2018 Reports and Financial Statements

DEPObank
BANCA DEPOSITARIA ITALIANA

Content

Corporate positions

as at 21 March 2019

BOARD OF DIRECTORS

Chairman	Paolo Mario Tadini
Deputy Chairman	Pier Paolo Cellerino
CEO	Fabrizio Viola
Directors	Fabio Calì Giovanni Camera Rosa Cipriotti Francesco Colli Umberto Colli Ottavio Rigodanza Ezio Simonelli Paolo Vagnone

BOARD OF STATUTORY AUDITORS

Chairman	Gianluigi Fiorendi
Standing statutory auditors	Lorenzo Banfi Paolo Francesco Maria Lazzati
Alternate statutory auditors	Andrea Brambilla Gianluca Pozzi

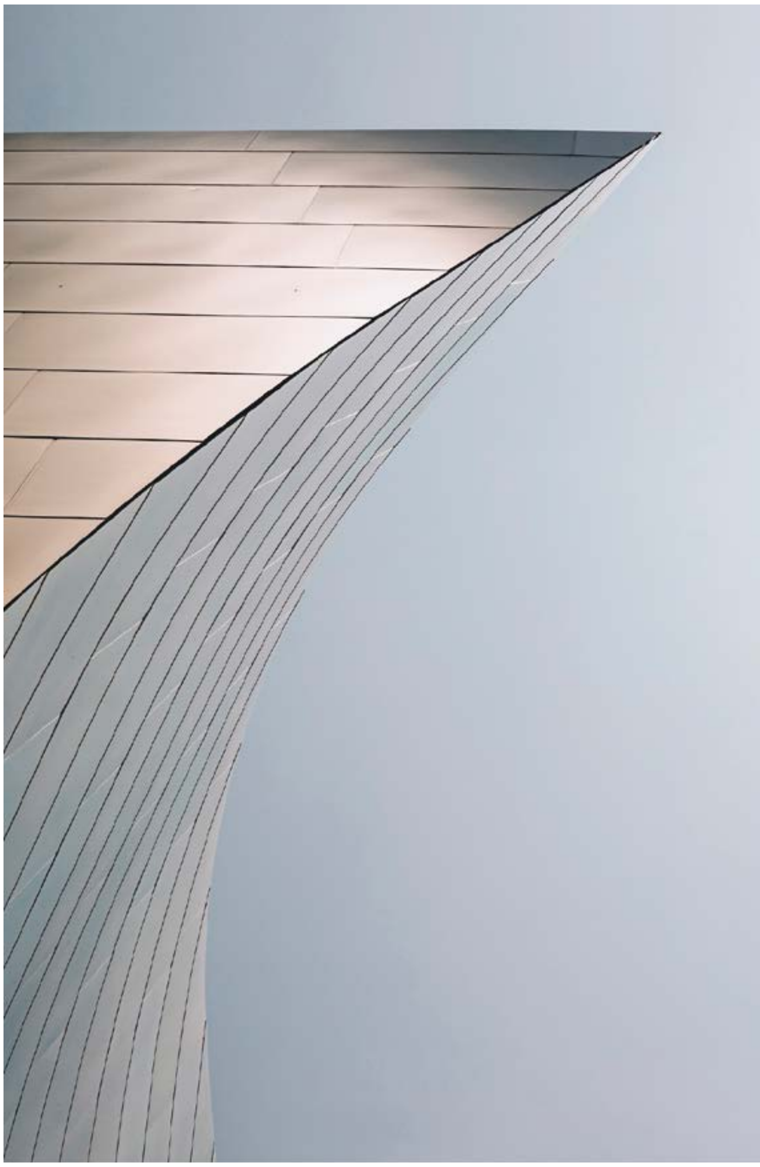
Shareholders' Meeting call

The ordinary shareholders' meeting will be held on **29 April 2019 at 9.30 am** in Via Anna Maria Mozzoni 1.1 **on first call** and, if necessary, on 30 April 2019, on second call at the same time and place, to discuss the following:

AGENDA

1. Financial statements at 31 December 2018; Directors' report, reports of the board of statutory auditors and the independent auditors; related resolutions.
2. Appointment of the independent auditors for the statutory audit of the 2019-2027 financial statements.
3. Remuneration and incentive policies; related resolutions.

2018 Reports and Financial Statements



DEPObank
BANCA DEPOSITARIA ITALIANA

Board of Directors' Report on Operations

Board of Directors' Report on Operations

Dear shareholders,

the bank made a profit of €5.2 million for the year compared to a profit of €89.5 million for 2017. Its equity amounted to €440.5 million at 31 December 2018 while it amounted to €1,943.8 million at the end of the previous year.

Its operating revenue decreased by 45.7% to €162.6 million due to the combined effect of the reduction in net interest income from €52.2 million to €35.2 million (-32.6%), a decrease in fees, commissions and income from services from €151.5 million to €112.9 million (-25.5%) and a reduction in dividends from €90.2 million to €2.9 million (-96.7%).

The gross operating profit came to €41.1 million for the year compared to €145.2 million for 2017.

THE INTERNATIONAL ECONOMY

The global economy grew 3.8% in 2018, like in 2017, although all the main countries' economies decelerated, with the sole exception of the United States, where growth sped up from 2.2% in the previous year to 2.9%. This improvement was driven by robust internal demand and greater exports. Japan's GDP growth rate contracted to 0.8% from 1.9%, hit by the downturn in consumption and exports and despite lively investments. The Eurozone's GDP slowed down to 1.9% from 2.4%, reflecting the slump in both internal and external demand. As this trend initiated in the second half of the year, the unemployment rates at year end did not yet reflect its effect and indeed they improved not only in the United States (from 4.1% to 3.9%) but also in Japan (from 2.7% to 2.4%) and in the Eurozone (from 8.6% to 7.9%).

The global inflation rate increased from 3.2% to 3.8%, driven mainly by the higher cost of raw materials and also partly the rise in US core inflation. In detail, consumer prices increased from 2.1% to 2.5% in the US, from 0.5% to 1.0% in Japan and from 1.5% to 1.7% in the Eurozone. Net of the more volatile energy and food prices, this increase was from 1.8% to 2.1% in the US and 0.0% to 0.1% in Japan while inflation remained stable at 1.0% in the Eurozone.

THE DOMESTIC ECONOMY

Italy fell into recession in the second half of the year, with its GDP slowing to 0.9% on average (from 1.6%), widening the gap with the rest of the Eurozone. This stoppage was triggered by a contraction in exports (from 5.7% to 0.8%) and consumption (from 1.5% to 0.6%), while investments remained more buoyant (moving from 4.3% to 4.0%). Unemployment lagged behind this cycle, down to 10.3% at year end from 10.9% at the end of 2017.

Inflation hovered at 1.2% despite the hike in prices of raw materials with a slowdown in the economy that led to a core inflation rate down from 0.7% to 0.5%.

REFERENCE MARKET

This section provides a brief overview of the markets in which DEPObank operates.

Payment systems

The Italian banking system is grappling with a large reduction in its members due to mergers which reduced the number of Italian banks to just over 500 at the end of the year.

As a result of new regulations, the transformation of ICCREA and Cassa Centrale Banca into holding companies of Credito Cooperativo has reduced the number of banks again.

The use of non-cash payment instruments in Italy is still less than in other countries but the positive trend continues. The growth rate of SCT (Sepa Credit Transfers) is 4% for the 2016-2018 two-year period while that of the SDD collections (Sepa Direct Debit Core and B2B) is 9%. The use of bank cheques and cashier's cheques decreased by 20% and 22%, respectively, in the same period.

Despite the progress made in recent years, the Italian payment system is still among those that make the greatest use of cash compared to the other Eurozone members.

The global transition to e-payments (e-payments and mobile payments) is faster than that estimated by the authorities and sector experts. The growth forecasts for the 2015-2019 period are continuing at an annual pace of 17.6% and 21.8% for e-payments and mobile payments, respectively. The large upswing in digital payments has been boosted mainly by the adoption of instant payments by many countries and the rapid development of this sector in the emerging economies.

The authorities and the financial sector consider instant payments an essential tool for the war on cash.

The European Central Bank and Bank of Italy, together with the European Payments Council, have encouraged the automated clearing houses (ACHs) and payment service providers (PSPs) to develop and adopt the instant payment service (SCT Instant), based on the SEPA SCT scheme, and to provide it with very high service levels (seven days a week, 365 days a year). The aim is to modernise the payment system and concurrently retain the payment formats and schemes already in use by banks.

A significant novelty affecting the sector has been the European Central Bank's introduction of the instant payment service, TIPS (Target Instant Payment Settlement), in November 2018.

In this complex scenario, the TIPS service's success hinges on the Eurosystem's ability to activate in time robust and efficient mechanisms to allow the authorised operators to work together as hoped for and promoted by the European Parliament, based on the experience gained with the transition to SEPA. Indeed, the TIPS service's operating model has been designed to avoid issues between the clearing and settlement systems, giving the European Central Bank a key role to avoid the problems that afflicted the European ACHs (e.g., EACHA vs EBA Clearing) in the past.

The TIPS service is one of the pillars underpinning the structural development of the European Central Bank's new liquidity management system (Vision 2020 project). Over the next few years, this will entail, inter alia, consolidation of the Target2 and Target2-Securities and a new management system for collateral, where banks will use a single control point, Central Liquidity Management.

The factor that will most probably lead the Instant Payment tool to become the most popular tool in the Eurozone is the possible increase in the individual transaction ceiling from the current €15,000 to €100,000. This move has been requested by many European banks and is currently being assessed by the European authorities. While it has already been touted in this initial stage of the project, it is reasonable to expect that increasing the ceiling can only take place when the new instant payment model is sufficiently stable, robust and in wide use throughout Europe.

The new ceiling will allow the instant payment tool to capture part of the B2B and C2B payments that are currently made using other systems. This will assist standardisation and optimisation of the management processes for the financial and supply chain segments of businesses, which can also add to the new options of the revised Payment Services Directive (PSD2) to build up their operations through new and innovative collection and payment methods.

The European regulatory framework, focused on standardising payment processes, risk mitigation, increased competition and the generalised innovation of the payment system, has a significant effect on the decisions about operating and business models taken by the PSPs and, in general, all the stakeholders.

Specifically, enactment of Directive (EU) no. 2015/2366 (PSD2) on retail payments is having the effect hoped-for by the legislator of opening the payment services market to new non-banking operators (the TTPs - third party providers). This situation is now also being seen in Italy. The whole issue of standardisation of the rules applied to the supervised and the non-supervised operators (TPPs/FinTechs) will determine the speed of the roll-out of new services for citizens.

Given this context, DEPObank can continue its key role as a "system bank" and build up its business. It can confirm its position as facilitator of investments by its PSP customers, with a faster time-to-market than those of its competitors while concurrently ensuring a level playing field with the products and services offered by the major Italian and European banks.

Assets under management

Assets under management (AuM) in Italy amounted to approximately €2,300 billion towards the end of the year. Despite the growth forecasts made in previous years, the 2018 actual figure was more or less identical to that of the previous year due to the negative performance of the markets in the last few months of the year. Indeed, each reference asset class recorded a slight drop compared to 2017 with the only exception being the pension plan sector that saw an increase of around 4% on the previous year.

In 2016, AuM were equal to 73% of Italian GDP according to EFAMA (European Fund and Asset Management Association) figures, which was still far off the European average of 138% calculated for the same year.

However, as a percentage of total financial assets held by Italians, AuM products grew to approximately 34% in 2017 from 31% in 2015. It was 22% in 2018.

Both the European and Italian AuM sectors are currently affected by strong pressure brought by two factors that have decreased management fees. On the one hand, investors require a higher price/quality ratio and, on the other, the legislative framework introduced by MiFID II and the new automated management operator models, like the robo-advisors, have led traditional operators to revise their pricing and revenue models.

Legislative and technological modifications are not the only drivers of change in the AuM sector. The Italian financial markets' current situation has led to a polarisation of investments between highly specialised passive management products and the new smart-beta products. Passive investment products like the classic ETF (exchange-traded funds) continue to find favour with investors but the growth in liquidity that had encouraged investment in those asset classes could slow down and investors could find themselves having to deal with the riskiness of passive strategies that do not provide downward protection. Conversely, active and smart-beta strategies may gain popularity thanks to their ability to respond to market change.

CORPORATE REORGANISATION PROJECT

In 2018, the banking group headed by the bank (Nexi S.p.A.) was reorganised leading to its disappearance and a greater focus on the activities performed by the bank, which changed its name to DEPObank - Banca Depositaria Italiana S.p.A.

This reorganisation of the Nexi banking group was part of a bigger project to reorganise the group led by Mercury UK Holdco Limited, based in the UK and owned by the consortium of funds managed by Advent International Corporation, Bain Capital Investors LLC and Clessidra SGR S.p.A., the majority shareholder of Nexi S.p.A. and the controlling shareholder (100% control) of Latino Italy S.r.l.

The objective was to separate the two businesses: one to develop the digital payment operations (the payments business) and another (DEPObank) to focus on developing the securities and payment services that require a banking licence (the banking hub), to reposition the bank on the market in the medium term.

From a corporate viewpoint, separation took place on 1 July 2018 with:

- the contribution by Nexi S.p.A. to Nexi Payments S.p.A. (the "contribution"), after the latter changed from a payment institute to an e-money institute, of the non-banking business unit which includes, inter alia, the activities related to the payment services that do not require a banking licence, the e-money issuance activities, Nexi's trademarks and logos and the personnel necessary to ensure the full autonomy of the new group to be headed by Latino Italy S.r.l., against Nexi Payments' capital increase reserved for Nexi pursuant to article 2441.4 of the Italian Civil Code;

- the partial demerger of Nexi S.p.A. to Latino Italy S.p.A. (the "demerger"), performed by transferring all Nexi S.p.A.'s investments in the banking group companies (Nexi Payments S.p.A., Bassilichi S.p.A., Consorzio Triveneto S.p.A., Oasi Diagram S.p.A. and Help Line S.p.A.) and the €380,000,000 loan granted by Mercury UK Holdco Limited; this demerger was to become effective immediately after the contribution;
- the set up by Mercury UK Holdco of a UK holding company (Equinova UK Holding), to which it transferred (again with effect from 1 July 2018, after the demerger became effective) its investment in Nexi S.p.A. as a contribution in kind, and the assignment by Mercury UK to its shareholders of its investment in Equinova UK Holding on the same date through a capital decrease/distribution of reserves.

After the reorganisation was completed:

- Nexi S.p.A. changed its name to DEPObank - Banca Depositaria Italiana S.p.A.;
- Latino Italy S.p.A. changed its name to Nexi S.p.A.

Given its structure, the reorganisation did not change DEPObank's business object and, therefore, it has continued to operate, albeit at a smaller scale, without interruption with the same qualification and banking authorisations of Nexi S.p.A. (previously held by ICBPI S.p.A.). The reorganisation did not change its ownership structure either, although the banking group it headed has disappeared.

The reorganisation required the prior authorisation of the competent supervisory authorities, namely:

- Bank of Italy authorised the demerger and the by-laws amendments with its note of 12 April 2018; this included the disappearance of the banking group, the name and the governance structure introduced by ICBPI to avoid interlocking between it and its member banks in certain markets;
- the European Central Bank authorised the acquisition of control of Nexi S.p.A./DEPObank by Equinova UK Holding Limited with its communication of 27 April 2018.

OTHER TRANSACTIONS

As part of its strategic goals, set in the Group's business plan, to focus on the product portfolio, type of customer and distribution channel used, the bank disposed of some non-core assets during the year. They included:

- the sale of the brokerage and market making business unit, active in the securities and treasury services and the provision of investment services to qualified counterparties and professional customers, to Equita Sim on 31 May 2018;
- the sale of the 25% investment in the associate Hi-Mtf Sim S.p.A. on 30 May 2018;
- the sale of the investment property held in Milan and Assago on 30 June 2018.

STRATEGIC PLAN

During the year, the board of directors undertook a multi-transaction project to redefine the bank's strategic positioning in view of and as a result of the reorganisation.

In its meeting of 18 January 2018, the board of directors of Nexi S.p.A. approved the 2017-2021 BankCo business plan as part of the preparatory activities for the reorganisation; this plan set out the banking business' (the "BankCo") post-reorganisation strategy and included, with respect to the bank:

- introduction of a more streamlined organisational structure, and
- focus on the securities services and payment settlement businesses (offered to the market through an agreement with Nexi Payments).

The BankCo's business plan continued the development strategies already envisaged in the Nexi Group's plan approved in February 2017, which included: (i) extension of the services provided to customers for certain lines of business, (ii) the sale of some businesses no longer considered to be core, and (iii) simplification of the existing organisational structure.

DEPObank's new board of directors, appointed after the reorganisation, revised the BankCo's plan and the bank's development and growth strategies in general through:

- direct checks of whether the BankCo's plan was consistent with DEPObank's actual organisational, financial and equity structure (post-reorganisation) and its sustainability given the results achieved in the first year of the plan;
- assessments of the potential opportunities to reinforce the bank's business model, and especially its asset side strategy.

With respect to the second aspect, an in-depth analysis of the domestic banking market performed with the assistance of a leading expert showed that the specialised lending to medium sized Italian companies segment has potential and would provide DEPObank with positive and profitable growth.

On 26 September 2018, the board of directors approved the project and started to implement it and integrate BankCo's plan accordingly (after its amendment and adaption to the 2019-2023 timeline).

Subsequently, the board of directors approved the 2019-2023 strategic plan ("DEPObank: the Italian multi-specialist FinTech") on 21 February 2019.

The plan includes strengthening the existing businesses (payment and securities services) and introduction of a new line of business for the disbursement of SME specialised lending, concurrently transforming the bank into a multi-specialist FinTech.

