduction of the new accounting standard.

In this regard, Volksbank has chosen to adopt the so-called "dynamic approach", which allows the re-introduction in Common Equity Tier I of a progressively decreasing share until 2022 (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022) of the amount of the following two aggregates:

- a comparison between IAS 39 value adjustments as at 31 December 2017 and IFRS 9 value adjustments as at 1 January 2018, excluding the reclassification of financial instruments (including adjustments to stage 3 positions);
- a comparison between value adjustments as at 1 January 2018 and subsequent reporting periods up to 31 December 2022, limited to increases in value adjustments of exposures classified as stage 1 and 2 (excluding adjustments to stage 3 positions).

Regulation (EU) 2017/2395 also regulates the information obligations that entities are required to publish, referring to the EBA the issue of specific guidelines on the subject. On 12 January 2018, EBA issued specific guidelines according to which banks that adopt a transitional treatment with reference to the impact of IFRS 9 are required to publish the consolidated values "Fully loaded" (as if the transitional treatment had not been applied) and "Transitional" (with the application of the transitional regime) of Common Equity Tier 1 (CET1) capital, Tier 1 capital, Total Capital, Total risk-weighted assets, Capital Ratios and Leverage Ratio.

At 31 December 2018, taking into account the transitional treatment adopted to mitigate the impact of IFRS 9, equity amounted to €857.9 million, against weighted assets of €6.471.9 million, mainly deriving from credit and counterparty risks and, to a lesser extent, from operational and market risks. At the same date, considering the full inclusion of the impact of IFRS 9, equity amounted to euros 796.4 million, against weighted assets of euros 6.409.3 million.

On the basis of the above, the solvency ratios at 31 December 2018, calculated taking into account the transitional treatment for the impact of IFRS 9 ("IFRS 9 phased-in"), were as follows: Common Equity ratio 11.2%, Tier 1 ratio 11.2% and Total capital ratio 13.3%. Considering the full inclusion of the impact of IFRS 9 ("IFRS 9 Fully-phased"), the solvency ratios at 31 December 2018 are as follows: Common equity ratio 10.4%, Tier 1 ratio 10.4% and Total capital ratio 12.4%.

On 27 June 2018, following the results of the Supervisory Review and Evaluation Process (SREP), Volksbank received the Bank of Italy's decision regarding the capital requirements to be met from 30 June 2018: the total capital requirement to be met in terms of the Common Equity Tier 1 ratio was 7.075% according to the transitional criteria in force for 2018 and 7.7% according to the criteria when fully implemented, the Tier I Ratio was 8.813% and 9.438%, while the Total Capital Ratio was 11.125% and 11.75% when fully implemented.

B. QUALITATIVE INFORMATION

(thousands of euro)	31.12.2018	31.12.2017
A. Primary Tier 1 capital (Common Equity Tier 1 - CET1) before the application of prudential filters	**821,981**	**863,289**
of which CET1 instruments subject to transitional arrangements	-	-
B. CET1 Prudential Filters (+/-)	**(1,121)**	**66**
C. CET1 gross of deductions and effects of the transitional regime (A +/- B)	**820,860**	**863,355**
D. Elements to be deduced from CET1	**(154,412)**	**(145,198)**
E. Transitional regime - Impact on CET1 (+/-)	**61,412**	**(2,793)**
F. Total Common Equity Tier 1 (CET1) primary capital (C - D +/-E)	**727,860**	**715,364**
G. Additional Tier 1 capital (AT1) before deductions and the effects of the transitional regime	**-**	**-**
of which AT1 instruments subject to transitional arrangements	-	-
H. Items to be deducted from AT1	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**	**-**
L. Total Additional Tier 1 capital (AT1) (G - H +/- I)	**-**	**-**
M. Tier 2 capital (Tier 2 -T2) before deductions and the effects of the transitional regime	**130,000**	**105,000**
of which T2 instruments subject to transitional arrangements	-	-
N. Items to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**-**	**1,149**
P. Total Tier 2 capital (Tier 2 -T2) (M - N +/- O)	**130,000**	**106,149**
Q. Total equity (F + L + P)	**857,860**	**821,513**

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

Countercyclical capital reserve

In a communication dated 21 December 2018, taking into account the analysis of the reference indicators, the Bank of Italy decided to maintain the countercyclical capital buffer ratio at zero per cent for the first quarter of 2019.