With respect to the payment business and given the upheaval caused by the introduction of new legislation (PSD2 and EBC Vision 2020), which will lead to the entry of new operators and change the current operators' roles, the plan provides for strengthening the bank's position as a "system bank" that serves all market players (old and new) by offering traditional and innovative banking payment services to meet customers' requirements for simplification and optimisation to allow them to provide their services to their retail customers without competition, guaranteeing a timely, flexible and standardised service.

The global securities services market is dominated by a few large operators while, at local level, there are market segments that the international players are unable to penetrate. DEPObank intends to continue to provide fund services and global custody services as a "National Champion", an operator focused on niche market segments providing customers with specialised, customised, high quality services, including physical proximity. It will strengthen its position mainly in the pension plan and AIF sectors.

The bank will also introduce the new SME specialised lending business. Great potential has been identified for the new players in this market characterised by rising demand for loans from medium sized companies with a contraction in banks' interest in lending to them, especially in the segments without particularly high entry barriers. Its target is to offer highly profitable products to segments not sufficiently served by the existing operators or that require specialised expertise, such as factoring, crossover lending and UTP loans (to be managed through partnerships with specialised operators).

These lines of business will be flanked by a treasury unit to diversify investments in financial assets and commence medium to long term funding in order to maintain the bank's liquidity and risk profiles in line with its goals.

The target customers will be SMEs, corporates, public administrations and financial institutions and, hence, not retail customers as this market is (currently) deemed defocusing as it has different products and requirements.

The bank will develop its business using a multi-specialist bank (vertically specialised banking/financial services able to generate sufficient profitability and entrance into new areas), and FinTech (merging cutting edge technologies with a low cost-to-serve, highly competent, motivated personnel able to take on challenges, a lean organisation that operates effectively and efficiently and a brand strategy that adds value to specific products and services) model.

Although they are not specifically provided for in its strategic plan, the bank may consider M&A transactions as part of its new strategies if they could speed up its business growth and facilitate its technological edge.

The new strategic market positioning will be achieved through adequate technological investments for both the traditional and new businesses, a review of the organisational structure, with a transition towards a division type model in line with the vertical specialisation, building up skills and departments and the business and risk assessment and management. The bank plans to increase its workforce by roughly 50% over the plan period.

The plan is expected to lead to:

- growth in the bank's size and profitability in line with less concentration of individual business segments and/or customer types;
- better operating efficiency and productivity indicators of its employees;

- diversified sources of funding and their maturities;
- a more balanced distribution of the bank's assets, in terms of the financial instruments used and borrowers;
- greater capital, keeping the profits earned and using available capital more efficiently, thus increasing the return on capital employed.

GOVERNANCE STRUCTURE

The appointment of the new 11-member board of directors became effective after the reorganisation on 1 July 2018. The directors were elected by the shareholders on 28 June 2018. Fabrizio Viola became the new chairman of the board of directors while Paolo Tadini took on the role of managing director and general manager effective from 2 July.

Upon completion of the first stage of the bank's strategic plan with its new structure and before the next stages, Paolo Tadini and Fabrizio Viola inverted their roles with the former becoming the chairman and the latter the managing director with effect from 9 January 2019.

INTERNAL CONTROLS

The bank continued its internal controls development project to comply with the reference legislation during the year.

The internal audit unit made additional changes as part of the "remedial actions" to remedy the findings of its internal audits and in line with developments in its control model. These changes are part of the measures to make the audit process more effective, including through more direct references to the main business risks.

After completion of the changes to the organisational structure and, therefore, the new business scope from 1 July, the internal audit unit focused on the bank's operations to follow on with the audit plans already approved by the relevant internal bodies, prioritising its activities based on a risk-based approach and specific legislative requirements.

The compliance & AML unit monitors the bank's activities using a risk-based approach and took steps during the year to ensure that the bank complies with new regulations and changes in applicable regulations due to its new corporate structure.

Activities continued to implement the procedures to comply with Directive (EU) no. 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (the "Fourth AML Directive"), Directive (EU) no. 2015/2366 on payment services in the internal market ("PSD2"), Regulation (EU) no. 2016/697 on data protection ("GDPR") and Directive (EU) no. 2014/65 on markets in financial instruments ("MiFID II").

Activities are also ongoing to make the IT tools used by the unit more efficient, including for the AML and CTF self-assessment.

RISKS

The risk management unit assisted management achieve its objectives during the year by:

- preparing the opinions requested from time to time to ensure the prudent and effective management of business risks;
- providing specialist assistance;
- assessing the risks of the former Nexi banking group's reorganisation, mainly in the first half of the year.

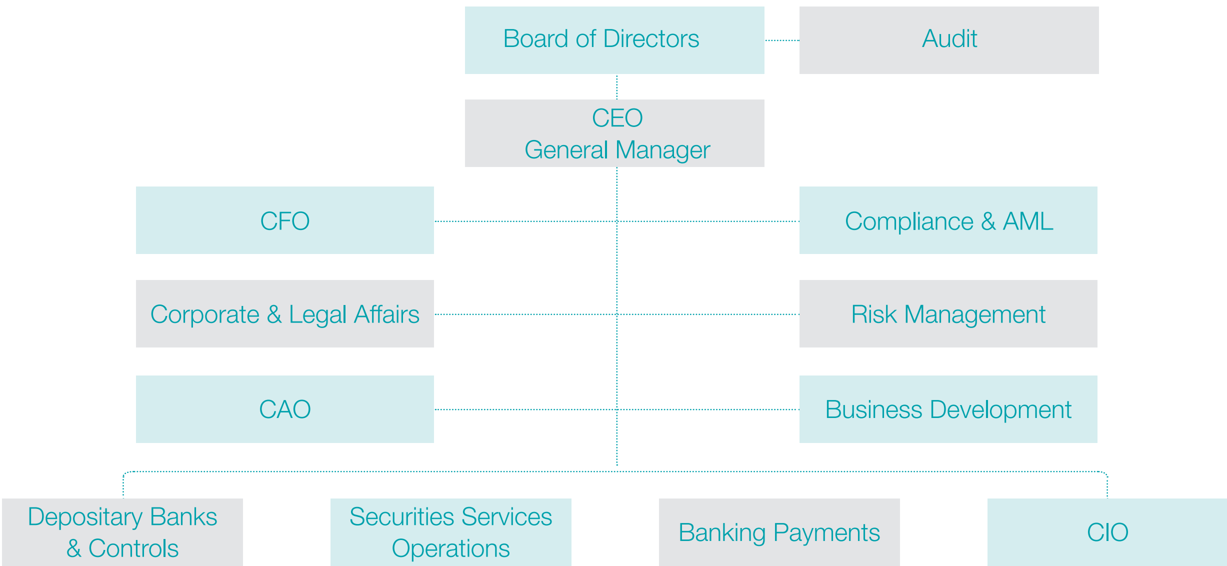
The risk management unit concurrently checked that the bank's activities fully complied with the risk governance process by defining and complying with the risk thresholds set in the Risk Appetite Framework ("RAF").

The RAF was subjected to its annual review to reflect the new corporate structure; the recovery plan (required by the Banking Recovery and Resolution Directive, BRRD) was updated; the ICAAP/ILAAP report was prepared; work to comply with regulations was continued and to fine-tune methods, systems and processes to measure business risks; projects for the development of new products/services were analysed, some of which were classified as operations of greater significance; the scheduled risk control self-assessment of the operating procedures was performed and the IT risk analysis method was revised to comply with the new IT strategy.

ORGANISATIONAL STRUCTURE

The project to separate the banking business was completed during the first half of the year and, since 1 July 2018, Nexi is no longer a banking group and changed its name to DEPObank with the following organisational structure:

DEPObank's organisational structure



Definition of the bank's organisation was based in part on the decisions taken for the Mercury Group reorganisation with the outsourcing to Nexi Payments of:

(i) the commercial activities for the payments business unit;

(ii) the ordinary IT management activities for certain application and technological areas.

These activities are covered by specific service agreements, defined as part of the reorganisation, which became applicable on 1 July 2018.

The commercial services agreement includes:

(i) the promotion and distribution of DEPObank's banking payment services by Nexi Payments using its own channels to current and potential customers;

(ii) assistance to develop, promote and distribute DEPObank's new products by Nexi Payments.

The IT outsourcing agreement covers ordinary IT application and technological services to be provided by Nexi Payments for the following areas of DEPObank:

(i) corporate system (administration, HR, procurement, supervisory reporting, reporting and governance);

(ii) payment services (intermediation, payments, collection, cheques and bills portfolio);

(iii) IT workspace and Infrastructure (LAN/WAN/telephony, Email/Collaboration tool, central infrastructure service for securities services).

The agreement does not include management of design activities that DEPObank will perform.

The bank's quality management system held on to Nexi's ISO 9001 certification after being audited during the first six months of the year.

As a result of the reorganisation described earlier, the scope of the certification was limited to just the treasury and cash services in the second half of the year. The bank also obtained the ISO 9001:2015 certification for its new offices in Via Anna Maria Mozzoni 1.1, Milan.

INFORMATION SYSTEM

The bank's CIO area is split into two units, securities services & treasury and governance & security to reflect the decisions taken as part of the reorganisation of the former Nexi banking group.

Securities services & Treasury

Like in previous years, 2018 was an eventful year with many projects to comply with regulations and especially to achieve ongoing operating and scope efficiency given the wide-reaching reorganisation of the entire area.

The main activities of the year include:

- Global Custody

  Start-up of the project to migrate assets to Bank of New York Mellon to redirect settlement and custody services previously provided by BNP. Completion of the project is slated for before 31 March 2019.
- Global custody and depositary bank

  Start-up of the securities lending activities for pension plans with the agent Deutsche Bank.
- Derivatives

  Start-up of the margin call matching activities.
- Treasury

  Implementation of a project to reorganise the front office platform used by the treasury unit and necessary after the brokerage activities were sold.
- Middle and back office

  Implementation of a project to replace the current outsourced “Full Finance” application with the cloud Si-finanza 2.0 solution. Given the changed operations of this unit after the sale of the brokerage activities, this replacement will facilitate large cost savings. Completion of the project is slated for before mid 2019.
- Depositary bank controls

  Implementation of efficiency improvements for the best automated management of controls on limits of derivatives and NAV.
- Reconciliations

  Development of a new product, Diagora, to reconcile the securities and cash of all the mutual investment funds and pension plans for which NAV calculation and/or depository services are provided.
- Transfer agent

  Management of the project to insource transfer agent activities for an important customer. This involved the necessary customisations to manage the customer’s business. Implementation of the functionalities necessary to comply with the individual savings plan management regulations.

Governance & Security

- Payment system

  The more important projects include:
  - a new procedure to issue and collect cashier’s cheques and release of the procedures to eliminate old cheque truncation logs (flat logs) and introduction of new cheque image logs (xml logs);
  - instant payment: launch of the app-mobile channel with an on-line interface to allow current account holders to make real time payments;
  - checks of account balances for the intermediation of SCT and SDD transactions: checks of bank account balances before payment and collection transactions.

- Corporate system
  The projects to introduce the new e-invoicing procedure and adopt IFRS 16 were managed with the outsourcers before the completion due dates.
- Security & BCM
  With respect to cyber security and business continuity, a number of tactical and strategic activities were completed, including:
  - definition of the bank's first business continuity plan (BCP) and DR and BC tests of the adequacy of the measures defined to ensure the bank's continuity in both business continuity and disaster recovery scenarios;
  - definition of the information security management system framework to identify the security principles and technical and organisational counter measures to be put in place to mitigate cyber security threats.

LEGISLATIVE COMPLIANCE

During the year, the bank rolled out a project to update its organisational model as per Legislative decree no. 231/01 to include the organisational changes made to reflect the new scope of its business.

A number of activities were completed in the first six months of the year to comply with the GDPR. Additional projects are taking place to ensure full compliance after the bank's reorganisation. The compliance & AML unit manager was appointed as the data protection officer.

DEPObank has completed the activities necessary to comply with IFRS 16 and e-invoicing within the set time-frame. The final developments to automate the process for IFRS 16 are being carried out.

Part of the procedures required by Directive (EU) no. 2015/2366 on payments in the internal market (PSD2) and related secondary regulations issued by the EBA was completed in the first half of the year. The amendments needed to reflect the bank's new structure are being made as well as the activities for the 2019 deadlines, especially as regards the identification of fraud.

The modifications to processes and tools to comply with Directive (EU) no. 2014/65 on the markets of financial instruments (MiFID II) have been completed.

Finally, DEPObank completed the documentation and procedural requirements of the Qualified Intermediary Agreement with the US IRS. Its qualification as a QI does not impose primary withholding responsibility, i.e., the obligation to directly make US tax withholdings, which will be applied by the depositaries. The QI agreement requires documentation about the customers to be prepared and notification to the IRS if the QI receives coupons on bonds of US-resident issuers or dividends on shares of US issuers on behalf of its customers. These obligations have changed significantly following enactment of the Foreign Account Tax Compliance Act (FATCA).

HUMAN RESOURCES

As a result of the reorganisation of the former Nexi banking group, the bank's workforce has changed significantly as shown below:

Employees by professional category and gender (n°)	2018			2017		
	Men	Women	Total	Men	Women	Total
Senior executives	11	1	**12**	42	5	**47**
Managers	82	62	**144**	253	143	**396**
Remaining employees	87	142	**229**	161	221	**382**
Total	180	205	**385**	456	369	**825**

As of July, all the employees moved to DEPObank's new registered office in Via A.M. Mozzoni, Milan.

The bank's workforce includes OUT secondments and does not include IN secondments.

PERSONNEL AND THE ENVIRONMENT

Training courses provided during the year contributed to easing the ongoing reorganisation and to raising awareness of the bank's strategies, especially with the "Payments, today and tomorrow", "Live the Customer" and "Digital world" projects.

The bank revised its training programme after the separation of the banking business to comply with its needs. Its main objectives were principally:

a) to promptly retrain resources who changed position due to the organisational changes;

b) to update and strengthen the bank's signature skills;

c) to comply with the regulations applicable to banks and intermediaries and the related measures introduced by the compliance unit;

d) to introduce a bespoke platform for the mandatory on-line courses;

e) to provide training to the key positions as per Legislative decree no. 81/2008 identified again after the organisational and logistics changes.

Roughly 40 employees, mostly from the securities services operations and depositary bank & controls business units, were provided with retraining.
This took the form of on-the-job training and specialised classroom courses held by internal lecturers.

Refresher courses, requested by unit managers ("on demand courses") were held internally and externally and mainly involved employees from the administration and tax, cyber security, and systems and applications units.

All the mandatory training courses included in the programme were held.
When possible and allowed by law, the mandatory courses were provided as e-learning courses and the bank launched the "DEPObank Academy" platform specifically for this purpose.

The bank dedicated considerable resources to the training of collaborators who hold key positions as per Legislative decree no. 81/2008 (officers in charge, prevention and protection officers and the new emergency managers).

DEPObank prioritises the development and management of workplaces that are suitable and comply with the current regulations and national and international technical rules about occupational health and safety. As already noted, all the bank's employees moved to the new offices in Via A.M. Mozzoni, Milan, as of July.

The bank assesses risk considering all the risk categories: security and injuries, health related to hygiene or environmental factors, health or safety due to common or organisational aspects and risks caused by external factors.

In particular, it focused on issues related to the ergonomic and technical compliance of work stations and compliance with fire prevention rules for the activities that require the Fire Brigade's prior checks. It also considered interference risks and jobs that expose workers to specific risks, such as the risk of exposure to video terminals. It also defined the work stress risk and how to measure it.

The bank elected a safety team and established its roles and responsibilities and the delegation system. Finally, it prepared a plan for the maintenance and improvement of the adopted prevention and protection measures.

It drafted the risk assessment document on 28 November 2018.

INDUSTRIAL RELATIONS

After the reorganisation of the former Nexi banking group, DEPObank commenced negotiations with the trade unions to obtain recognition and enhancement of a constructive and responsible relationship, to be achieved through ongoing discussions to support the creation of a new identity, including to break away from the previous group.

During the second half of the year, the bank presented the trade unions with proposals to encourage employee participation and develop a sense of membership and identification with the new organisation. It also introduced flexible work on a trial basis and depending on technical and organisational requirements with an agreement signed on 24 October 2018.

COMMUNICATIONS, INSTITUTIONAL EVENTS AND MEDIA RELATIONS

As part of the reorganisation of the former Nexi banking group, the bank rolled out a renaming and rebranding project for the banking business during the first six months of the year. On 21 March 2018, the board of directors resolved to adopt the new name and logo: DEPObank - Banca Depositaria italiana S.p.A.

All the activities to define its corporate identity took place, establishing and promoting its new name and logo on the various internal and external communication channels/tools.

These included, specifically:
- the brand identity project, which defined the communications guidelines;
- the environmental branding project, which set out the bank's new identity in the workplace;
- creation of a new internet site to enhance the institutional and business content with a new digital image;
- restyling the social channel (LinkedIn page);
- restyling the intranet;
- restyling all the operating portals;
- sending newsletters/DEM to institutional representatives, customers and stakeholders, to inform them of the new name/logo;
- media relations and ADV campaigns with the launch of DEPObank to strengthen its market positioning;
- attendance at events organised by third parties (the Italian Bankers Association, partners) to generate brand awareness;
- development and delivery of new kits to employees;
- organisation of internal events in Milan and Rome.

PERFORMANCE

The bank's 2018 results were achieved thanks to the contribution of its business units and services as set out below.

SECURITIES SERVICES

During the year, this unit (custody, administration and settlement of securities, fund services), provided to banks, fund managers, stock brokerage companies and funds, recorded stable assets under administration but a reduction in securities transactions, mainly due to the sale of the brokerage business unit, which offered investment services, during the year.

The brokerage and primary market and market making business unit was sold to Equita Sim on 31 May 2018 in order to allow the securities services unit to focus on its traditional business in line with the 2017-2021 strategic plan.

In addition to building up its customer base in its reference market, the securities services unit concentrated on the following during the year:
- development of a joint marketing campaign for all its lines of business and customer segments to promote the bank's strengths and new organisation after its separation from Nexi;
- extension of its portfolio by fine-tuning and launching new services during the year (e.g., the depository services for pension plans, fund accounting and transfer agent for AIFs, ancillary services for global custody bank customers, etc.);
- creation of an innovative set of parameters to represent the negotiated pension plan market and provide the sector with useful benchmarks to expand its customer base and confirm its leadership position in the pension plan segment;
- agreement of a partnership with BNY Mellon, a global leader in the custody and investment sector, to strengthen the global custody services for foreign business, extend the range of services available to customers and increase those offered to foreign customers that work in Italy.

GLOBAL CUSTODY

The bank provides global custody services to more than 120 institutional customers. The assets under administration remained substantially stable while there was a significant reduction in settlements.

At year end, the portfolio of securities under custody and administration approximated €120.6 billion, with foreign securities accounting for 43%, down 0.6% on 2017. An analysis of the portfolio's performance shows that the domestic component grew 2.4% compared to a reduction of 4.3% by the foreign component.

Settlement activities were heavily affected by the sale of the investment business at the end of May. Transactions involving Italian securities dropped 30.09% while the contraction on foreign markets was more contained (-25.6%). Overall, the operating volumes of this unit amounted to 2.74 million transactions for the year (-29.7%).

OPERATIONS SERVICES AND DEPOSITARY BANK & CONTROLS

This unit saw a slight decrease in its assets under administration which approximated €63.2 billion for the year (-0.5% compared to 2017), offsetting the reduction in funding on the mutual funds market and the financial markets' negative performance, especially in the last quarter of the year, thanks to numerous commercial measures in the pension plan and AIFs sectors.

The unit had 50 pension plan customers in 2018 (+ four new pension plans and three plans involved in mergers) for total assets of around €26.3 billion (+6.5%), confirming DEPObank's leadership position in this sector.

The assets of the open-ended mutual investment funds decreased to approximately €31.4 billion (-8.3%) while the closed-end investment funds continued to grow strongly with assets under administration of roughly €5.5 billion (+20.1%).

The bank now serves 156 mutual investment funds, 33 private equity funds, 59 real estate funds and five credit funds.

The negative funding from customers for the mutual investment funds affected the fund administration activities, performed for a portfolio of €44.7 billion (-9.2%) at year end.

After the sale of the administrative management of pension plan members at the end of 2017, the transfer agent activities focused solely on managing the mutual investment funds in 2018. During the year, the service managed more than two million subscribers, a significant increase of 17.0%, mainly due to the acquisition of a key customer in the last quarter of the year.

BANKING PAYMENTS

The banking payments business unit provides three categories of services: intermediation and foreign services; cheques and bills; and payments and customer collections (corporate and public administration).

Intermediation and foreign services

The unit processed and managed approximately 465 million transactions during the year, an increase of roughly 8.2% on 2017. The bank is facing tough competition for its intermediation services from large banks that had previously not focused on this market segment while the number of customers has also shrunk as a result of bank mergers and concentrations in groups like the BCC holding companies.

DEPObank's renewed interest in working closely and strategically with the main service centres that offer banking systems and platforms to customers was essential to maintaining its hold on this segment.

SEPA transaction volumes (SCT and SDD) were substantially unchanged from the previous year, which is very positive given the significant negative events described earlier.

The competitive intermediation services involving cards, like Setif and international settlement cards, performed very positively again with a rise in volumes of 12% and 10%, respectively, compared to forecasts. They made a very important contribution to the bank's core revenue.

During the year, the bank carefully analysed the instant payment model, designed to provide customer banks with a flexible, efficient and low technical-operating and economic impact product, which can be easily adapted to various needs and the existing clearing and settlement systems (TIPS, Nexi-BiComp and EBA RT1). The bank plans to offer this product to its customers in 2019.

Customer payments and collections

This business unit handled over 66.5 million transactions, in line with the forecasts made at the start of the year. However, this represented a decrease of around 15% on the previous year, mostly due to the discontinuation of the INPS (the Italian social security institution) voucher service and the disposal of the SDD collection service provided by Nexi Payments for the monthly charging of transactions to credit card holders. The business unit's other services, such as the INPS pension payments and motorway services, continued the positive trend seen in 2017.

Cheques and bills

The business unit processed more than 62.2 million transactions during the year. Both the cheques and cashier's cheques services contracted in line with the sector data published regularly by Bank of Italy.

The bank had to significantly revise the business model for bank cheque intermediation services after introduction of the new cheque exchange and settlement procedure in 2018 based on the exchange of the cheques' image (cheque image truncation - CIT) and the bank's need to comply with the legislation about outsourced services. However, it did not change its large base of customer banks (around 100).

The cashier's cheques service was particularly affected by both the introduction of the CIT and the persistent attempted frauds. As a result, it had to significantly reinforce its controls, supervision and monitoring of the preliminary investigations vis-à-vis the judiciary and, to do so, has had to request a contribution from its customer banks.

TREASURY AND FINANCE SERVICES

During the year, this unit carried out its support role to the bank's core business, optimising the management of Euro and foreign currency liquidity. It focused on containing credit, operational and market risks by offering financial products that met customer requirements (Euro and foreign currency deposits, fixed income products, FX, swaps, reverse repos and repos).

Average customer deposits in accounts with the bank increased significantly starting from the second half of the year. This made it necessary to identify alternative investment products given also the discontinuation of financing to Nexi Payments in July. Accordingly, the business unit increased the banking book to €5 billion during the year. Government bonds were reclassified into the hold to collect business model (from the hold to collect and sell model).
It took these measures to exploit the returns on the interest rate curve for short to medium-term government bonds, investing part of the excess liquidity in financial instruments with modest issuer default risks.

In accordance with the guidelines set out in the "Application of IFRS 9" document and after assessments of the change in the bank's business model, the board of directors resolved to reclassify the hold to collect and sell portfolio into the hold to collect portfolio on 28 June 2018.

At year end, the hold to collect portfolio principally comprised fixed rate government bonds (62%), with a 1.66 year maturity, and variable rate government bonds (38%) with a 6.2 year maturity.

The business unit increased its investments in repos with Italian government bonds as the underlying so as not to modify the bank's liquidity profile and to extend the range of its services for customers.

The forex business performed well, both in terms of intermediation with customers for the purchase and sale of foreign currency and as an investment of liquidity. The business unit invested in the unsecured deposits market, working primarily with leading Italian banks, and increased the volume of currency swaps. The latter allowed the business unit to optimise the use of its credit facilities and reduce the counterparty risk.

Its activities on the interbank e-Mid deposits market with short-term maturities was marginal. The repos business made a positive contribution with transactions on the MMF market (through the Cassa di Compensazione e Garanzia - the Italian stock exchange's clearing house) and OTC market at rates that were better than the official ECB rates, which thus increased the business' profitability.

LOANS AND RECEIVABLES

In 2018, the bank's exposure to credit risk was affected by the fact that DEPObank is a "second level" bank, i.e., its core business is to provide services to the banking and financial sectors and major corporate customers, mostly in the payments and securities custody, administration and settlement services sectors. Therefore, it provides financing solely in line with these types of services and not as a business in itself.

The bank's credit risk measurement methods and controls are simple and straightforward given the limited number of exposures.

Its credit management guidelines hinge on the general principles of prudence, correct and careful management and compliance with the regulations and laws in place from time to time.

The bank did not enter into derivatives to hedge credit risk.

Customers with credit facilities are mostly supervised banks (67%), UCIs and stock brokerage companies (30%) and corporate customers (3%) (nearly only credit lines provided for collection orders). During the year and after the reorganisation plan, the bank modified the credit facilities given to subsidiaries or investees of Nexi S.p.A. (pre-1 July 2018 scope) to comply with the new applicable legislative limits and including them in its business with corporate customers.

The following table shows the key financial statements indicators for 2018 with comparative 2017 indicators. This comparison is affected by the events described in the section on the reorganisation and other corporate transactions.

Highlights and key indicators

Statement of financial position (Amount in € thousands)	2018	2017	Var.%
Loans and receivables with customers	5,626,874	2,092,467	168.9%
Loans and receivables with banks	1,636,141	800,161	104.5%
Financial assets	146,538	2,644,672	-94.5%
- of which: FVTPL	*29,986*	*38,341*	*-21.8%*
- of which: FVOCI	*116,552*	*2,606,331*	*-95.5%*
Total assets	12,337,788	11,383,909	8.4%
Direct funding from customers	10,366,345	7,805,377	32.8%
Indirect funding from customers (assets under administration)	50,064,598	54,162,935	-7.6%
Equity	445,663	2,033,282	-78.1%
Income statement (Amount in € thousands) (*)			
Net interest income	35,224	52,238	-32.6%
Net fees, commissions and income from services	112,929	151,492	-25.5%
Operating revenue	162,586	299,196	-45.7%
Personnel expense	54,408	82,777	-34.3%
Operating costs	121,518	153,978	-21.1%
Gross operating profit	41,068	145,219	-71.7%
Profit for the year	5,165	89,491	-94.2%
Asset ratios (%)			
Loans and receivables with customers / Total assets	45.6%	18.4%	
Loans and receivables with banks / Total assets	13.3%	7.0%	
Financial assets / Total assets	1.2%	23.2%	
Direct funding from customers / Total assets	84.0%	68.6%	
Indirect funding from customers / Total funding from customers	82.8%	87.4%	
Profitability ratios (%)			
Profit for the year / (Equity - profit for the year) (ROE)	1.2%	4.6%	
Net interest expense / Operating revenue	21.7%	17.5%	
Fee and commission income and expense and income from services / Operating revenue	69.5%	50.6%	
Operating costs / Operating revenue (Cost/income ratio)	74.7%	51.5%	
Credit risk ratios (%)			
Net non-performing loans and receivables from customers / Net loans and receivables from customers	-	-	
Impairment losses on loans and receivables from customers / Gross non-performing loans and receivables from customers	81.3%	81.3%	
Total net impaired assets / Equity	0.1%	-	
Productivity ratios (Amount in € thousands)			
Average number of employees (FTE)	543	816	-33.5%
Operating revenue / Average number of employees	299	367	-18.3%
Gross operating profit / Average number of employees	76	178	-57.5%
Personnel expense / Average number of employees	100	101	-1.2%
Financial indicators (%)			
Own funds	290,412	1,635,895	-82.2%
Risk-weighted assets	1,039,778	3,163,286	-67.1%
CET 1 / Risk-weighted assets (CET1 capital ratio)	27.93%	51.67%	
Tier 1 / Risk-weighted assets (Tier 1 capital ratio)	27.93%	51.67%	
Total own funds / Risk-weighted assets (Total capital ratio)	27.93%	51.72%	

(*) The income statement figures are taken from the reclassified income statement.

Dear shareholders,

RESULTS

the bank's performance as described earlier is illustrated by its results presented in this section. A comparison with the previous year is affected by (i) the banking group's reorganisation, (ii) the sale of the brokerage and market making business unit and the Milan and Assago properties during the year, and (iii) the sale of the transfer agent pension fund business unit at the end of 2017.

The bank's statement of financial position reflects the effects of the Group's reorganisation, which required the bank to:

- sell assets (due to the contribution and the demerger) of €2.0 billion (including investments of €1.8 billion in group companies and goodwill of €120 million) offset by (inter alia) reserves of €1.5 billion and liabilities of €380 million with the parent Equinova UK Holding;
- reorganise its assets, due to the impossibility (as it is no longer a banking group) of continuing to finance Nexi Payments (which had received €1.7 billion at 31 December 2017), which led to the greater investment of excess liquidity in financial assets (Italian government bonds) and the elimination of the need to manage these investments in a flexible manner, leading to their reclassification into the hold to collect business model (from the hold to collect and sell model).

The reorganisation also affected the bank's income statement as follows:

- the revenue (net fee and commission income and other operating income) from the business digital payments, brokerage and market making and transfer agent pension funds business units disappeared;
- net financial income and expense changed due to the different composition of assets and liabilities;
- the bank no longer receives dividends from Nexi Payments, which did not distribute its 2017 profit given the reorganisation;
- the costs of the business units sold and the corporate centre which provided services to the group companies have disappeared as they were transferred to the payments group and DEPObank is no longer a parent.

The bank's financial position and performance is summarised below.

Reclassified statement of financial position

At 31 December 2018, the bank has total assets of €12,337.8 million compared to €11,383.9 million at the end of the previous year, as presented in the following tables.

Assets

(Amount in € mln)

	31.12.2018	31.12.2017
Cash and cash equivalents	4,337.9	3,243.2
Financial assets at fair value through profit or loss	30.0	38.3
Financial assets at fair value through other comprehensive income	116.6	2,606.3
Financial assets at amortised cost	7,263.0	2,892.6
Equity investments	8.6	1,794.7
Non-current assets	171.9	387.7
Other assets	409.8	421.0
Total assets	**12,337.8**	**11,383.9**

Liabilities

(Amount in € mln)

	31.12.2018	31.12.2017
Financial liabilities at amortised cost	11,374.5	8,899.3
Other liabilities	487.4	419.1
Post-employment benefits	3.5	8.1
Provisions	26.8	24.1
Equity	440.5	1,943.8
Profit for the year	5.2	89.5
Total liabilities	**12,337.8**	**11,383.9**

A breakdown of the assets shows that:

- cash and cash equivalents amount to €4,338 million compared to €3,243 million at 31 December 2017; the high balance reflects the significant funding from the bank's core business;
- financial assets at fair value through profit or loss amount to €30 million compared to €38 million at 31 December 2017; they include OEIC units of €27 million and hedging derivatives (currency swaps), used for treasury management purposes, for the remainder. The decrease in this caption is due to the sale of the brokerage and market making business unit which had financial assets of €15 million at 31 December 2017;

- financial assets at fair value through other comprehensive income amount to €117 million compared to €2,606 million at the end of the previous year and comprise equities. The decrease is due to the above-mentioned reclassification of debt instruments of €2,502 million (at 31 December 2017) into the hold to collect business model;
- financial assets at amortised cost of €7,263 million compared to €2,893 million include:
  - "Loans and receivables with banks" of €1,636 million compared to €800 million at 31 December 2017. The increase is due to the higher amount invested in repos;
  - "Loans and receivables with customers" of €5,626 million compared to €2,093 million at the end of the previous year. They include Italian government bonds of €5,178 million which were reclassified and amended as a result of the reorganisation;
- equity investments amount to €9 million compared to €1,795 million at 31 December 2017. The decrease is due to the sale of the investments in the banking group companies. The bank also sold its investment in Hi Mtf S.p.A. during the year;
- property, equipment and investment property and intangible assets amount to €172 million compared to €388 million at 31 December 2017. They include property, equipment and investment property of €8.5 million and intangible assets of €163 million, which in turn comprises goodwill of €127 million. The decrease is due to the Group's reorganisation and sale of the Group's properties in Milan and Assago;
- the other assets amount to €410 million compared to €421 million at 31 December 2017 and include current tax assets of €31 million, deferred tax assets of €23 million and sundry assets of €356 million.

With respect to the liabilities:

- financial liabilities at amortised cost amount to €11,375 million compared to €8,899 million at 31 December 2017 and include:
  - "Due to banks" of €1,008 million compared to €1.094 million at the end of the previous year;
  - "Due to customers" of €10,366 million compared to €7,805 million at 31 December 2017. The increase is due to the deposits in accounts of funds to which the bank provides depository services;
- other liabilities amount to €488 million compared to €419 million at the end of 2017 and comprise financial liabilities held for trading of €4.9 million, current tax liabilities of €23.2 million, deferred tax liabilities of €6.4 million and sundry liabilities of €453 million;
- post-employment benefits amount to €3.5 million compared to €8.1 million at 31 December 2017. The decrease is due to the above-mentioned sale/contribution of business units;

- provisions amount to €26.8 million compared to €24.1 million at 31 December 2017; the increase is mainly due to the prudent accrual of approximately €2.5 million for a probable risk that the tax authorities may not allow part of the ACE tax relief (around 8%) deducted by the bank over the last three years;
- equity amounts to €440.5 million compared to €1,943.8 million at 31 December 2017. The decrease is a result of the following:
  - a €51.5 million increase in income-related reserves for the undistributed profits;
  - a decrease of €2.9 million in the fair value reserve due to the reclassification of securities as described earlier;
  - a decrease of €2.1 million in the income-related and IFRS 9 and IFRS 15 FTA reserves;
  - €1,549.7 million related to the demerger to Latino Italy;
- the profit for the year of €5.2 million, broken down in the reclassified income statement.

The capital and operating changes dictated by the above reorganisation affected the bank's supervisory capital requirements, leading to a reduction in its own funds and risk-weighted assets. The capital ratios, presented below, have decreased but are well above the regulatory requirements and the sector's average.

DEPObank S.p.A. - Individual capital requirements

(Amount in € thousands)

	31.12.2018	31.12.2017
Total Tier 1 capital (CET1)	**290,412**	**1,634,462**
Total own funds	**290,412**	**1,635,895**
Credit and counterparty risk	57,454	204,510
Market risk	1,358	1,413
Operational risk	24,370	47,140
Other calculation elements		-
Total prudential requirements	83,183	253,063
Total prudential requirements	1,039,778	3,163,286
CET 1 ratio	**27.93%**	**51.67%**
Total capital ratio	**27.93%**	**51.72%**

Reclassified income statement

The reclassified income statement for 2018 shows a gross operating profit of €41.1 million compared to €145.2 million for 2017.
This is in line with the bank's forecasts, which included the contraction in profitability due to the above-mentioned change in scope. The gross operating profit for the second half of the year, earned by the post-reorganisation bank, is €16.2 million, approximately 35% lower than that for the first six months.