Capital conservation reserve

In a communication dated 18 January 2017, the Bank of Italy announced its choices regarding the application of the capital conservation reserve. Last October, the Supervisory Board decided to adopt the transitional regime provided for by the EU/2013/36 directive (Capital Requirements Directive, CRD4) for the application of the capital conservation buffer (CCoB), a regime that allows a gradual introduction of the requirement. This decision modifies the decision made in 2013, when the CRD4 was implemented, to bring forward the application of the full reserve (equal to 2.5% of risk-weighted assets) to banking groups at consolidated level and to banks that do not belong to groups.
The decision responds to the need to align national discipline with that of the majority of euro area countries. This ensures, on the one hand, equal treatment between intermediaries from different countries and, on the other, reduces divergences between national regulations, in line with the action taken by the Single Supervisory Mechanism (SSM) to minimise differences in the prudential rules applicable to banks.
Following regulatory intervention, the Bank is required to apply a minimum capital conservation reserve coefficient, both at individual and consolidated level, of:

- 1.875 per cent from 1 January 2018 to 31 December 2018;
- 2.500 per cent as of 1 January 2019.

B. QUANTITATIVE INFORMATION

Volksbank uses the standardised methodology for calculating capital requirements for credit risk.
The main features of the regulatory portfolios and the related risk weights are, in particular, the introduction of a supporting factor of 0.7619 to be applied to the prudential requirement for retail exposures to SME counterparties and a new capital requirement on the risk of a credit assessment adjustment (CVA), i.e. against the risk of losses arising from adjustments to the market value of OTC derivatives as a result of changes in creditworthiness.
A further prudential filter is constituted by the requirements of art. 105 of the CRR, which regulates the prudential supervisory institutions of the First Pillar and the rules on public disclosure (Third Pillar) in relation to the requirements of prudent valuation of all assets measured at fair value. In particular, in order to take account of the uncertainty of the additional parameters with reference to exposures in the financial statements valued at fair value, the Bank is required to deduct from the Common Equity TIER 1 the difference between the value resulting from the prudent valuation and the fair value. To this end, it should be noted that the Bank applies these requirements in accordance with the simplified approach.
For operational risks, the standardised approach is used.

Categories/Values		Unweighted amounts		Weighted amounts/ requirements	
(thousands of euro)		31.12.2018	31.12.2017	31.12.2018	31.12.2017
A.	**RISK ACTIVITY**				
A.1	**Credit and counterparty risk**	**10,596,802**	**9,930,640**	**6,023,307**	**5,597,724**
	1. Standardised methodology	10,596,802	9,930,640	6,023,307	5,597,724
	2. Methodology based on internal ratings	-	-	-	-
	2.1 Basis	-	-	-	-
	2.2 Advanced	-	-	-	-
	3. Securitisations	-	-	-	-
B.	**REGULATORY CAPITAL REQUIREMENTS**				
B.1	**Credit and counterparty risk**			**481,865**	**447,818**
B.2	**Credit assessment adjustment risk**				
B.3	**Settlement risk**				
B.4	**Market risk**			**899**	**914**
	1. Standard methodology			899	914
	2. Internal models			-	-
	3. Concentration risk			-	-
B.5	**Operational risk**			**34,991**	**33,906**
	1. Basic method			-	-
	2. Standardised method			34,991	33,906
	3. Advanced method			-	-
B.6	**Other elements of the calculation**			**-**	**-**
B.7	**Total prudential requirements**			**517,755**	**482,638**
C.	**RISK ACTIVITIES AND SUPERVISORY RATIOS**				
C.1	Risk-weighted assets (RWA)			6,471,938	6,032,971
C.2	Primary capital class 1/Risk-weighted assets (CET 1 capital ratio)			11.25%	11.86%
C.3	Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			11.25%	11.86%
C.4	Total capital/risk weighted assets (Total capital ratio)			13.26%	13.62%

PART G BUSINESS COMBINATIONS INVOLVING UNDERTAKINGS OR BUSINESSES

Section 1 OPERATIONS CONCERNED DURING THE FINANCIAL YEAR

There were no business combinations during the year.

Section 2 OPERATIONS CONCERNED AFTER THE CLOSING OF THE FINANCIAL YEAR

No business combinations were carried out after the end of the financial year.