Income statement

(Amount in € thousands)

	2018	2017	Var.%
Net fees, commissions and income from services	112,929	151,492	-25.5%
Net interest income	35,224	52,238	-32.6%
Income from securities and exchange gains	11,487	5,300	116.7%
Dividends and other income	2,947	90,167	-96.7%
Operating revenue	**162,586**	**299,196**	**-45.7%**
Personnel expense	-54,408	-82,777	-34.3%
Production cost	-16,713	-15,287	9.3%
ICT costs	-43,750	-55,345	-21.0%
Overheads	-18,345	-23,168	-20.8%
Administrative expenses	**-133,217**	**-176,576**	**-24.6%**
Other income, net	12,149	22,825	-46.8%
Operating provisions	-450	-226	-99.1%
Operating costs	**-121,518**	**-153,978**	**-21.1%**
GROSS OPERATING PROFIT	**41,068**	**145,219**	**-71.7%**
Amortisation, depreciation and impairment losses on property, equipment and investment property and intangible assets	-6,857	-9,038	-24.1%
Amortisation of customer contracts	-9,257	-9,684	-4.4%
Other items	-12,300	-51,977	-76.3%
Income taxes	-7,490	14,971	na
Profit for the year	**5,165**	**89,491**	**-94.2%**

With respect to the operating revenue:

- the net fees, commissions and income from services amount to €112.9 million, down 25.5% on €151.5 million for 2017. The net fees and commissions for 2018 include income of roughly €24 million on the sold assets (related to the pre-organisation period), which had amounted to approximately €60 million in 2017;

- net interest income amounts to €35.2 million compared to €52.2 million for 2017 (-32.6%). The decrease is due to the reorganisation of assets, as mentioned above and the greater resort to currency swaps to manage foreign currency treasury items with the related different allocation of income between this caption and "Income from securities and exchange gains" (see below);
- income from securities and exchange gains amount to €11.5 million compared to €5.3 million for 2017 (+116%), mainly as a result of the greater volume of currency swaps;
- dividends and other income amount to €2.9 million compared to €90.2 million for 2017. The decrease is due to the non-receipt of the dividend from Nexi Payments as a result of the Group's reorganisation.

Operating revenue for the second half of the year amounts to €63.1 million.

Operating costs amount to €121.5 million compared to €154.0 million for 2017 and include personnel expense of €54.4 million. This caption and its sub-captions were affected by the changes in scope at the end of 2017 and during 2018.

Operating costs for the second half of the year amount to €46.8 million.

Amortisation and depreciation amount to €16.1 million and include amortisation of the depositary bank customer contract of €9.2 million compared to €18.7 million for 2017.

The other items show a negative balance of €12.3 million and comprise:
- accruals required by IFRS 9 of €7.3 million;
- net accruals of €3.5 million to the provisions for risks and charges;
- gains of €2.1 million on the sale of the brokerage and market making business unit and the sale of the Milan and Assago properties (net of the related project costs);
- costs of €6.7 million for the Group's reorganisation and transformation projects;
- costs of €1.2 million for the national resolution fund;
- dividends of €1.1 million from the investee equensWorldline, related to the business combination completed in 2016;
- fair value gains of €3.3 million on financial assets at fair value through profit or loss.

These amounts, net of income taxes of €7.5 million, led to the recognition of a profit of €5.2 million for the year.

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This section provides information on the bank's going concern status, financial risks, impairment testing and uncertainties in the use of estimates.

BUSINESS CONTINUITY

Given the following indicators:

Financial indicators

- no evidence of a deficit or negative net working capital;
- no fixed term loans or loans about to fall due that do not have reasonable expectations of their being renewed or repaid; no excessive reliance on short-term loans to finance long-term assets;
- no indicators that the financial support of lenders and other creditors will be withdrawn;
- no past or prospective reports that show negative cash flows;
- the key performance indicators are not negative;
- no large operating losses or significant impairment losses of assets that generate cash flows;
- with respect to the dividend pay-out policy, the new strategic plan approved by the directors on 21 February 2019 includes the partial funding of new commercial initiatives internally using the profits estimated over the plan period;
- ability to settle liabilities when they fall due;
- ability to comply with loan covenants.

Operating indicators

- no evidence of a deficit or negative net working capital;
- no fixed term loans or loans about to fall due that do not have reasonable expectations of their being renewed or repaid;
- no excessive reliance on short-term loans to finance long-term assets, considering the bank's typical short-term activities.

Other indicators

- no reduction in share capital to below the legal limits or other non-compliance with the law;
- no legal or tax disputes that, if the bank were to be found guilty, could lead to compensation obligations that the bank is unable to comply with;
- no legislative changes or government policies that would have an adverse effect on the bank.

The directors confirm that it can reasonably be expected that the bank will continue to operate in the foreseeable future and that they prepared the 2018 financial statements on an going concern basis as a result. No issues arose that would cast doubt on this assumption based on its financial position and performance.

IMPAIRMENT OF ASSETS

The notes to the financial statements provide the disclosures required by the joint document on the testing of assets for impairment and the underlying assumptions, methods and parameters used.
The notes also provide essential information about the following:

- identification of the cash-generating units (CGU);
- allocation of goodwill to the CGUs;
- presentation of the method used to estimate the recoverable amount, when this is based on value in use;
- presentation of the method used to estimate the recoverable amount, when this is based on fair value;
- the sensitivity analysis applied to the impairment test results, assuming changes in the underlying assumptions;
- information about any external impairment indicators when assets are not impaired as a result of the impairment test.

FINANCIAL RISKS

This section provides information about the nature and scope of the financial risks the bank was exposed to in 2018.

CREDIT RISK

DEPObank is a second level bank and its core business is the provision of products and services mainly in the payment systems and securities custody, administration and settlement services sectors. Lending is not a core business but is solely related to the provision of products and services and with the specific treasury business (managed with operating ceilings) and the securities service business (mainly managed through current account overdrafts).

The bank's credit risk measurement methods and controls are simple and straightforward given the limited number of exposures. The bank has adopted strict organisational measures for the preliminary examination of credit facility requests and their regular review. The credit committee examines these positions which are authorised by the board of directors.

MARKET RISK

Market risk is minimal as the securities are nearly entirely held in the banking book (HTCS and HTC portfolios) and do not generate market risk. The financial assets at fair value through profit or loss (FVTPL) held in the trading book comprise OEIC units measured using the most recent NAV at the date of preparation of this report. The market making business unit was sold in May 2018 which means the bank no longer performs trading activities and is not subject to the related market risk. Its exposure to currency risk is also very limited as each currency transaction that generates potential exposure is hedged with a balancing transaction.
Unhedged positions are only allowed within the maximum exposure, single currency and VAR limits (which are always complied with).

LIQUIDITY AND CASH FLOW RISKS

The bank's core business generates immediate liquidity. After the reorganisation, the need to fund the group companies that provide e-money services (primarily Nexi Payments) no longer existed.

The bank covers its liquidity requirements through the interbank deposit market or through repos using part of the securities in its portfolio with agreements of less than one month.

The securities portfolio includes government bonds and, to a marginal extent, bank bonds, mostly used as collateral to operate on the settlement systems and to fund itself on the repos market.

Any excess liquidity is invested in interbank deposits or repos with a term of less than three months. The bank structures its investments in products with maturities and amounts that limit its liquidity risk and ensure the balanced settlement of its open positions.

Its monthly reports on the Basel 3 liquidity coverage ratio (LCR) show that it is always in line with the established minimum requirement (> 100%).

INTEREST RATE RISK

The bank's exposure to interest rate risk (calculated as the impact of a rate shock of 200 basis points for all maturities) was substantially stable in the first six months of the year (measured using the Nexi banking group scope) and decreased steadily in the second half of the year. This trend is due to both the ongoing shortening of the maturities of the securities recognised under assets (renewals are usually performed by purchasing securities with a maturity shorter than those about to expire) and the large increase in funding from corporate customers, especially in the last quarter of the year.

RATING

On 12 December 2018, following completion of the reorganisation of the Nexi Group, Standard & Poor's affirmed DEPObank's BB- rating, removing the "CreditWatch Developing on Carve-out" and assigning it a stable outlook.

This is the only valid rating for DEPObank as Moody's Investors Service withdrew its rating attributed to Nexi (CFR Corporate Family Rating Ba2 with a stable outlook) in 2018 pending completion of the reorganisation.

EVENTS AFTER THE REPORTING DATE

As described at the start of this report, the bank's board of directors approved the 2019-2023 strategic plan at the beginning of 2019. This plan lays the groundwork for the bank's future and its transformation into an Italian multi-specialist FinTech.

The plan envisages the re-engineering of the traditional business and investment in new businesses (SME specialised lending), a modern, lean organisation, investments in digital technology to improve customer satisfaction, ongoing process optimisation and cost savings.

OTHER INFORMATION

The bank is not managed or coordinated by another company or body (articles 2497-sexties and 2497-septies of the Italian Civil Code).
The bank did not carry out research and development activities during the year.

DEPObank published the "Market disclosure state by state" and the "Disclosure by bodies pursuant to Regulation (EU) 575/2013" in the related sections of its website (www.depobank.it) together with this annual report, as required by Bank of Italy circular no. 285 of 17 December 2013, as subsequently amended.

The bank's board of directors complies with the gender requirement pursuant to article 15.1 of its by-laws and the applicable supervisory regulations.

Like for the previous year, DEPObank has prepared a non-financial statement for 2018 pursuant to article 3 of Legislative decree no. 254/2016, included in a special section of this report.

This statement presents the bank's projects and social and environmental activities to its stakeholders, customers and employees.

The bank's aim is to manage the social and environmental impacts of its business in a more knowledgeable and responsible manner in the coming years.

TREASURY SHARES

On 25 May 2018, in their extraordinary meeting, the shareholders resolved to cancel all the 75,191 treasury shares, without reducing the share capital as the shares did not have a nominal amount.

REGISTERED OFFICE

Via Anna Maria Mozzoni 1.1 - Milan

BRANCHES

Via Elio Chianesi 110 D - Rome

ALLOCATION OF THE PROFIT FOR THE YEAR

Dear shareholders,

the financial statements prepared for your attention and approval show a profit for the year of €5,164,942.

We propose that it be allocated as follows:

to retained earnings	€5,164,942
Total	**€5,164,942**

Milan, 21 March 2019

BOARD OF DIRECTORS

DEPObank
BANCA DEPOSITARIA ITALIANA

Financial statements as at 31 December 2018

Statement of financial position

(Amount in €)

Assets		31.12.2018		31.12.2017	
10.	**Cash and cash equivalents**		**4,337,924,890**		**3,243,241,362**
20.	**Financial assets at fair value through profit or loss**		**29,985,999**		**38,340,737**
	a) held for trading	*2,665,773*		*17,424,426*	
	c) mandatorily measured at fair value	*27,320,226*		*20,916,312*	
30.	**Financial assets at fair value through other comprehensive income**		**116,551,933**		**2,606,330,845**
40.	**Financial assets at amortised cost**		**7,263,014,895**		**2,892,627,882**
	a) loans and receivables with banks	*1,636,140,787*		*800,161,007*	
	b) loans and receivables with customers	*5,626,874,108*		*2,092,466,875*	
70.	**Equity investments**		**8,564,073**		**1,794,701,021**
80.	**Property, equipment and investment property**		**8,518,655**		**77,977,517**
90.	**Intangible assets**		**163,377,677**		**309,709,770**
	of which: goodwill	126,930,588		246,663,237	
100.	**Tax assets**		**53,906,248**		**59,675,927**
	a) current	*30,969,647*		*24,428,522*	
	b) deferred	*22,936,601*		*35,247,405*	
120.	**Other assets**		**355,943,422**		**361,304,137**
	Total assets		**12,337,787,792**		**11,383,909,198**

(Amount in €)

Liabilities and equity	31.12.2018		31.12.2017	
10. Financial liabilities at amortised cost		**11,374,457,908**		**8,899,293,800**
a) due to banks	*1,008,112,748*		*1,093,916,485*	
b) due to customers	*10,366,345,160*		*7,805,377,315*	
20. Financial liabilities held for trading		**4,925,776**		**5,670,706**
60. Tax liabilities		**29,765,808**		**28,815,621**
a) current	*23,273,442*		-	
b) deferred	*6,492,366*		*28,815,621*	
80. Other liabilities		**452,733,738**		**384,627,737**
90. Post-employment benefits		**3,450,693**		**8,069,721**
100. Provisions for risks and charges		**26,790,409**		**24,148,422**
a) loan commitments and financial guarantees given	-		*391,594*	
b) pension and similar obligations	*813,691*		*874,782*	
c) other provisions	*25,976,717*		*22,882,046*	
110. Valuation reserves		**9,805,714**		**60,530,628**
140. Reserves		**239,893,263**		**1,692,494,565**
150. Share premium		**148,242,172**		**148,242,172**
160. Share capital		**42,557,370**		**42,557,370**
170. Treasury shares (-)		**-**		**-32,196**
180. Profit for the year		**5,164,942**		**89,490,653**
Total liabilities and equity		**12,337,787,792**		**11,383,909,198**

Income statement

(Amount in €)

	Income statement	2018		2017	
10.	**Interest and similar income**		**64,654,822**		**69,260,023**
	including: interest calculated using the effective interest method	23,777,240		28,023,067	
20.	**Interest and similar expense**		**-29,343,525**		**-16,871,306**
30.	**Net interest income**		**35,311,297**		**52,388,717**
40.	**Fee and commission income**		**115,565,824**		**130,439,102**
50.	**Fee and commission expense**		**-31,633,144**		**-29,875,491**
60.	**Net fee and commission income**		**83,932,680**		**100,563,611**
70.	**Dividends and similar income**		**4,034,054**		**91,384,932**
80.	**Net trading income**		**11,486,263**		**5,283,755**
100.	**Net profit on sale or repurchase of:**		**4,010**		**210,994**
	b) financial assets at fair value through other comprehensive income	*4,010*		*210,994*	
110.	**Net gain on other financial assets and liabilities at fair value through profit or loss:**		**3,294,641**		**2,901,393**
	b) other financial assets mandatorily measured at fair value	*3,294,641*		*2,901,393*	-
120.	**Total income**		**138,062,945**		**252,733,402**
130.	**Net impairment losses for credit risk associated with:**		**-7,319,674**		**-**
	a) financial assets at amortised cost	*-7,319,674*		-	
150.	**Net financial income**		**130,743,271**		**252,733,402**
160.	**Administrative expenses:**		**-142,717,775**		**-248,061,637**
	a) personnel expense	*-57,096,561*		*-137,185,381*	
	b) other administrative expenses	*-85,621,214*		*-110,876,256*	
170.	**Net accruals to provisions for risks and charges**		**-3,530,748**		**-1,418,018**
	b) other	*-3,530,748*		*-1,418,018*	
180.	**Depreciation and net impairment losses on property, equipment and investment property**		**-1,351,996**		**-2,333,133**
190.	**Amortisation and net impairment losses on intangible assets**		**-14,761,538**		**-16,388,885**
200.	**Other net operating income**		**39,993,451**		**75,405,707**
210.	**Operating costs**		**-122,368,606**		**-192,795,966**
220.	**Gains (losses) on equity investments**		**-**		**14,590,000**
250.	**Net gains (losses) on sales of investments**		**4,280,246**		**-7,330**
260.	**Pre-tax profit from continuing operations**		**12,654,911**		**74,520,106**
270.	**Income taxes**		**-7,489,969**		**14,970,547**
280.	**Post-tax profit from continuing operations**		**5,164,942**		**89,490,653**
300.	**Profit for the year**		**5,164,942**		**89,490,653**

Statement of comprehensive income

(Amount in €)

Captions		2018	2017
10.	**Profit for the year**	**5,164,942**	**89,490,653**
	Items, net of tax, that will not be reclassified subsequently to profit or loss		
20.	Equity instruments at fair value through other comprehensive income	11,279,571	834,974
70.	Defined benefit plans	71,208	70,575
	Items, net of tax, that will be reclassified subsequently to profit or loss		
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	-14,331,471	-2,937,098
170.	**Other comprehensive expense, net of tax**	**-2,980,692**	**-2,031,550**
180.	**Comprehensive income (Captions 10 + 170)**	**2,184,250**	**87,459,104**

Statement of changes in equity for the year ended 31 December 2017

(Amount in € thousands)

				Allocation of prior year profit			Changes for the year							
							Equity transactions							
	31.12.2016	Change to opening balances	01.01.2016	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	2017 comprehensive income	31.12.2017
Share capital:														
a) ordinary shares	42,557		42,557											42,557
b) other shares	-													-
Share premium	148,242		148,242											148,242
Reserves:														
a) income related	1,701,465		1,701,465		-19,818									1,681,647
b) other	10,848		10,848											10,848
Valuation reserves	62,562		62,562										-2,032	60,530
Equity instruments	-													-
Treasury shares	-32		-32											-32
Profit for the year	84,164		84,164		-84,164								89,491	89,491
Equity	**2,049,806**		**2,049,806**		**-103,982**	**-**							**87,459**	**2,033,283**

Statement of changes in equity for the year ended 31 December 2018

(Amount in € thousands)

	31.12.2017	Change to opening balances	01.01.2018	Allocation of prior year profit		Changes in reserves	Changes for the year – Equity transactions						2018 comprehensive income	31.12.2018
				Reserves	Dividends and other allocations		Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instru-ments	Derivatives on treasury shares	Stock options		
Share capital:														
a) ordinary shares	42,557		42,557											42,557
b) other shares	-													-
Share premium	148,242		148,242											148,242
Reserves:														
a) income related	1,681,647	-617	1,681,030	51,487		-1,503,471								229,045
b) other	10,848		10,848											10,848
Valuation reserves	60,530	-1,526	59,004			-46,219							-2,981	9,805
Equity instruments	-													-
Treasury shares	-32		-32			32								-
Profit for the year	89,491		89,491	-51,487	-38,004								5,165	5,165
Equity	**2,033,283**	**-2,143**	**2,031,140**	**-**	**-38,004**	**-1,549,658**							**2,184**	**445,662**