Section 3 RETROSPECTIVE RECTIFICATIONS

No retrospective adjustments were made during the year.

PART H TRANSACTIONS WITH RELATED PARTIES

1. Information on the remuneration of the most important Directors, Statutory Auditors and employees

The following table summarises the remuneration paid to the directors, statutory auditors and strategic managers and to the most important employees, i.e. those who have the power and responsibility, directly or indirectly, for the planning, management and control of the Company's activities.
The remuneration paid is governed by the Remuneration Policies approved by the Shareholders Meeting.

(thousands of euro)	**31.12.2018**
Administrators	1,062
Most important employees	3,804
Mayors	332
Total	**5,198**

Remuneration of the most important employees ***(thousands of euro)***	**31.12.2018**
whose	
– short-term benefits	3,230
– post-employment benefits	319
– long-term benefits	255
– termination benefits	-
– share-based payments	-
Total	**3,804**

2. Information on transactions with related parties

According to the indications of IAS 24, applied to the organisational and governance structure of the Bank, the following natural and legal persons are considered to be related parties:

- subsidiaries, companies over which the Bank exercises direct or indirect control, as defined by IAS 27;
- associated companies, companies in which the Bank exercises significant direct or indirect influence, as defined by IAS 28;
- jointly controlled companies, companies over which the Bank exercises direct or indirect joint control, as defined by IAS 31;
- the managers with strategic responsibilities and the control body, i.e. the Directors, the Statutory Auditors, the General Manager and the Deputy General Manager;
- other related parties, which include:
  - close relatives - cohabiting partners, children, children of the cohabiting partner and persons dependent on the person or cohabiting partner - of Directors, Statutory Auditors, General Manager and the Deputy General Manager of the Bank;
  - subsidiaries, jointly controlled companies or companies subject to significant influence by the Bank's Directors, Statutory Auditors, General Manager and Deputy General Manager, as well as by their close relatives as defined above.

The main Balance Sheet and Profit and Loss Account transactions with subsidiaries and associates are set out below.

Transactions with subsidiaries

(thousands of euro)	Receivables for loans granted	Bonds subscribed	Payables for financing received payments	Bonds issued	Warranty	Commitments
31.12.2018	8,896	-	1,044	-	56	-
Incidence	0.12%	0.00%	0.01%	0.00%	0.01%	0.00%

	Interest revenue on loans conceded	Interest revenue on bonds subscribed	Interest expense on loans received	Interest expense on bonds issued	Commissions and other revenues	Commissions and other costs
31.12.2018	106	-	-	-	8	-
Incidence	0.05%	0.00%	0.00%	0.00%	0.01%	0.00%

Transactions with associated companies

(thousands of euro)	Receivables for loans granted	Bonds subscribed	Payables for financing received payments	Bonds issued	Warranty	Commitments
31.12.2018	-	-	358	-	-	-
Incidence	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

	Interest revenue on loans conceded	Interest revenue on bonds subscribed	Interest expense on loans received	Interest expense on bonds issued	Commissions and other revenues	Commissions and other costs
31.12.2018	-	-	1	-	-	-
Incidence	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

The main Balance Sheet and Profit and Loss Account transactions with the Directors, Statutory Auditors and members of the Executive Board are as follows

Transactions with Directors, Statutory Auditors and members of the Executive Board

(thousands of euro)		Administrators		Mayors		Strategic Executives		Total
		Direct	Indirect	Direct	Indirect	Direct	Indirect	
Fido granted		3,879	75,995	3,235	207,268	29	75	290,482
Jobs		3,123	56,637	3,196	117,082	25	68	180,130
	Incidence	0.04%	0.78%	0.04%	1.62%	0.00%	0.00%	2.49%
Signature credits		-	9,131	-	8,923	-	-	18,054
	Incidence	0.00%	1.38%	0.00%	1.34%	0.00%	0.00%	2.72%
Direct funding		807	18,396	464	9,107	132	172	29,078
	Incidence	0.01%	0.24%	0.01%	0.12%	0.00%	0.00%	0.38%
Indirect deposits		549	8,477	41	61	1	185	9,314
	Incidence	0.02%	0.25%	0.00%	0.00%	0.00%	0.01%	0.27%
Interest revenue		50	1,213	41	1,765	0	1	3,071
	Incidence	0.03%	0.62%	0.02%	0.91%	0.00%	0.00%	1.58%
Interest expense		3	69	0	3	0	1	76
	Incidence	0.01%	0.24%	0.00%	0.01%	0.00%	0.00%	0.26%
Commissions and other revenue		9	194	6	152	0	1	362
	occurrence	0.01%	0.20%	0.01%	0.15%	0.00%	0.00%	0.36%