Statement of cash flows: indirect method

(Amount in € thousands)

A. OPERATING ACTIVITIES	**2018**	**2017**
1. Operations	**112,754**	**39,840**
- profit for the year	5,165	89,491
- net gains/losses on financial assets held for trading and other financial assets/ liabilities at fair value through other comprehensive income (+/-)	-3	106
- hedging gains/losses (+/-)	-	-
- net impairment losses for credit risk	7,320	3,899
- amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	16,114	18,722
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	3,531	1,418
- unpaid taxes, duties and tax assets (+/-)	7,490	-14,971
- net impairment losses/reversals of impairment losses on non-current assets held for sale and disposal groups, net of tax (+/-)	-	-
- other adjustments (+/-)	73,138	-58,826
2. Cash flows generated used for financial assets	**-1,987,953**	**-16,094**
- financial assets held for trading	4,473	-4,338
- financial assets at fair value through profit or loss	-	
- other financial assets mandatorily measured at fai value	-3,109	-
- financial assets at fair value through other comprehensive income	63	630,052
- financial assets at amortised cost	-1,973,476	-557,138
- other assets	-15,904	-84,669
3. Cash flows generated by financial liabilities	**2,990,237**	**1,654,170**
- financial liabilities at amortised cost	2,095,164	1,570,964
- financial liabilities held for trading	-745	-2,396
- financial liabilities at fair value	-	
- other liabilities	895,818	85,602
Net cash flows generated by operating activities A	**1,115,038**	**1,677,915**
B. INVESTING ACTIVITIES		
1. Cash flows generated by		
- sales of equity investments	1,523	16,400
- dividends from equity investments	-	91,385
- sales of property, equipment and investment property	67,186	216
- sales of intangible assets	-	-
- sales of business units	-41,159	-
2. Cash flows used by		
- acquisitions of equity investments	-	-222,726
- acquisitions of property and equipment	-920	-970
- acquisitions of intangible assets	-8,981	-13,759
- acquisitions of business units	-	-
Net cash flows generated by (used in) investing activities B	**17,649**	**-129,454**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	-	-
- issue/purchase of equity instruments	-	-
- dividend and other distributions	-38,004	-103,982
Net cash flows used in financing activities C	**-38,004**	**-103,982**
NET CASH FLOWS FOR THE YEAR D=A+/-B+/-C	**1,094,684**	**1,444,480**

Reconciliation

(Amount in € thousands)

FINANCIAL STATEMENT CAPTIONS	**2018**	**2017**
Opening cash and cash equivalents	3,243,241	1,798,761
Net cash flows for the year	1,094,684	1,444,480
Cash and cash equivalents: exchange gains (losses)		
Closing cash and cash equivalents G=E+/-D+/-F	**4,337,925**	**3,243,241**

Key:
(+) generated
(-) used

DEPObank
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Explanatory Notes

Part A - ACCOUNTING POLICIES

A.1 - GENERAL PART

SECTION 1 - STATEMENT OF COMPLIANCE WITH THE IFRS

In accordance with Regulation (EC) no. 1606 of 19 July 2002, the bank has prepared these financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Commission and transposed into Italian law through Legislative decree no. 38/2005.

The bank has applied the standards applicable at 31 December 2018.

When applying the IFRS, the bank considered the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as well as the application guidance prepared by the Italian Accounting Profession (OIC) and the interpretations prepared by the relevant bankers' association (ABI). It did not make any departures from the IFRS.

The financial statements have been prepared in compliance with Bank of Italy circular no. 286 of 22 December 2005 as subsequently amended and interpreted by Bank of Italy. Specifically, the bank considered the fifth update dated 22 December 2017, which fully revised the measure.

The new standards or amendments to applicable standards, endorsed by the European Commission and applicable at the reporting date, are set out below, together with the related endorsement regulations issued by the European Commission:

- Regulation (EU) no. 2016/1905: IFRS 15 "Revenue from contracts with customers";
- Regulation (EU) no. 2016/2067: IFRS 9 "Financial instruments";
- Regulation (EU) no. 2017/1987: Amendments to IFRS 15 "Revenue from contracts with customers";
- Regulation (EU) no. 20168/182: Amendments to IAS 28 "Investments in associates and joint ventures"; Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards"; Amendments to IFRS 12 "Disclosure of interests in other entities";
- Regulation (EU) no. 2018/289: Amendments to IFRS 2 "Share-based payment";
- Regulation (EU) no. 2018/519: IFRIC 22 "Foreign currency transactions and advance consideration".

Moreover, the new standards or amendments to applicable standards, endorsed by the European Commission and applicable after the reporting date, are set out below, together with the related endorsement regulations issued by the European Commission:

- Regulation (EU) no. 2017/1986: "Leases";
- Regulation (EU) no. 2018/498: Amendments to IFRS 9 "Financial instruments";
- Regulation (EU) no. 2018/1595: IFRIC 23 "Uncertainty over income tax treatment".

The accounting policies adopted to prepare these financial statements have changed significantly compared to those adopted to classify, recognise, measure and derecognise assets and liabilities and to recognise revenue and costs in the bank's 2017 financial statements.

These changes are substantially due to the mandatory application of the following standards as of 1 January 2018:

- IFRS 9 "Financial instruments", issued by the IASB in July 2014 and endorsed by the European Commission with Regulation (EU) no. 2067/2016. The new standard superseded IAS 39 in the classification and measurement of financial instruments and the related impairment;
- IFRS 15 "Revenue from contracts with customers", endorsed by the European Commission with Regulation (EU) no. 1905/2016, which superseded IAS 18 "Revenue" and IAS 11 "Construction contracts".

The impact of first-time adoption of IFRS 15, have been calculated solely on the contracts not completed at the transition date (1 January 2018).

With reference to the impact of FTA of IFRS 9, the bank elected to adopt the practical expedients provided for by IFRS 9.7.2.15 and the exemptions set out in paragraphs E1 and E2 of IFRS 1 "First-time adoption of International Financial Reporting Standards", whereby, without prejudice to the retrospective application of the new measurement and presentation requirements, the prior year comparative figures are not required to be restated in the financial statements to which the new standard is applied for the first time.

According to the guidance issued at the end of December 2017 through the fifth update of circular no. 262 "Banks' financial statements: layouts and preparation", in their first set of financial statements prepared under the updated circular no. 262, banks availing of the exemption from the restatement of the comparative figures shall include a reconciliation between the figures of the most-recently approved financial statements and the figures included in the financial statements prepared under the new requirements, together with the approach used. Accordingly, in the section on first-time adoption of IFRS 9, the bank presented the reconciliation showing the reclassifications and adjustments made to restate figures in line with IFRS 9.

FIRST-TIME ADOPTION OF IFRS 9

Regulations

With effect from 1 January 2018, the new IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation (EU) no. 2016/2067, has replaced IAS 39, which had governed the classification and measurement of financial instruments until 31 December 2017.

IFRS 9 is structured into three different areas: classification and measurement of financial instruments, impairment and hedge accounting.

With respect to the first area, IFRS 9 introduces a model based on and the contractual cash flow characteristics of the financial assets and the business model used to manage the financial instruments. Based on these two drivers, IFRS 9 identifies the following categories of financial assets that replace those used up until 31 December 2017:

- amortised cost;
- fair value through other comprehensive income (OCI);
- fair value through profit or loss.

Financial assets may by recognised at amortised cost or at fair value through OCI only if they pass the test based on their contractual cash flow characteristics.

Equity instruments are always recognised at fair value through profit or loss, unless an entity irrevocably elects upon initial recognition to recognise equity instruments not held for trading through an equity reserve that will never be reclassified to profit or loss, not even when the financial instrument is transferred (no “recycling”).

With respect to financial liabilities, the only change is the accounting treatment of an entity’s own credit risk. Indeed, the new standard requires that fair value gains or losses on financial liabilities at fair value due to fluctuations in the entity’s own credit rating be recognised in equity, unless this treatment results in an accounting mismatch in profit or loss. The other fair value changes on the liabilities shall be recognised in profit or loss.

With respect to impairment, a model has been introduced for instruments measured at amortised cost and fair value through other comprehensive income (other than equity instruments) based on the concept of the “expected credit loss” instead of the “incurred loss” envisaged by IAS 39, aimed at recognising losses in a more timely manner.

IFRS 9 requires that entities recognise expected credit losses over the next 12 months (stage 1) starting from initial recognition of the financial instrument.

The time horizon for calculating expected credit losses is the entire residual life of the asset being measured if credit risk has increased "significantly" since initial recognition (stage 2) or if it is impaired (stage 3). Lastly, with reference to hedge accounting, the new standard introduces a model that brings the presentation of hedges in the financial statements into line with risk management activities and requires more qualitative information about risk management.

More specifically, the new impairment rules require:

- staging of the performing financial assets, depending on their impairment based on 12-month expected credit losses (ECL) (stage 1) or lifetime ECL (stage 2), if there is a significant increase in the credit risk (SICR) determined by comparing the probability of default at the initial recognition date and at the reporting date;
- allocation of the credit-impaired financial assets to stage 3, again with impairment based on their lifetime ECL;
- inclusion of forward-looking information in the calculation of the ECL, also consisting of information on changes in the macroeconomic scenario.

Application of the standard

The bank launched a project to calculate the impact of the adoption of IFRS 9 on its organisation and financial reporting, in order to enable a consistent application of the standard as of 1 January 2018. After having identified the areas affected by the new standard and its qualitative and quantitative impacts, the bank implemented the procedural and organisational changes necessary for a smooth and effective adoption. It established how the test of the contractual cash flow characteristics (SPPI test) should be carried out.

With reference to the classification and measurement of its financial instruments, the bank identified the following business models:

1. hold to collect (HTC), whose objective is to hold assets in order to collect contractual cash flows (principal and interest). The financial instruments managed under this model are classified as at amortised cost, consistently with IAS 39;
2. hold to collect and sell (HTCS), whose objective is achieved by both collecting contractual cash flows and selling financial assets in order to benefit from favourable market conditions. The financial instruments managed under this model are classified as at fair value through other comprehensive income. Some of the bank's financial instruments managed under the HTCS model have not passed the SPPI test and, therefore, have been classified as at fair value through profit or loss for the purposes of IFRS 9. Accordingly, upon transition to IFRS 9, the bank reclassified the difference between these instruments' fair value and carrying amount at 31 December 2017 from the fair value reserve to retained earnings, without affecting equity;
3. other, which mainly includes OEIC units.

The impact of first-time adoption of IFRS 9

Reconciliation between the published 2017 financial statements and the 2017 IFRS 9 financial statements (introduced by of Bank of Italy circular no. 262 (updated))

The reconciliation between the statement of financial position published in the 2017 financial statements and the new statement of financial position introduced by of Bank of Italy circular no. 262 (updated), incorporating the presentation requirements of IFRS 9, is set out below. It matches the 31 December 2017 balances calculated under IAS 39 to the captions reclassified in accordance with IFRS 9, without, however, applying the new measurement requirements and, hence, with total assets and liabilities remaining the same.

Statement of financial position

(Amount in € thousands)

IFRS 9 / IAS 39	10. Cash and cash equivalents	20. Financial asset held for trading	30. Financial assets at fair value through profit or loss	40. Available-for-sale financial assets	50. Held-to-maturity investments	60. Loans and receivables with banks	70. Loans and receivables with customers	80. Hedging derivatives	90. Macro-hedging adjustments to financial assets	100. Equity investments	110. Property, equipment and investment property	120. Intangible assets	130. Tax assets	140. Non-current assets held for sale and disposal groups	150. Other assets	TOTAL ASSETS
10. Cash and cash equivalents																
20. Financial assets at fair value through profit or loss		17,424		20,916												**38,340**
30. Financial assets at fair value through other comprehensive income				2,606,331												**2,606,331**
40. Financial assets at amortised cost					4,966	795,195	2,092,467									**2,892,628**
50. Hedging derivatives																**-**
60. Macro-hedging adjustments to financial assets (+/-)																**-**
70. Equity investments										1,794,701						**1,794,701**
80. Property and equipment											77,978					**77,978**
90. Intangible assets												309,710				**309,710**
100. Tax assets													59,676			**59,676**
110. Non-current assets held for sale and disposal groups																**-**
120. Other assets															361,304	**361,304**
TOTAL ASSETS	**3,243,241**	**17,424**	**-**	**2,627,247**	**4,966**	**795,195**	**2,092,467**	**-**	**-**	**1,794,701**	**77,978**	**309,710**	**59,676**	**-**	**361,304**	**11,383,909**

(Amount in € thousands)

IFRS 9 / IAS 39	10. Due to banks	20. Due to customers	30. Securities issued	40. Financial liabilities held for trading	50. Financial liabilities at fair value through profit or loss	60. Hedging derivatives	70. Macro-hedging adjustments to financial liabilities	80. Tax liabilities	90. Liabilities associated with disposal groups	100. Other liabilities	110. Post-employment benefits	120. Provisions for risks and charges	TOTAL LIABILITIES
10. Financial liabilities at amortised cost													
20. Financial liabilities held for trading				5,671									**5,671**
30. Financial liabilities at fair value													**-**
40. Hedging derivatives													**-**
50. Macro-hedging adjustments to financial liabilities (+/-)													**-**
60. Tax liabilities								28,816					**28,816**
70. Liabilities associated with disposal groups													**-**
80. Other liabilities										384,628			**384,628**
90. Post-employment benefits											8,070		**8,070**
100. Provisions for risks and charges												24,148	**24,148**
TOTAL LIABILITIES	**1,093,916**	**7,805,377**	**-**	**5,671**	**-**	**-**	**-**	**28,816**	**-**	**384,628**	**8,070**	**24,148**	**9,350,626**

(Amount in € thousands)

IAS 39 IFRS 9	130. Valuation reserves	140. Redeemable shares	150. Equity instruments	160. Reserves	165. Interim dividends	170. Share premium	180. Share capital	190. Treasury shares	200. Profit for the year	TOTAL EQUITY
110. Valuation reserves										
120. Redeemable shares										-
130. Equity instruments										-
140. Reserves				1,692,495						**1,692,495**
145. Interim dividends										
150. Share premium						148,242				**148,242**
160. Share capital							42,557			**42,557**
170. Treasury shares (-)								-32		**(32)**
180. Profit for the year									89,491	**89,491**
TOTAL EQUITY	**60,531**	**-**	**-**	**1,692,495**	**-**	**148,242**	**42,557**	**-32**	**89,491**	**2,033,284**

In addition to the reclassifications required by IFRS 9 (i.e., based on the business model and SPPI test), the reclassifications required by the new presentation requirements of Bank of Italy circular no. 262 (updated) of December 2017 are as follows:

- the previous captions loans and receivables with customers, loans and receivables with banks and held-to-maturity investments have been reclassified to caption 40. Financial assets at amortised cost;
- the previous captions financial assets held for trading and financial assets at fair value through profit or loss have been reclassified to caption 20. Financial assets at fair value through profit or loss;
- the classification requirements of Bank of Italy circular no. 262 also affected the presentation of liabilities. Due to banks, the previous captions due to banks, due to customers and securities issued have been reclassified to caption 10. Financial liabilities at amortised cost.

Reconciliation between the statement of financial position as at 31 December 2017 (incorporating the new presentation requirements of IFRS 9) and the statement of financial position as at 1 January 2018 (incorporating the new measurement and impairment requirements of IFRS 9)

The reconciliation between the statement of financial position as at 31 December 2017 (under IAS 39), which incorporates the reclassifications made under IFRS 9, and the statement of financial position as at 1 January 2018 (under IFRS 9) is set out below. It adjusts the IAS 39 balances at 31 December 2017 based on the new measurement and impairment requirements in order to calculate the IFRS 9 opening balances.

With respect to impairment, the adoption of the new standard did not have a significant effect on the bank's financial statements, due to the limited credit risk of its financial assets, which mainly comprise on demand or short-term exposures, with respect to which the transition from the IAS 39 model based on incurred losses did not lead to significant changes. The adoption of the IFRS 9 model did not have a significant impact on the securities owned by the bank either, which are mainly Italian government bonds.

Statement of financial position

(Amount in € thousands)

	Captions	31.12.2017	IFRS 9 FTA impact	01.01.2018
10.	Cash and cash equivalents	3,243,241	-	3,243,241
20.	Financial assets at fair value through profit or loss	38,340	-	38,340
30.	Financial assets at fair value through other comprehensive income	2,606,331	-	2,606,331
40.	Financial assets at amortised cost	2,892,628	-	2,892,628
50.	Hedging derivatives	-	-	-
60.	Macro-hedging adjustments to financial assets (+/-)	-	-	-
70.	Equity investments	1,794,701	-	1,794,701
80.	Property, equipment and investment property	77,978	-	77,978
90.	Intangible assets	309,710	-	309,710
100.	Tax assets	59,676	-	59,676
110.	Non-current assets held for sale and disposal groups	-	-	-
120.	Other assets	361,304	-	361,304
TOTAL ASSETS		**11,383,909**	**-**	**11,383,909**

(Amount in € thousands)

Captions		31.12.2017	IFRS 9 FTA impact	01.01.2018
10.	Financial liabilities at amortised cost	8,899,293	-	8,899,293
20.	Financial liabilities held for trading	5,671	-	5,671
30.	Financial liabilities at fair value	-	-	-
40.	Hedging derivatives	-	-	-
50.	Macro-hedging adjustments to financial liabilities (+/-)	-	-	-
60.	Tax liabilities	28,816	-	28,816
70.	Liabilities associated with disposal groups	-	-	-
80.	Other liabilities	384,628	-	384,628
90.	Post-employment benefits	8,070	-	8,070
100.	Provisions for risks and charges	24,148	-	24,148
TOTAL LIABILITIES		**9,350,626**	**-**	**9,350,626**

(Amount in € thousands)

Captions		31.12.2017	IFRS 9 FTA impact	01.01.2018
110.	Valuation reserves	60,531	-1,526	59,005
120.	Redeemable shares	-	-	-
130.	Equity instruments	-	-	-
140.	Reserves	1,692,495	1,526	1,694,021
145.	Interim dividends	-	-	-
150.	Share premium	148,242	-	148,242
160.	Share capital	42,557	-	42,557
170.	Treasury shares (-)	-32	-	-
180.	Profit for the year	89,491	-	89,491
TOTAL EQUITY		**2,033,284**	**-**	**2,033,284**

The Group's reorganisation authorised by Bank of Italy on 11 April 2018 has changed the bank's operations dramatically and, hence, its investment strategy.