3. Management of Transactions with related parties

Transactions with related parties are governed by Consob Regulation no. 17221 of 12 March 2010 and no. 17389 of 23 June 2010 and by the Provisions of the Bank of Italy of 12 December 2011 “Risk activities with related parties”.
The Bank adopted - by resolution of the Board of Directors, subject to the favourable opinion of the Committee of Independent Directors and the Board of Statutory Auditors - the internal rules “Risk activities and conflicts of interest with regard to related parties and related parties Control policies” authorised by the Board of Directors on 23 October 2015, published on the websites www.bancapopolare.it and www.volksbank.it.
Transactions with related parties, identified in accordance with the provisions of IAS 24, the above Consob Regulation and the Bank of Italy’s instructions, are part of the Bank’s normal operations.
No related party transaction carried out during the period under review had a material impact on the Bank’s Balance Sheet or results of operations. In addition, there were no changes and/or developments in related party transactions completed by June 30, 2018.
In the first half of 2018, there were no significant non-recurring transactions subject to the regulations of related parties. In addition, during the same period, there are no positions or transactions deriving from atypical or unusual transactions, meaning those that are not part of normal business operations, which, due to their significance/relevance, the nature of the counterparties, the way in which the transfer price is determined and the timing of the event, may give rise to doubts as to the completeness of the information in the financial statements, the safeguarding of the company’s assets and the protection of shareholders.

PART I PARTIES TO THE PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

A. QUALITATIVE INFORMATION

The regulatory framework for share-based payment agreements is represented by the Supervisory Provisions for Banks, Bank of Italy Circular no. 285/2013, Part One, Title IV, Chapter 2 "Remuneration and Incentive Policies and Practices", which implements the European Directive 2013/36/EU (CRD IV-Capital Requirements Directive). The following are also relevant:

- art. 114-bis of the Consolidated Law on Finance on information to the market;
- the joint Bank of Italy-Consob Communication on "The implementation of the guidelines issued by ESMA", aimed at promoting greater consistency in the interpretation and enforcement of existing obligations regarding conflicts of interest under the MiFID Directive on remuneration published on 29 January 2014;
- the technical requirements, Regulatory Technical Standard (RTS) defined by the EBA for the identification of the categories of personnel whose professional activities have a significant impact on the risk profile of the company, approved on 4 March 2014 by the European Commission with EU Delegated Regulation no. 604/2014; the EU Regulation no. 575/2013 (CRR) which deals with the prudential requirements to be met by banks and indicates in Article 450 the information on remuneration policies to be published;
- EU Delegated Regulation no. 527/2014 which specifies the categories of financial instruments suitable for use for the purposes of variable remuneration.

Finally, it should be noted that from 1 January 2017, the Guidelines on Sound Remuneration policies, published by the EBA on 21 December 2015, will apply. The Guidelines aim to encourage the adoption of remuneration policies in line with the Bank's risk profile and, in general, to ensure that remuneration and incentive schemes are always based on the principles of sound and prudent management.

With the 25th update of Circular no. 285/2013 published on 26 October 2018, the Bank of Italy amended the provisions of Part One, Title IV, Chapter 2 concerning remuneration and incentive policies and practices in banks and banking groups in order to adapt the Italian regulatory framework to the guidelines of the European Banking Authority (EBA) on the subject.

On 22 February 2019, the Board of Directors of Volksbank approved a new incentive plan that provides, in particular, for the valuation of a portion of the variable component of the remuneration of the "most significant personnel" through the assignment of ordinary shares of Volksbank, subject to the achievement of specific targets to be achieved during the year.

The beneficiaries of the plan are those who fall into the categories of "Most Significant Personnel", who are granted, pursuant to the Remuneration Policies, incentives in financial instruments representing the economic value of the Bank with a net equivalent amount of more than 15,000 euros per year, or employees, although not more Significant Personnel, who hold "severance" incentives as governed by the Remuneration Policies.

The free allocation of the Stock Grant Plan shares is subject to the achievement of the performance targets for the year 2019 as well as to the respect, for the individual periods of the plan, of the economic-financial, equity and liquidity bank indices, as indicated by the remuneration policies.

The allocation of shares can take place if and only if, at the end of each period of the plan, the economic-financial, equity and liquidity indices, which constitute the "conditions of access" to the incentive system, are reached. Under these conditions, 25% of the 2019 incentives are recognized in shares provided that, in the year of allocation of the shares, the countervalue in shares net equivalent exceeds the materiality threshold indicated by the remuneration policies.

The shares are subject to a retention commitment with unavailability equal to one year from the date of allocation of the shares. For the shares to be recognised in relation to financial year 2019 together with the shares of one or more periods of the 2019 plan, the unavailability interval is equal to 1 year from the date of the Board's resolution to ascertain the existence of the Bank's economic-financial, equity and liquidity indices necessary to access the portion of the deferred incentive respectively in 2020 and 2021.

For severance actions agreed with an individual agreement for early termination of employment, the retention commitment has an annual duration, for spot assignments, and a duration of 1 year for deferred assignments of 1 or 2 years respectively.

B. QUANTITATIVE INFORMATION

The table of annual changes is not corroborated because the Bank did not meet the requirements for share-based payments in relation to the performance premiums for 2019 to be paid in 2019.

PART L SEGMENT REPORTING

CRITERIA FOR IDENTIFYING AND AGGREGATING OPERATING SECTORS

Segment reporting is based on the elements that management uses to make own operational decisions (so-called "management approach") and is accordingly consistent with the disclosure requirements of IFRS 8. The segments were identified by management and approved by the Board of Directors:

- Retail;
- Corporate;
- Private;
- Finance;
- Workout.

In addition to these operating segments, there are also support structures represented by other central departments and internal services.

The allocation of economic and financial results to the various business sectors is based on criteria that are independent of those used in the preparation of the financial statements. Accordingly, their breakdown for the purposes of segment reporting is based on the management logic used internally by the Bank to assess the results of individual operating segments. For the purposes of preparing segment information, the figures shown in the "Total" column of this section are reconciled with the figures shown in the financial statements.

Distribution by sector of activity: economic data

Economic data ***(thousands of euro)***	**Retail**	**Corpo-rate**	**Private**	**Finance/ ALM**	**Workout**	**Head office**	**Total**
Net interest revenue on assets	96,911	53,673	789	26,324	11,807	-	194,394
Net interest expense	(11,491)	(1,482)	(3,100)	(8,037)	-	-	(29,002)
Net interest revenue	**85,419**	**52,190**	**(2,312)**	**18,287**	**11,807**	**-**	**165,392**
Net commissions	70,901	16,240	1,716	255	-	-	89,112
Financial margin	-	-	-	3,207	(500)	-	2,707
Net interest and other banking revenue	**156,320**	**68,431**	**(596)**	**21,748**	**11,307**	**-**	**257,211**
Net impairment losses on loans and financial transactions	3,801	2,196	39	(759)	(44,285)	-	(39,008)
Net result from financial management	**160,121**	**70,626**	**(557)**	**20,989**	**(32,978)**	**-**	**218,202**
Administrative expenses	(107,020)	(15,091)	(5,973)	(3,543)	(8,089)	(41,418)	(181,133)
Provisions for risks and charges	-	-	-	-	-	(4,133)	(4,133)
Amortisation of tangible and intangible fixed assets	-	-	-	-	(1,500)	(8,599)	(10,099)
Other operating charges/revenue	15,190	3,479	368	-	-	-	19,037
Operating costs	**(91,830)**	**(11,612)**	**(5,605)**	**(3,543)**	**(9,589)**	**(54,149)**	**(176,327)**
Gains (losses) on equity investments/on disposal of investments	-	-	-	-	-	2,199	2,199
Profit (loss) from continuing operations before tax	**68,291**	**59,015**	**(6,162)**	**17,446**	**(42,567)**	**(51,950)**	**44,074**