Following the above reorganisation, addressing the separation of the activities related to payment services from banking activities, in addition to excluding brokerage and market making activities, the bank no longer needs to fund the e-money segment.
Moreover, the bank no longer needs to manage its investments in government bonds flexibly, which had led to their classification into the HTCS business model, also given that the bank no longer funds the e-money segment.
As a result, debt instruments are now the bank's main type of investment of the excess cash constantly generated by its core business and especially by its depository services, as the objective of the latter is to permanently invest cash and collect the related cash flows. Considering the new business objective for the management of the government bonds in portfolio, the latter are now allocated to the HTC business model.
Based on the above, on 28 June 2018, the board of directors approved the reclassification of government bonds from HTCS to HTC.
As required by IFRS 9, the bank has reclassified the fair value gains or losses accumulated in the fair value reserve to the instrument's carrying amount, without impacting the effective interest generated thereby.
Lastly, as part of the reassessment of the measurement model that followed the Group's reorganisation, the bank fine-tuned its assessment of the probability of default of the issuers of its financial instruments, taking into account, in particular, forward-looking information. This has led to the recognition of a loss allowance of €7.3 million on its HTC financial assets of roughly €5.1 billion.

IFRS 15: THE NEW STANDARD ON REVENUE

IFRS 15 “Revenue from contracts with customers” became effective on 1 January 2018. It superseded IAS 18 “Revenue” and IAS 11 “Construction contracts”.

The changes compared to the previous standards may be summarised as follows:

- introduction of a single standard for the recognition of revenue from the sale of goods and provision of services;
- introduction of a mechanism for the allocation of the transaction price to each performance obligation (or distinct good or service) in a contract.

The new standard applies to all contracts with customers except for leases, insurance contracts and financial instruments.

The objective of IFRS 15 is to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The core principle of this standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In order to achieve that objective, an entity shall recognised revenue by:

- identifying contracts with customers;
- identifying the performance obligations;
- determining the transaction price;
- allocating the transaction price to the performance obligations;
- recognising revenue when (or as) it satisfies a performance obligation.

Based on its assessment, the bank found that its accounting treatment of the main types of revenue from contracts with customers was already in line with the provisions of IFRS 15 and, therefore, its FTA did not produce any accounting effect.

These financial statements present the larger disclosures required by the new standard and Bank of Italy’s instructions set out in its fifth update of circular no. 262.

The impact of first-time adoption of IFRS 15

The application of IFRS 15 entailed the allocation of up-front revenue over the term of the related contracts with customers. Under IAS 18, this revenue was recognised directly in profit or loss.

This led to the reclassification of the portion of revenue that pertains to future years under IFRS 15 from retained earnings at 1 January 2018.

Due to the FTA of the new standard, the caption "Other liabilities" at 1 January 2018 increased as a result of the recognition of the deferred income on one-off projects, with the consequent recognition of related deferred taxes. This led to a decrease of €2,143 thousand in income-related reserves, net of tax.

Part of the deferred income has been allocated to the business unit sold.

The effects on the bank's equity at 31 December 2017 due to application of the standards applicable from 1 January 2018 are summarised below:

(Amount in € mln)

	31.12.2017	**IFRS 9 FTA impact**	**IFRS 15 FTA impact**	**Opening balance at 1.01.2018**
Valuation reserves	60.5	-1.5	-	59.0
Income-related reserves	1,692.5	1.5	-2.1	1,691.9
Equity	**2,033.3**	**-**	**-2.1**	**2,031.1**

IFRS 16 "LEASES"

Regulations

With effect from 1 January 2019, the new IFRS 16, issued by the IASB in January 2016 and endorsed by the European Commission through Regulation (EU) no. 2017/1986, has replaced IAS 17 "Leases", IFRIC 4 "Determining whether an arrangement contains a lease", SIC 15 "Operating leases – Incentives" and SIC 1 "Evaluating the substance of transactions involving the legal form of a lease".

In accordance with the new standard, entities are required to decide whether a contract is (or contains) a lease, based on the concept of control of the use of an identified asset for a period of time. As a result, rental, hire or free loans, previously not considered as leases, may now also come under the scope of IFRS 16.

In view of the above, significant changes have been made to the accounting for lease transactions in the financial statements of the lessee/user, with the introduction of a single accounting model for lease contracts for the lessee, based on the right-of-use model. Specifically, the main change consists of the elimination of the distinction between operating and finance leases, established by IAS 17: all leases shall therefore be accounted for in the same way with recognition of an asset and a liability. Unlike the current standards, the new model envisages the recognition of a right-of-use asset and the liabilities for the lease payments not yet paid to the lessor under liabilities. The recognition of the lease in profit or loss has also changed. Under IAS 17, lease payments are presented under administrative expenses whereas the amortisation of the right-of-use asset and interest expense on the lease liability will be recognised, as required by IFRS 16.

The minimum disclosure required of a lessee includes, inter alia:

- a breakdown of the leased assets by class;
- an analysis of the lease liabilities by due date;
- information that is potentially helpful for a better understanding of the entity's business with regard to the leases (for example, options to terminate or extend the lease).

However, there are no substantial changes, other than some additional disclosure requirements, for the accounting for leases by the lessors, where the current distinction is maintained between operating and finance leases.

From 1 January 2019, the effects on the financial statements resulting from adoption of IFRS 16 can be identified for the lessee – on a constant profit and cash flows basis – as an increase in the assets recognised in the financial statements (leased assets), an increase in the liabilities (the liability for the leased assets), a reduction in administrative expenses (lease payments) and an accompanying increase in interest expense (on the liability) and amortisation (of the right-of-use asset). When the entire term of the contracts is considered, the impact on profit or loss does not change over the lease term, both when the former IAS 17 or the new IFRS 16 are applied, but its distribution over time is different.

The bank launched a specific project for the application of IFRS 16 “Leases” in order to identify its qualitative and quantitative impacts, as well as the procedural and organisational changes necessary for a consistent, smooth and effective adoption.

Specifically, the bank will adopt the new standard using the modified retrospective approach, whereby:

- the comparative figures shall not be restated, but will remain those accounted for under IAS 17 and IFRIC 14;
- the FTA impact will be recognised in opening equity at 1 January 2019. In particular:
  - leases that have a residual term of less than 12 months at FTA are considered as short-term leases and, as such, are outside the scope of the new standard;
  - leases for which the underlying asset is of low value are outside the scope of the new standard;
  - the right-of-use asset will be measured under option 1, i.e., retroactively using the incremental borrowing rate at FTA;
  - the initial direct costs will be excluded from the measurement of the right-of-use asset.

Based on the above, the leases of cars and property used in operations fall within the scope of IFRS 16. Based on currently available information, the estimated impact of FTA is immaterial. These estimates may change if additional information becomes available to the bank during 2019.

SECTION 2 - BASIS OF PREPARATION

The financial statements comprise the mandatory schedules provided for by IAS 1 (i.e., statement of financial position, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows) and these notes. They are accompanied by a directors’ report on the bank’s financial performance, cash flows and financial position. Specifically, it presents the mandatory information required of directors’ reports by Bank of Italy circular no. 262/2005.

These notes provide all disclosures required by applicable legislation as well as the supplementary information deemed useful to give a true and fair view of the bank’s financial position, financial performance and cash flows. These financial statements have been prepared assuming the bank’s ability to continue as a going concern as there are no uncertainties about this assumption. The tables and details required by Bank of Italy are identified individually using the numbering format provided for by the same supervisory body. The reporting currency of the financial statements at 31 December 2018 is the Euro; the figures are presented in Euros in the financial statements schedules, whereas those in the notes are expressed in thousands of Euros, unless specified otherwise.

The bank has applied the recognition and measurement criteria established by the IFRS and endorsed by the European Commission and the general assumptions in the Framework for the preparation and presentation of financial statements issued by the IASB.

The financial statements have been prepared assuming that the bank will continue as a going concern and in accordance with the principles of accruals, materiality and relevance of the financial disclosures and the principle of substance over form.

The financial statements schedules and the tables in the notes present the 2017 figures on a comparative basis.

Basis of presentation

Statement of financial position, income statement and statement of comprehensive income

The statement of financial position, income statement and statement of comprehensive income present captions, subcaptions and additional breakdowns. Revenue is presented without a sign in the income statements, while costs are preceded by a minus sign.

Statement of changes in equity

The statement of changes in equity, showing changes in equity during the reporting period, is broken down into share capital, equity-related, income-related and valuation reserves and the profit or loss for the reporting period. The bank has not issued any equity instruments other than ordinary shares.

Statement of cash flows

The statement of cash flows shows the cash inflows and outflows for the current and previous reporting periods. It is prepared using the indirect method, whereby the cash flows from operating activities are presented by adjusting the profit or loss for the reporting period for non-monetary items.
The cash flows are broken down into cash flows from operating, investing and financing activities.
Given that cash and cash equivalents include deposits with central banks, changes for the year are solely of a financial nature.
Cash flows generated in the reporting period are presented without a sign, while those used are preceded by a minus sign.

Notes to the financial statements

The notes present the disclosures deemed to be necessary to give a true and fair view of the bank's financial position and financial performance.

The accounting policies described below have been adopted to disclose all the information in the financial statements.

SECTION 3 - EVENTS AFTER THE REPORTING DATE

No events have taken place after the reporting date that could have a significant impact on the bank's financial position, financial performance and cash flows and/or require adjustments to the financial statements disclosures.

SECTION 4 - OTHER ASPECTS

None, including with reference to Bank of Italy/Consob/IVASS joint document no. 6 of 8 March 2013.

A.2 - ACCOUNTING POLICIES

The accounting policies adopted to prepare the bank's financial statements at 31 December 2018 are summarised below.

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

Classification

This category includes financial assets other than those classified at fair value through other comprehensive income or at amortised cost. Specifically, this caption includes:

- financial assets held for trading;
- financial assets that are mandatorily measured at fair value, because they do not meet the requirements for their measurement at amortised cost or at fair value through other comprehensive income. The contractual terms of these financial assets give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding or the asset is not held within a business model whose objective is to hold financial assets in order to collect contractual cash flows (hold to collect model) or whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold to collect and sell model);
- financial assets that, upon initial recognition and if the relevant requirements are met, are designated as measured at fair value. Indeed, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Therefore, this caption includes the following:

- the debt instruments and loans included in the other/trading business model (therefore, not a hold to collect or hold to collect and sell model) or that do not pass the SPPI test;
- the equity instruments that do not qualify as investments in subsidiaries and associates that, at initial recognition, are not designated as measured at fair value through other comprehensive income;
- OEIC units.

This caption also includes the derivatives recognised as financial assets held for trading which are presented as assets if their fair value is positive.

According to the general rules of IFRS 9 on the reclassification of financial assets (excluding equity instruments which may never be reclassified), reclassifications into other categories are not allowed unless the entity changes its business model for managing financial assets. This should be highly infrequent and the financial assets may be reclassified out of the fair value through profit or loss measurement category into one of the other two categories established by IFRS 9 (Financial assets amortised at cost or Financial assets at fair value through other comprehensive income). The carrying amount is the fair value at reclassification and the effects of reclassification are recognised prospectively from the reclassification date. The effective interest rate of the reclassified financial asset is determined using its fair value at the reclassification date, which is the date of initial staging for impairment purposes.

Recognition

Debt and equity instruments are initially recognised at the settlement date, loans at the disbursement date and derivatives at the date they are entered into.

Financial assets at fair value through profit or loss are initially recognised at fair value, which is usually the transaction price, without considering transaction costs or revenue.

Measurement

After initial recognition, financial assets at fair value through profit or loss are measured at fair value and the resulting gain or loss is recognised in profit or loss. The fair value of financial instruments quoted on active markets is determined using market prices. In the absence of an active market, the fair value is estimated using generally accepted valuation techniques that consider all risk factors and are based on market inputs, such as valuations of quoted instruments with similar characteristics, discounting cash flows, option price valuation models, recent comparable transactions, etc.. The fair value of equity instruments and equity derivatives not listed on active markets is measured using the cost model only secondarily and in a few cases, i.e., when all valuation methods mentioned above are inapplicable, or when the measurement gives a wide range of fair values, of which the cost is deemed to be the best estimate. Reference should be made to section “A.4 Fair value” for additional information on fair value measurement.

Derecognition

Financial assets or parts of financial assets are derecognised only if their sale has entailed the substantial transfer of all the related risks and rewards.

Specifically, transferred financial assets are derecognised when the bank retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to remit those cash flows to one or more recipients without material delay.

2 - Financial assets at fair value through other comprehensive income

Classification

A financial asset shall be classified in this category if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold to collect and sell model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This category also includes equity instruments other than those held for trading which the bank has designated as measured at fair value through other comprehensive income upon initial recognition.

Specifically, this caption includes:

- debt instruments managed under a hold to collect and sell business model that passed the SPPI test;
- the equity instruments that do not qualify as investments in subsidiaries, associates and joint ventures, other than those held for trading, which the bank has designated as measured at fair value through other comprehensive income.

Reclassifications into other categories of financial assets are not allowed unless an entity changes its business model for managing financial assets. This should be highly infrequent and the financial assets may be reclassified out of the financial assets at fair value through other comprehensive income measurement category into one of the other two categories established by IFRS 9 (Financial assets at amortised cost or Financial assets at fair value through profit or loss). The carrying amount is the fair value at reclassification and the effects of reclassification are recognised prospectively from the reclassification date as follows:

- if the bank reclassifies a financial asset into the amortised cost measurement category, the cumulative gain or loss in the fair value reserve is reclassified as an adjustment to the fair value of the financial asset at the reclassification date;
- if the bank reclassifies a financial asset into the fair value through profit or loss measurement category, the cumulative gain or loss previously recognised in the fair value reserve is removed from equity to profit or loss.

Recognition

Debt and equity instruments are initially recognised at the settlement date.

Upon initial recognition, the assets are measured at fair value, including directly attributable transaction costs or revenue.

Measurement

After initial recognition, a gain or loss on a financial asset at fair value through other comprehensive income is recognised in a specific equity reserve, except for those arising from the application of amortised cost, impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised. When the financial asset is derecognised, in part or in its entirety, the cumulative gain or loss previously recognised in the fair value reserve is reclassified, in part or in its entirety, from equity to profit or loss.

The equity instruments that the bank has elected to classify in this category are measured at fair value and any cumulative gain or loss recognised in equity cannot be subsequently transferred to profit or loss, even when the instrument is disposed of.

Only dividends on such equity instruments are recognised in profit or loss.

The bank assesses whether the credit risk of its financial assets measured at fair value through other comprehensive income has increased significantly, in accordance with the impairment requirements of IFRS 9. If this is the case, the bank recognises the expected credit loss accordingly. Specifically, it recognises a 12-month expected credit loss on its financial instruments classified at stage 1 (i.e., financial assets at the origination date and financial assets whose credit risk has not increased significantly since initial recognition) upon initial recognition and at each subsequent reporting date.

It recognises a lifetime expected credit loss on its financial instruments classified at stage 2 (performing financial assets, whose credit risk increased significantly since initial recognition) and stage 3 (credit-impaired financial assets).

Conversely, equity instruments are not subject to impairment testing. These financial assets are derecognised only if their sale has entailed the substantial transfer of all the related risks and rewards.

Fair value is measured using the same method as that described for financial assets at fair value through profit or loss.

Derecognition

Financial assets or parts of financial assets are derecognised only if their sale has entailed the substantial transfer of all the related risks and rewards.

Specifically, transferred financial assets are derecognised when the bank retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to remit those cash flows to one or more recipients without material delay.

3. Financial assets at amortised cost

Classification

A financial asset (in particular, loans and debt instruments) shall be classified in this category if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows (hold to collect model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Specifically, this caption includes:

- loans and receivables with banks that meet the requirements set out above;
- loans and receivables with customers that meet the requirements set out above;
- debt instruments that meet the requirements set out above.

Reclassifications into other categories of financial assets are not allowed unless the entity changes its business model for managing financial assets. This should be highly infrequent and the financial assets may be reclassified out of the amortised cost measurement category into one of the other two categories established by IFRS 9 (Financial assets at fair value through other comprehensive income or Financial assets at fair value through profit or loss). The carrying amount is the fair value at reclassification and the effects of reclassification are recognised prospectively from the reclassification date. If the bank reclassifies a financial asset into the fair value through profit or loss or other comprehensive income measurement categories, any gain or loss arising from the difference between its amortised cost and fair value is recognised in profit or loss or in other comprehensive income, respectively.

Recognition

Debt instruments are initially recognised at the settlement date, while loans are recognised at the disbursement date. Upon initial recognition, the assets are measured at fair value, including directly attributable transaction costs or revenue.

The disbursement date of loans is usually the agreement signing date. If they are not the same, when signing the agreement, the bank recognises a loan commitment which is extinguished when the loan is disbursed.

They are recognised at their fair value, which equals the amount disbursed including transaction costs or revenue attributable to the individual loan.

Measurement

These financial assets are subsequently measured at amortised cost using the effective interest method. This method is not used for assets measured at historical cost as discounting these loans has no material impact considering their short term, and assets without a set maturity or on demand.