Distribution by business segment: Balance Sheet data

Balance Sheet data ***(thousands of euro)***	**Retail**	**Corporate**	**Private**	**Finance/ ALM**	**Workout**	**Head office**	**Total**
Loans and advances to banks	-	-	-	83,359	-	-	83,359
Loans and advances to clients	4,317,800	2,494,445	44,606	1,177,815	370,805	-	8,405,470
Financial assets measured at *fair value*	45,780	26,447	473	1,052,212	-	-	1,124,912
Payables to banks	-	-	-	1,418,187	-	-	1,418,187
Direct funding	5,118,262	793,541	650,039	1,012,371	-	109,206	7,683,419
- Due to clients	4,675,299	791,461	537,183	880,942	-	100,313	6,985,199
- Securities issued	442,962	2,080	112,856	131,429	-	8,893	698,220
Indirect deposits	1,997,903	91,603	802,644	-	-	-	2,892,151
RWA	2,430,979	2,497,771	66,371	507,046	600,216	369,121	6,471,504

It should be noted that the company's operating revenue and activities are carried out in Italy, confirming its roots in the reference territory, a factor of strategic importance in the company's development.
With reference to information by geographical area, Volksbank operates on a regional basis and does not have a geographical breakdown whose subdivision into distinct areas assumes economic and strategic importance. Moreover, the characteristics and opportunities of the reference market are also homogeneous. Accordingly, the segment information by geographical area is not presented, as it is of no particular value.

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

Information pursuant to Article 149-duodecies of Regulation 11971 of 14 May 1999 (Regulations for Issuers)

The fees for 2018 for auditing services and for services other than auditing provided by the Independent Auditors itself or entities belonging to its network are set out below.

Type of services ***(thousands of euros)***	**Party providing the service**	**Recipient**	**Remuneration (1)**
Audit	BDO Italia SpA	Volksbank	119,005
Non-financial statement	BDO Italia SpA	Volksbank	16,780
Certification services	BDO Italia SpA	Volksbank	4,000
Report on data reported for the second series of targeted longer-term refinancing operations (LTROs)	BDO Italia SpA	Volksbank	7,000
Base Prospectus Comfort letter – MTN Programme	BDO Italia SpA	Volksbank	5,000
Securisation of loans	BDO Italia SpA	Volksbank	20,000
Wallstrat tables	BDO Italia SpA	Volksbank	6,000
Total			**177,785**

(1) The amounts are stated net of VAT, Consob contribution and ancillary expenses.

Financial statements of subsidiary Voba Invest S.r.l. in liquidation

Voba Invest S.r.l. in liquidation

Voba Invest S.r.l. - A sole shareholder in liquidation

Voba Invest S.r.l. - A sole shareholder in liquidation
Registered office at Via del Macello no. 55, Bolzano (BZ)
Share capital €30,000 fully paid up
Listed in the Bolzano Companies Register
Tax code 03340170277
A company subject to management and coordination
by Banca Popolare dell'Alto Adige Soc. Coop. p.a., with headquarters in Bolzano – Italy

The financial statements for the year ended 31/12/2018:
BALANCE SHEET

ACTIVE			**31.12.2018**	**31.12.2017**
(in euro)				
A. Receivables from shareholders for outstanding payments			**-**	**-**
B. Fixed assets				
I. Intangible assets				
II. Tangible assets				
	1.	Land and buildings	37,369	133,347
	Total		37,369	133,347
III. Long-term investments				
	1.	Equity investments in:		
		b. associates	-	1
	Total		-	1
	3.	Other securities	100	100
	Total		100	100
Total fixed assets (B)			**37,469**	**133,447**
C. Current assets				
I. Inventories				
	4.	Finished products and goods	1,018,215	1,264,187
	Total		1,018,215	1,264,187
II. Receivables				
	1.	To customers	80	105
	5.bis	Tax receivables	2,026	13,624
	5.quater .	To others	85,705	85,705
	Total		87,811	99,434
III. Current financial assets				
IV. Cash and cash equivalents				
	1.	Bank and postal deposits	1,044,051	785,472
	3.	Cash on hand	58	58
	Total		1,044,109	785,530
Total current assets (C)			**2,150,135**	**2,149,151**
D. Accrued income and prepaid expenses			**2,934**	**4,770**
TOTAL ASSETS			**2,190,538**	**2,287,368**

The financial statements for the year ended 31/12/2018:
BALANCE SHEET

LIABILITIES	31.12.2018	31.12.2017
(in euro)		
A. Shareholders' equity		
I. Capital	30,000	30,000
IV. Legal reserve	6,000	6,000
VII. Other reserves		
13. Other reserves	(45,001)	(45,001)
	(45,001)	(45,001)
VIII. Profits (losses) carried forward	2,123,962	2,268,944
IX. Profit (loss) for the year	(37,097)	(144,983)
Total	**2,077,864**	**2,114,960**
B. Provisions for risks and charges		
4. Other	53,527	147,000
Total	**53,527**	**147,000**
D. Payables		
3. Payables to shareholders for loans	-	-
7. Trade payables	450	999
12. Tax payables	23,288	-
14. Other payables	35,409	24,409
Total	**59,147**	**25,408**
TOTAL LIABILITIES	**2,190,538**	**2,287,368**

The financial statements for the year ended 31/12/2018:
INCOME STATEMENT

INCOME STATEMENT ITEMS	**31.12.2018**	**31.12.2017**
(in euro)		
A. Revenue accounts		
1. Revenues from sales and services	358,177	685,938
2. Changes in inventories of pros. in the course of lav, semi-av and finished products	(245,973)	96,208
5. Other revenues and income	11,254	316
Total	123,458	782,462
B. Operating costs		
6. Raw materials, ancillary supplies, consumables and goods	5	5
7. For services	76,260	644,867
8. Leased assets	13,921	37,516
10. Depreciation, amortisation and write-downs		
b. depreciation of property, plant and equipment	21,513	25,364
Total	21,513	25,364
12. Provisions for risks	-	102,000
14. Other operating expenses	48,856	149,785
Total production costs	160,555	959,537
Difference between value and costs of production (A-B)	**(37,097)**	**(177,075)**
C. Financial income and expenses		
16. Other financial income		
b. from non-current investments	-	31,999
d. income other than the above	-	94
of which by associates	-	94
Total	-	32,093
17. Interest and other financial expenses	1	1
of which to parent companies	1	1
Total financial income and expenses	32,092	32,092
D. Value adjustments to financial assets		
Pre-tax profit (A-B+C+D+E)	**(37,097)**	**(144,983)**
21. PROFIT (LOSS) FOR THE YEAR	**(37,097)**	**(144,983)**

Financial statements of subsidiary Valpolyella Alta Società Agricola S.r.l.

Valpolyella Alta Società Agricola S.r.l.

Valpolyella Alta Società Agricola S.r.l. - A sole shareholder
Registered office at Via del Macello no. 55, Bolzano (BZ)
Share capital €10,000 fully paid up
Listed in the Bolzano Companies Register
Tax Code 02625480211
A company subject to management and coordination
by Banca Popolare dell'Alto Adige SpA, with registered office in Bolzano – Italy

The financial statements for the year ended 31/12/2018:
BALANCE SHEET

ACTIVE	31.12.2018	31.12.2017
(in euro)		
A. Receivables from shareholders for outstanding payments	**-**	**-**
B. Fixed assets		
I. Intangible assets	-	-
II. Tangible assets		
1. Land and buildings	2,812,642	2,812,642
2. Plant and machinery	113,066	124,830
4. Other assets	1,052,983	1,117,340
5. Assets under construction and advances	125,000	-
Total	4,103,691	4,054,812
III. Long-term investments		
Total fixed assets (B)	**4,103,691**	**4,054,812**
C. Current assets		
I. Inventories		
II. Receivables		
1. To customers	221,549	217,747
5.bis Tax receivables	62,002	28,526
5. quater to others	107	47
Total	283,658	246,320
III. Current financial assets		
IV. Cash and cash equivalents		
Total current assets (C)	**283,658**	**246,320**
D. Accrued income and prepaid expenses	**1**	**1**
TOTAL ASSETS	**4,387,350**	**4,301,133**

The financial statements for the year ended 31/12/2018:
BALANCE SHEET

LIABILITIES	31.12.2018	31.12.2017
(amounts in euro)		
A. Shareholders' equity		
I. Capital	10,000	10,000
IV. Legal reserve	2,000	2,000
VII. Other reserves		
1. Extraordinary and optional reserve	5,292	5,292
8. Payments to cover losses	5,753	-
13. Other reserves	(2)	-
	11,043	5,292
IX. Profit (loss) for the year	(117,464)	(179,247)
Total	**(94,421)**	**(161,955)**
B. Provisions for risks and charges		
4. Other	37,500	37,500
Total	**37,500**	**37,500**
C. Post-employment benefits	**-**	**-**
D. Payables		
3. Payables to shareholders for loans	922,060	1,082,880
5. Payables to banks	3,330,836	3,302,548
7. Trade payables	166,065	14,250
12. Tax payables	-	-
14. Other payables	84	-
Total	**4,419,045**	**4,399,678**
E. Accrued expenses and deferred income	**25,226**	**25,910**
TOTAL LIABILITIES	**4,387,350**	**4,301,133**