Measurement is strictly related to the exposures' credit staging, i.e., their classification in one of the three stages provided for by IFRS 9, the last of which (stage 3) includes credit-impaired financial assets and the other two (stages 1 and 2) include performing financial assets.
The expected credit losses on these assets are recognised in profit or loss as follows:

- upon initial recognition, the 12-month expected credit losses;
- upon subsequent measurements, if the credit risk has not increased significantly since initial recognition, the 12-month expected credit losses;
- upon subsequent measurements, if the credit risk has increased significantly since initial recognition, the lifetime expected credit losses;
- upon subsequent measurements, if, after the credit risk increased significantly since initial recognition, the increase is no longer significant, the amount that accounts for the change from a life-time expected credit loss to a 12-month expected credit loss.

If they are performing, these financial assets are subject to an individual impairment assessment according to their risk parameters: 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 carrying amount of the asset – classified as “credit-impaired”, like all the other relationships with the same counterparty – and the present value of the estimated future cash flows, discounted using the original effective interest rate.

The amount of the loss to be recognised in profit or loss is calculated based on an individual measurement or a collective measurement by group of similar assets and, then, individually allocated to each position. Credit-impaired assets include financial assets classified as bad, unlikely-to-pay or overdrawn/past due by over ninety days according to the rules issued by Bank of Italy, in line with the IFRS and supervisory regulations. The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees.

The original effective rate of each asset remains unchanged over time even when it is restructured with a variation of the contractual interest rate and when the asset, in practice, no longer bears contractual interest. When the reasons for impairment are no longer valid, the impairment loss is reversed through profit or loss.

The reversal cannot exceed the amortised cost the asset would have had if it had not been impaired. Impairment gains due to the passage of time are recognised in net interest income. In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual terms may be subsequently modified by the parties to the contract.

When the contractual terms are modified during the lifetime of an instrument, the bank assess whether the original asset should continue to be recognised in the statement of financial position or whether, instead, it should be derecognised and a new financial asset needs to be recognised. In general, modifications to a financial asset lead to its derecognition and the recognition of a new asset when they are substantial.

The assessment of the substantial nature of the modification is made using both qualitative and quantitative information.

The analyses aimed at defining the substantial nature of contractual modifications made to a financial asset must, therefore, consider:

- the purposes for which the modifications were made: e.g., renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
    - the former, aimed at “retaining” the customer, involve a borrower that does not have financial difficulties. This category includes all renegotiations aimed at aligning the cost of the debt to market conditions. These transactions involve a change in the original terms of the contract, usually requested by the borrower and relating to aspects concerning the cost of the debt, with a consequent economic benefit for the borrower.

In general, whenever the bank carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer could borrow from another intermediary and the bank would incur a decrease in expected future revenue;

- the latter, carried out for reasons of credit risk (forbearance measures), relate to the bank's attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and rewards, following the modifications, are not normally substantially transferred and, consequently, the accounting treatment that provides the most relevant information for the financial statements users is "modification accounting" – which involves the recognition through profit or loss of the difference between the carrying amount and the present value of the modified cash flows discounted at the original interest rate – rather than derecognition;

- the existence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument (such as, for example, a change in currency or a modification of the type of risk the financial instrument is exposed to), which are expected to lead to derecognition due to their significant impact on the original contractual cash flows.

Derecognition

Financial assets or parts of financial assets are derecognised only if their sale has entailed the substantial transfer of all the related risks and rewards.

Specifically, transferred financial assets are derecognised when the bank retains the contractual rights to receive the cash flows of the financial asset but assumes a contractual obligation to remit those cash flows to one or more recipients without material delay.

5 - Equity investments

Classification

An entity is a subsidiary when the bank has the power to direct its administrative, financial and operating policies and usually holds more than half of its voting rights. An entity is an associate when the bank has at least 20% of its voting rights or has significant influence, i.e., the power to participate in deciding administrative, financial and management policies.

The bank did not have to exercise judgements or make significant assumptions in order to establish the existence of control over subsidiaries and significant influence over associates.

Recognition

Investments in subsidiaries and associates are recognised at cost, which is the fair value of the consideration paid, less any subsequent impairment losses.

Measurement

At each reporting date, the bank checks whether there is objective evidence that the carrying amount of its investments in subsidiaries and associates may no longer be fully recoverable. Impairment testing entails the identification of possible impairment indicators and the calculation of any impairment loss.

The impairment indicators are essentially divided into two categories:

- qualitative indicators, such as the generation of losses or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating issued by a specialist company;
- quantitative indicators, such as a reduction in fair value to below carrying amount, an investment's carrying amount in the parent's separate financial statements higher than the carrying amount of the investee's net assets and goodwill in the consolidated financial statements or distribution by the latter of a dividend that is higher than its total profit.

If impairment indicators are detected, the bank recognises an impairment loss calculated as the difference between the investment's recoverable amount and carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. Value in use is the present value of the investment's expected cash flows. It is estimated on the basis of the asset's expected cash flows, possible changes in their amount and/or timing, the asset's risk premium and other factors that market participants would take into account when pricing the asset's expected cash flows.

6 - Property, equipment and investment property

Classification

This caption includes land, owner-occupied property, technical systems, furniture and fittings and all equipment.

It also comprises assets under finance lease.

Owner-occupied property is that owned (or held under finance lease) that the bank uses in production or to provide services or for administrative purposes, with a useful life longer than one year.

Recognition

Property, equipment and investment property acquired on the market are recognised as assets when the main related risks and rewards are transferred. Initial recognition is at cost, which includes all costs directly attributable to their purchase or to preparing the asset for its intended use.

Land is recognised separately, including when it is purchased together with the building, using the component approach. It is separated from the building based on third party appraisals.

The cost of extraordinary maintenance that increases the item's future economic benefits is capitalised while other ordinary maintenance costs are expensed.

Measurement

Property and equipment and investment property with a finite useful life are subsequently measured at cost adjusted by accumulated depreciation and any impairment losses/reversals of impairment losses.

The depreciable amount of property and equipment equals their cost as the residual value after depreciation is not deemed significant. Depreciation is charged systematically on a straight-line basis over the asset's estimated useful life to reflect its technical-economic life and residual use.

The useful life of the main categories of property, equipment and investment property is as follows:

- furniture and fittings: 8 years;
- owner-occupied property: 33 years;
- investment property: 33 years.

Land is not depreciated as it has an indefinite life nor is artistic heritage as its useful life cannot be estimated and its value usually increases over time.

The bank tests the assets for impairment at each reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

Derecognition

Property, equipment and investment property are derecognised when sold or when no future economic benefits are expected from their continued use or sale.

7 - Intangible assets

Classification

An intangible asset is an identifiable non-monetary asset without physical substance able to generate future economic benefits controllable by the bank.

Recognition

Intangible assets are recognised at cost, adjusted for any related costs, when the principal risks and rewards are transferred, only when it is probable that the related future economic benefits will materialise and cost can be measured reliably. Otherwise, cost is expensed in the period in which it is incurred.

Measurement

All intangible assets other than goodwill are considered to have finite useful lives and are amortised in line with their cost and related useful lives.

Specifically:

- technology related intangible assets, such as software acquired with open term licences and software development costs, are amortised on the basis of their expected technological obsolescence over a maximum period of five years. In particular, an intangible asset arising from development of software projects shall be recognised if, and only if, the bank can demonstrate all of the following:
  I. its ability to measure reliably the expenditure attributable to the intangible asset during its development;
  II. its intention, financial and technical resources to complete the development and to use or sell the intangible asset;
  III. how the intangible asset will generate future economic benefits. Capitalised software development costs only comprise the costs directly attributable to the development phase;
- contract assets for depository services, recognised as a result of acquisitions of contracts or business units, have an estimated useful life of ten years, based on their contractual terms.

Their residual value is taken to be nil.
The bank tests the assets for impairment at each reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

Derecognition

The bank derecognises intangible assets when they are sold or when it does not expect to receive future economic benefits from their continued use or sale.

Goodwill

Goodwill arising on business combinations is the difference between the consideration paid, including related costs, and fair value of the assets acquired and the liabilities assumed at the acquisition date. If the difference is positive, it is recognised as an asset (goodwill), being a payment by the buyer for future economic benefits to be generated by assets that cannot be identified individually or recognised separately. If the difference is negative, it is recognised directly in profit or loss (excess cost).

Goodwill is recognised at cost, net of accumulated impairment losses. It is not amortised.

It is tested annually for impairment even if there are no indicators of impairment.

Goodwill arising from a business combination is allocated to cash generating-units ("CGUs") or groups of CGUs that are expected to benefit from the synergies of the combination. The recoverable amount of an asset or CGU is the higher of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of the CGU exceeds its recoverable amount. Impairment losses on goodwill are recognised in profit or loss and are not reversed in subsequent periods.

Impairment losses on goodwill are recognised in caption 240. "Impairment losses on goodwill" of the income statement and are never reversed.

9 - Current and deferred taxes

Current and deferred taxes, calculated in accordance with the Italian tax legislation, are recognised as an expense on an accruals basis, in line with the costs and revenue generating them. They show the tax income (expense) for the reporting period.

Current tax assets and liabilities show the bank's tax position vis-à-vis the tax authorities. Specifically, they present the net balance between current tax liabilities, calculated based on a prudent estimate of the tax expense for the year under applicable tax legislation, and current tax assets (payments on account and other tax assets for withholdings or other prior year tax assets which the bank intends to use for offsetting purposes in subsequent periods).

Current taxes entirely or partially unpaid at the reporting date are presented as tax liabilities in the statement of financial position. If payments on account in the current or previous reporting periods exceed the related tax expense, the difference is recognised as an asset.
Current tax assets also comprise those assets for which the bank has claimed reimbursement from the relevant tax authorities.

Current and deferred taxes are recognised in caption 270 "Income taxes" of the income statement unless they relate to transactions that directly affected equity, without impacting profit or loss (such as gains or losses on financial assets at fair value through other comprehensive income and actuarial gains or losses), which are recognised directly in the related valuation reserves.
Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting in caption 100 "Deferred tax assets" and caption 60 "Deferred tax liabilities", respectively.

Deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities and their tax bases. The bank recognises deferred tax assets (in caption 110.b) for deductible temporary differences and carryfoward tax losses that will reverse in subsequent periods when it is probable that it will make a taxable profit in the same period, according to its business plans, against which it can offset the deferred tax assets.
Deferred tax liabilities are calculated on all taxable temporary differences, excluding only reserves taxed upon distribution as, given the amount of the taxed available reserves, the bank does not expect to undertake transactions that would require their taxation.
Deferred tax assets and liabilities are calculated using the tax rates expected to be enacted in the period in which the deferred tax asset will be recovered or the deferred tax liability extinguished, based on the applicable tax laws.
They are remeasured regularly to reflect any changes in the tax laws or rates or any subjective situations in which the bank may find itself.

10 - Provisions for risks and charges

Provisions for loan commitments and financial guarantees given

This caption shows the provisions for credit risk arising from loan commitments and financial guarantees given that come under the scope of IFRS 9. In this case, the procedures for credit risk staging and expected credit loss calculation set out in the section on financial assets at amortised cost or at fair value through other comprehensive income apply.

Pension and similar provisions

The bank's pension plans are based on internal agreements and qualify as defined benefit plans. The related liability and current service cost are subject to actuarial valuation using the projected unit credit method. This method projects future payments using historical statistics and the demographic curve and discounts these flows using a market interest rate. The contributions paid each year are considered separately and are recognised and measured individually in order to determine the lifetime obligation. The discount rate applied is determined by reference to market yields on high quality corporate bonds. at the valuation date, considering the average residual life of the liability. The present value of the obligation at the reporting date is also adjusted by the fair value of any plan assets.

Actuarial gains and losses (i.e., changes in the obligation's present value due to adjustments to actuarial assumptions and based on past experience) are recognised under other comprehensive income.

Other provisions

The provisions for risks and charges are liabilities of uncertain amounts or due dates that are recognised, because of the following:

- the bank has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources will be necessary to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

They include provisions for possible losses due to pending litigation.

When the effect of the time value of money is material, provisions are discounted using current market rates. The provision and any increase due to discounting are recognised in profit or loss. Specifically, when discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

The bank assesses its provisions and contingent liabilities at each reporting date and adjusts them if necessary to a new best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be necessary to settle the obligation, the provision is reversed to profit or loss.

11 - Financial liabilities at amortised cost

Classification

An issued financial instrument is classified as a liability when, based on the substance of the contractual agreement, the bank has a contractual obligation to deliver cash or another financial asset to another party.
Due to banks and customers show funding obtained on the interbank market and from customers, including through repurchase agreements and the placing of bonds and certificates of deposit.
This caption also includes the bank's finance lease liabilities recognised as a lessee.

Recognition

The bank initially recognises financial liabilities with banks at the contract's execution date, which normally coincides with when the cash is received or the debt instruments are issued.

Financial liabilities are initially recognised at fair value, which is normally the amount received or the issue price, adjusted for the directly related costs/income. Internal administrative costs are excluded.

Measurement

After initial recognition, financial liabilities other than on demand or short-term liabilities are measured at amortised cost using the effective interest method.

Interest is recognised in caption 20 "Interest and similar expense" of the income statement.

Derecognition

Financial liabilities, or parts thereof, are derecognised when they are extinguished, i.e., when the obligation is complied with, cancelled or has expired.

12 - Financial liabilities held for trading

Financial liabilities held for trading include trading derivatives with a negative fair value and liabilities determined by short sales of securities.

All financial liabilities held for trading are measured at fair value and the fair value gains or losses are recognised in profit or loss.
Their recognition and measurement are similar to those described for financial assets held for trading.

14 - Foreign currency transactions

Initial recognition

Upon initial recognition, a foreign currency transaction is translated into the reporting currency using the exchange rate ruling at the transaction date.

Subsequent measurement

- At each reporting date, foreign currency items are recognised as follows: monetary items are retranslated using the spot closing rates;
- non-monetary items measured at historical cost are retranslated using the transaction-date exchange rates;
- non-monetary items measured at fair value are retranslated using the measurement-date exchange rates.

Exchange differences arising from the settlement of monetary items, or from their subsequent retranslation at different exchange rates are recognised in profit or loss in the period in which they arise; exchange differences on non-monetary items are recognised in equity or in profit or loss in line with the method used to recognise the gains or losses that include this item.

Foreign currency costs and revenue are translated at the exchange rate ruling on their recognition date or, if they have not been realised, at the closing spot rate.

15 - Other information

Post-employment benefits

The Italian post-employment benefits (TFR) are a form of deferred remuneration paid to employees when they leave the bank. They accrue over the employment term and are recognised under personnel expense.

Following the Italian supplementary pension reform introduced with Legislative decree no. 252 of 5 December 2005, benefits accruing from 1 January 2007 are calculated without using an actuarial approach as the bank's liability is limited to its contribution defined by the Italian Civil Code (defined contribution plan as per IAS 19).

Post-employment benefits vested up to 31 December 2006 continue to be considered defined benefit plans under IAS 19. Accordingly, the related obligation is subject to actuarial valuation using the projected unit credit method. This method projects future payments using historical statistics and the demographic curve and discounts these flows using a market interest rate.

The rate used to discount the post-employment benefit obligation (both funded and unfunded) varies from country to country. It is determined by reference to market yields at the reporting date on high quality corporate bonds. The term of the corporate bonds is consistent with the estimated term of the post-employment benefit obligations.

Specifically, the amount recognised as a liability in caption 120.a) equals the net balance of the obligation's present value at the reporting date, the sum of any actuarial gains or losses, less any past service costs not yet recognised and the current value of plan assets, if any, at the reporting date that will be used to directly extinguish the obligation.

Following the amendments to IAS 19, starting from the 2013 financial statements, actuarial gains and losses are recognised under other comprehensive income.

Interest accrued on the net liability continues to be recognised in profit or loss.

Before that, it had all been recognised immediately in profit or loss.

Treasury shares

The bank approved the cancellation of its treasury shares in 2018 and, therefore, it cancelled the related reserve set up in accordance with article 2357-ter of the Italian Civil Code.

Fair value of financial instruments

The fair value of financial instruments is measured using the financial market prices in the case of instruments listed on active markets or by using internal measurement models for other financial instruments.

Reference should be made to section A.4. Fair value for additional information.

The fair value of financial assets and liabilities carried at cost or amortised cost disclosed in the notes is determined as follows:

- for non-current fixed-rate financial assets and liabilities, future cash flows are discounted using a credit-adjusted effective interest rate;
- for on demand floating-rate financial assets, with a short term or undetermined maturity, the carrying amount net of a collective/individual impairment loss is deemed to reasonably reflect fair value as it reflects changes in interest rates and the issuer's credit risk;
- for current floating-rate and fixed-rate financial liabilities, the carrying amount is deemed to adequately reflect fair value, for the reasons set out above;
- for non-current fixed-rate financial liabilities, the discounted cash flow method, without considering changes in their credit spread, given its immateriality, is used.

Fair value of non-financial assets

The fair value of investment property is only calculated for disclosure in the notes. The bank mainly uses third party appraisals that, in general, consider transactions at current prices in an active market for similar real estate assets in the same location and condition and that have the same intended use.

Impairment of goodwill

Impairment losses on goodwill are usually measured using the discounted cash flow model.

Income statement

INTEREST INCOME AND EXPENSE

Interest and other income and expense relate to cash and cash equivalents, non-derivative financial assets and liabilities held for trading at fair value through other comprehensive income and at amortised cost.

Interest income and expense are recognised in profit or loss on all instruments measured at amortised cost, using the effective interest method.

FEE AND COMMISSION INCOME AND EXPENSE

They are recognised on an accruals basis.
Specifically, commissions on securities trading are recognised when the service is provided.

Fees and commissions included in amortised-cost accounting to calculate the effective interest rate are excluded as they are recognised under interest.

DIVIDENDS

Dividends are recognised in profit or loss when their distribution is approved.

OTHER INCOME AND COSTS

They are recognised on an accruals basis.