The financial statements for the year ended 31/12/2018:
INCOME STATEMENT

INCOME STATEMENT ITEMS	31.12.2018	31.12.2017
(in euro)		
A. Revenue accounts		
1. Revenues from sales and services	201,409	197,946
5. Other revenues and income	59,460	20,254
Total	260,869	218,200
B. Operating costs		
6. Raw materials, ancillary supplies, consumables and goods	26,872	36,903
7. For services	191,689	169,924
10. Depreciation, amortisation and write-downs		
b. depreciation of property, plant and equipment	76,120	70,238
	76,120	70,238
12. Provisions for risks		
14. Other operating expenses	1,728	20,852
Total production costs	296,409	297,917
Difference between value and costs of production (A-B)	**(35,540)**	**(79,717)**
C. Financial income and expenses		
16. Other financial income		
d. income other than the above	-	68
17. Interest and other financial expenses	(81,924)	(99,598)
Total financial income and expenses	(81,924)	(99,530)
D. Value adjustments to financial assets		
Pre-tax profit (A-B+C+D+E)	**(117,464)**	**(179,247)**
21. PROFIT (LOSS) FOR THE YEAR	**(117,464)**	**(179,247)**

Financial statements of the subsidiary Quartiere Brizzi S.r.l.

Quartiere Brizzi S.r.l.

Quartiere Brizzi S.r.l. - A sole shareholder

Registered office in Chienes (BZ), Handwerkzone #2
Share capital €10,000 fully paid up
Listed in the Bolzano Companies Register
Tax Code 02519580217
A company subject to management and coordination
by Banca Popolare dell'Alto Adige SpA, with registered office in Bolzano – Italy

The financial statements for the year ended 31/12/2018:
BALANCE SHEET

ACTIVE	31.12.2018	31.12.2017
(in euro)		
A. Receivables from shareholders for outstanding payments	**-**	**1,125**
C. Current assets		
2. Work in progress and semi-finished products	6,000,000	6,000,000
5.bis Tax receivables	29,764	33,576
5. quater to others	-	18,519
Total	6,029,764	6,052,095
IV. Cash and cash equivalents		
1. Bank and postal deposits		426
Total current assets (C)	**6,029,764**	**6,052,521**
D. Accrued income and prepaid expenses	**1,702**	**1,702**
TOTAL ASSETS	**6,031,466**	**6,055,348**

The financial statements for the year ended 31/12/2018:
BALANCE SHEET

LIABILITIES		31.12.2018	31.12.2017
A. Shareholders' equity			
I.	Capital	10,000	50,000
VII.	Other reserves		
	8. Payments to cover losses	64,365	-
VIII.	Profits (losses) carried forward	(217,532)	(1,719,051)
IX.	Profit (loss) for the year	379,636	(212,516)
Total		**236,469**	**(1,881,567)**
D. Payables			
3.	Payables to shareholders for loans	-	1,534,951
5.	Payables to banks	5,620,644	5,502,566
7.	Trade payables	174,353	899,397
Total		**5,794,998**	**7,936,914**
TOTAL LIABILITIES		**6,031,466**	**6,055,348**

The financial statements for the year ended 31/12/2018:
INCOME STATEMENT

INCOME STATEMENT ITEMS		31.12.2018	31.12.2017
(in euro)			
A.	**Revenue accounts**		
	5. Other revenues and income	498,952	-
	Total	498,952	-
B.	**Operating costs**		
	7. For services	53,607	68,650
	8. Leased assets	-	1,373
	14. Other operating expenses	10,489	8,457
	Total production costs	64,096	78,480
	Difference between value and costs of production (A-B)	**434,856**	**(78,480)**
C.	**Financial income and expenses**		
	17. Interest and other financial expenses	(55,220)	(134,037)
	Total financial income and expenses	(55,220)	(134,037)
	Pre-tax profit (A-B+C+D+E)	**379,636**	**(212,516)**
	21. PROFIT (LOSS) FOR THE YEAR	**379,636**	**(212,516)**