Use of estimates and judgements

The financial statements captions are measured using the accounting policies set out above.
Application of these policies sometimes involves the adoption of estimates and judgements that may have a significant effect on the carrying amount of assets and liabilities, income and expenses, as well as on the disclosures about contingent assets and liabilities.

The use of reasonable estimates is an essential part of financial reporting but must not affect reliability. The main cases affected to a greater extent by the use of judgements by management are:
- calculation of impairment losses on loans and receivables and other financial assets in general;
- measurement of financial assets not listed on active markets;
- measurement of intangible assets and equity investments;
- calculation of provisions for risks and charges;
- estimates and assumptions about the recoverability of deferred taxes.

A change in an accounting estimate may occur due to changes in the circumstances on which the estimate was based or as a result of new information or more experience. The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss of the period of the change and, if the change affects future periods, also in future periods.
No significant changes were made to the accounting estimates applied in the 2017 financial statements.

A.3 - TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

Type of financial instrument (1)	Original portfolio (2)	New portfolio (3)	Reclassification date (4)	Reclassified carrying amount (5)	Pre-tax interest income for the year (6)
Debt instruments	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	29.06.2018	5,187,541	23,524

(Amount in € thousands)

A.3.2 Reclassified financial assets: change in business model, fair value and impact on OCI

The following table shows the disclosure required by IFRS 7.12 and, specifically, the impact that the reclassified assets would have had on the financial statements had the reclassification not been made.

Type of financial instrument (1)	Original portfolio (2)	New portfolio (3)	Fair value at 31.12.2018 (4)	Pre-tax gains (losses) that would have been recognised in profit or loss without the transfer		Pre-tax gains (losses) that would have been recognised in equity without the transfer	
				31.12.2018 (5)	31.12.2017 (6)	31.12.2018 (7)	31.12.2017 (8)
Debt instruments	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	5,187,541			-177,094	

(Amount in € thousands)

A.3.3 Reclassified financial assets: change in business model and effective interest rate

Reference should be made to the “First-time adoption of IFRS 9” paragraph included in the accounting policies section - A.1 General part of these notes for the disclosure required by IFRS 7 par. 12b.I.b./12c.I.a.

A.4 FAIR VALUE

The IFRS require that financial instruments classified as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial liabilities held for trading be measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., not a forced liquidation or distress sale) on the principal market at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. When measuring the fair value of an asset or a liability, an entity uses the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

IFRS 13 establishes a hierarchy for measuring fair value of financial instruments depending on the entity’s use of discretion, prioritising the use of relevant observable inputs that reflect the assumptions that market participants would use to price assets/liabilities.

The fair value hierarchy has three input levels:
- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- **Level 3:** unobservable inputs for the asset or liability.

The decision about which level to use is not optional as they are to be applied in hierarchical order. Highest priority is given to official prices available on active markets for the assets or liabilities to be measured (level 1) or assets and liabilities measured using techniques based on parameters observable on the market other than prices (level 2) and the lowest priority is given to assets and liabilities whose fair value is calculated using techniques that are based on unobservable inputs and which are, therefore, more discretional (level 3).

In compliance with the above rules, the fair value of instruments quoted in active markets (level 1) is based on their reporting-date market price.

The fair value of financial instruments not quoted on active markets is determined using valuation techniques based mainly on discounting cash flows. These techniques include all the factors that the market considers to set the price. Accordingly, the models mainly consider parameters observable on the market (level 2). Specifically:

- bonds are measured by discounting the expected future cash flows of the contractual plan, using the market rates adjusted for the issuer credit risk;
- derivatives, being overnight interest rate swaps (OIS) and options, are measured using market valuation models, principally based on market rates, adjusted for the counterparty credit risk. Where material, the risk include changes in the counterparty's credit rating as well as the bank's credit rating (own credit risk);
- a fair value hierarchy has been developed for shares and an application order for the measurement methods which considers any significant transactions involving the share in a sufficiently short time period compared to the measurement period, comparable transactions carried out by companies operating in the same sector and the application of financial, income and equity analytical valuation methods.

The valuation model adopted for a financial instrument is the same over time, adjusted only in the case of significant changes in market conditions or changes affecting the issuer.
The bank has no level 3 financial instruments at the reporting date, nor has it traded in such instruments during the year, if not for immaterial amounts. The only level 3 financial instrument is an equity investment.

Qualitative disclosure

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

Level 2 financial instruments mainly comprise swaps and loans and receivables with customers and banks measured at amortised cost. At the reporting date, the bank measured them on the basis of market interest rates and volatility factors.
At the reporting date, the bank measured its swaps on the basis of market interest rates and volatility factors. Considering the bank's limited transactions in unlisted derivatives and the collateralisation agreements, mostly with the most important counterparties, that mitigate the risk, the adjustments to the level 2 instruments to include the counterparty risk were immaterial.

Level 3 financial instruments mainly include one equity investment, which has been measured using the most recent data of the investee, adjusted by a lack of marketability discount.

A.4.2 Measurement processes and sensitivity

As mentioned above, level 3 financial instruments mainly include equity investments, which have been measured only partially using parameters not observable on the market that required valuation estimates. Specifically, the bank applied a lack of marketability discount to the most recently-available valuation notice provided by the counterparty to the bank.

A.4.3 Fair value hierarchy

Transfers between the fair value levels are made to reflect changes in the instruments or their market.

Transfers from level 1 to level 2 are made when the number of contributors is no longer sufficient or a limited number of investors hold the outstanding float.

Conversely, instruments that are illiquid when issued and have a small number of trades classified in level 2 are transferred to level 1 when an active market is identified.

A.4.4 Other disclosures

The bank did not use the option to measure groups of assets and liabilities on a the basis of its net risk exposure provided for by IFRS 13.48.
Moreover, the bank does not have financial assets whose current use differ from their highest and best use.

Quantitative disclosure

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

Assets/Liabilities at fair value	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss						-
a) held for trading	10	2,656	-	15,944	1,480	
b) designated at fair value						
c) other financial assets mandatorily measured at fair value	-	27,085	235		20,916	
2. Financial assets at fair value through other comprehensive income	169	6,249	110,134	2,502,173	104,158	
3. Hedging derivatives						
4. Property, equipment and investment property						
5. Intangible assets						
Total	**178**	**35,990**	**110,369**	**2,518,117**	**126,554**	**-**
1. Financial liabilities held for trading	-	4,926	-	1	5,670	-
2. Financial liabilities at fair value						
3. Hedging derivatives						
Total	**-**	**4,926**	**-**	**1**	**5,670**	**-**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

The bank did not transfer assets and liabilities between levels 1 and 2 during the year.

Considering the bank's limited transactions in unlisted derivatives and that its transactions are mostly carried out with Italian institutional counterparties, the fair value set out above is not significantly affected by adjustments for counterparty risk (credit and/or debit value adjustments). Moreover, the counterparty risk is mitigated by guarantees.

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

	Financial assets at fair value through profit or loss				Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
	Total	including: a) held for trading	including: b) designated at fair value	including: c) mandatorily measured at fair value				
1. Opening balance	-	-	-	-	-	-	-	-
2. Increases								
2.1 Purchases	245			245				
2.2 Gains recognised in:								
2.2.1 Profit or loss								
- including gains on sales								
2.2.2 Equity		X	X	X	**11,745**			
2.3 Transfers from other levels					**98,389**			
2.4 Other increases								
3. Decreases								
3.1 Sales								
3.2 Repayments								
3.3 Losses recognised in:								
3.3.1 Profit or loss								
- including losses on sales	10			10				
3.3.2 Equity		X	X	X				
3.4 Transfers from other levels								
3.5 Other decreases								
D. Closing balance	**235**	-	-	**235**	**110,134**	-	-	-

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

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2018				31.12.2017			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets at amortised cost	7,263,015	5,012,848	2,080,134		2,892,628	4,916	2,887,662	-
2. Investment property	-				67,852		72,420	
3. Non-current assets held for sale and disposal groups	-				-			
Total	**7,263,015**	**5,012,848**	**2,080,134**	**-**	**2,960,480**	**4,916**	**2,960,082**	**-**
1. Financial liabilities at amortised cost	**11,374,458**	**X**	**X**	**X**	**8,899,293**	**X**	**X**	**X**
2. Liabilities associated with disposal groups	-				-			
Total	**11,374,458**	**-**	**-**	**-**	**8,899,293**	**-**	**-**	**-**

Key:
CA = carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

Under IFRS 7.28, in some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither confirmed by a quoted price in an active market for an identical asset or liability (i.e., a level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph B5.1.2A of IFRS 9). In such cases, the entity shall disclose by class of financial asset or financial liability:

a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9);

b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference;

c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

There are no such cases.

Part B - NOTES TO THE STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - CAPTION 10

1.1 Cash and cash equivalents: breakdown

	31.12.2018	31.12.2017
a) Cash	375	476
b) Demand deposits with central banks	4,337,550	3,242,765
Total	**4,337,925**	**3,243,241**

SECTION 2: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 20

2.1 Financial assets held for trading: breakdown by product

Captions	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
A. Assets						
1. Debt instruments	9	-	-	15,897	-	-
1.1 Structured	-	-	-	182	-	-
1.2 Other	9	-	-	15,715	-	-
2. Equity instruments	1	-	-	30	-	-
3. OEIC units	-	3	-	18	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**10**	**3**	**-**	**15,944**	**-**	**-**
B. Derivatives						
1. Financial derivatives:	-	2,653	-	-	1,480	-
1.1 Trading	-	2,653	-	-	1,480	-
1.2 Associated with fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Associated with fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Total B	**-**	**2,653**	**-**	**-**	**1,480**	**-**
Total (A + B)	**10**	**2,656**	**-**	**15,944**	**1,480**	**-**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

The decrease in debt instruments is due to the sale of the brokerage and market making business unit in the first half of the year.

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

Captions	31.12.2018	31.12.2017
A. Assets		
1. Debt instruments		
a) Central banks	-	313
b) Public administrations	4	1,347
c) Banks	6	11,698
d) Other financial companies	-	
of which: insurance companies	-	
e) Non-financial companies	-	2,539
2. Equity instruments		
a) Banks	-	6
b) Other financial companies:	-	
of which: insurance companies	-	-
c) Non-financial companies	1	24
d) Other issuers	-	-
3. OEIC units	3	18
4. Financing		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	13	15,944
B. Derivatives		
a) Central counterparties	-	1,094
b) Other	2,653	386
Total B	2,653	1,480
Total (A + B)	**2,666**	**17,424**

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

Captions	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt instruments						
1.1 Structured						
1.2 Other						
2. Equity instruments						
3. OEIC units		27,085			20,916	
4. Financing						
4.1 Reverse repurchase agreements						
4.2 Other			235			
Total	**-**	**27,085**	**235**	**-**	**20,916**	**-**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

	31.12.2018	31.12.2017
1. Equity instruments		
of which: banks		
of which: other financial companies		
of which: non-financial companies		
2. Debt instruments		
a) Central banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
3. OEIC units	**27,085**	**20,916**
4. Financing		
a) Central banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies	235	
f) Households		
Total	**27,320**	**20,916**

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

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

Captions	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt instruments						
1.1 Structured	-	-	-			
1.2 Other	-	-	-	2,501,990	-	
2. Equity instruments	169	6,249	110,134	183	104,158	
3. Financing	-	-	-	-		
Total	**169**	**6,249**	**110,134**	**2,502,173**	**104,158**	**-**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

The decrease in debt instruments is due to the reclassification of government bonds from the HTCS portfolio into the HTC portfolio as a result of the change in business model approved by the bank's board of directors.

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

Captions	31.12.2018	31.12.2017
1. Debt instruments		
a) Central banks	-	
b) Public administrations	-	2,501,990
c) Banks	-	
d) Other financial companies	-	
of which: insurance companies	-	
e) Non-financial companies	-	
2. Equity instruments		
a) Banks	321	336
b) Other issuers:	116,231	104,005
- Other financial companies	5,830	5,287
of which: insurance companies	-	
- Non-financial companies	110,400	98,718
- Other	-	
3. Financing		
a) Central banks	-	
b) Public administrations	-	
c) Banks	-	
d) Other financial companies	-	
of which: insurance companies	-	
e) Non-financial companies	-	
f) Households	-	
Total	**116,551**	**2,606,331**

SECTION 4 - FINANCIAL ASSETS AT AMORTISED COST - CAPTION 40

4.1 Financial assets at amortised cost: loans and receivables with banks broken down by type

Items	31.12.2018						31.12.2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with central banks												
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	213,442	-	-	X	X	X	179,264	-		X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans and receivables with banks												
1. Financing												
1.1 Current accounts and on-demand deposits	242,728		-	X	X	X	296,364	-	-	X	X	X
1.2 Term deposits	41,960	-	-	X	X	X	2,460	-	-	X	X	X
1.3 Other financing:												
- Reverse repurchase agreements	892,923	-	-				136,217	-	-			
- Finance leases	-	-	-				-	-	-			
- Other	235,738	-	-				176,664					
2. Debt instruments												
2.1 Structured instruments	4,959	-	-	4,868	-	-	4,966			4,966		
2.2 Other instruments	4,392	-	-	-	4,660	-	4,226				4,226	
Total	**1,636,141**	**-**	**-**	**4,868**	**4,660**		**800,161**	**-**		**4,966**	**4,226**	**-**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Financial assets at amortised cost: loans and receivables with customers broken down by type

Transaction type/Amount	31.12.2018						31.12.2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3
1. Financing												
1.1 Current accounts	54,337	391	-	X	X	X	1,761,610	391	-	X	X	X
1.2 Reverse repurchase agreements	260,367	-	-	X	X	X	204,547	-	-	X	X	X
1.3 Loans	-	-	-	X	X	X	-	-	-	X	X	X
1.4 Credit cards, personal loans and salary-backed loans	1,806	-	-	X	X	X	2,051	-	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7 Other financing	131,784		-	X	X	X	123,868	-	-	X	X	X
2. Debt instruments												
2.1 Structured instruments	-	-	-	-			-	-	-			
2.2 Other instruments	5,178,190	-	-	5,007,980	-	-	-	-	-			
Total	**5,626,484**	**391**	**-**	**5,007,980**	**-**	**-**	**2,092,076**	**391**	**-**			

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

The increase in debt instruments is due to the reclassification of government bonds from the HTCS portfolio into the HTC portfolio as a result in the change in business model approved by the bank's board of directors.

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

Captions	31.12.2018			31.12.2017		
	Stages 1 and 2	**Stage 3**	**of which: purchased or originated credit-impaired**	**Stages 1 and 2**	**Stage 3**	**of which: purchased or originated credit-impaired**
1. Debt instruments						
a) Public administrations	5,178,190	-	-	-	-	-
b) Other financial companies	-	-	-			
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:						
a) Public administrations	-	-	-	-	-	-
b) Other financial companies	282,389	391		1,985,911	391	
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	163,773		-	96,104	-	-
d) Households	2,132		-	10,061	-	-
Total	**5,626,485**	**391**	**-**	**2,092,076**	**391**	**-**

4.5 Financial assets at amortised cost: gross amount and total impairment losses

	Gross amount				Total impairment losses			
	Stage 1	of which: instruments with a low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Partial/total write-offs
Debt instruments	5,194,860	5,194,860	-	-	7,320	-	-	-
Financing	2,058,808	2,040,445	16,275	2,088	-	-	1,697	-
Total	**7,253,668**	**7,235,305**	**16,275**	**2,088**	**7,320**	**-**	**1,697**	**-**
Total T-1	**2,892,628**	**2,892,237**		**2,088**			**1,697**	
of which: purchased or originated credit - impaired financial assets	X	X	-	-	X	-	-	-
Total	**7,253,668**	**7,235,305**	**16,275**	**2,088**	**7,320**	**-**	**1,697**	**-**

SECTION 7 - EQUITY INVESTMENTS - CAPTION 70

7.1 Equity investments: information

Company name	Registered office	Operating office	Investment %	Voting rights %
C. Associates				
1. Unione Fiduciaria	Milan	Milan	24	24

7.2 Significant equity investments: carrying amount, fair value and dividends received

Company name	Carrying amount	Fair value	Dividends received
C. Associates			
1. Unione Fiduciaria	8,564	X	363
Total	**8,564**		**363**

7.3 Significant equity investments: financial information

Financial information	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenue	Net interest income	Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Profit (loss) from discontinued operations	Profit for the year (1)	Other comprehensive expense, net of income taxes (2)	Comprehensive income (3) = (1) + (2)
C. Associates														
1. Unione Fiduciaria*	13,235	1,112	78,924	-	93,271	39,143	-	3,677	4,232	4,232	-	4,232	-1,506	2,726
Total	**13,235**	**1,112**	**78,924**	**-**	**93,271**	**39,143**	**-**	**3,677**	**4,232**	**4,232**	**-**	**4,232**	**-1,506**	**2,726**

* Figures taken from the financial statements at 31 December 2017.

7.5 Equity investments: changes

	31.12.2018	31.12.2017
A. Opening balance	1,794,701	1,611,379
B. Increases		
B.1 Purchases	-	183,206
B.2 Reversals of impairment losses		
B.3 Fair value gains		
B.4 Other increases	145,044	126
C. Decreases		
C.1 Sales	1,523	10
C.2 Impairment losses	-	-
C.3 Other decreases	1,929,658	
D. Closing balance	8,564	1,794,701
E. Total fair value gains		
F. Total adjustments		

As part of the reorganisation, Nexi Payments increased its share capital by €145 million. At the same time, the caption decreased due to the sale of the investments in Oasi, Nexi Payments, Bassilichi and Help Line to Latino Italy S.p.A. for €1,930 million.

SECTION 8 - PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY - CAPTION 80

8.1 Property and equipment: breakdown of assets measured at cost

	31.12.2018	31.12.2017
1. Owned		
a) land	2,640	2,640
b) buildings	5,342	5,609
c) furniture	33	372
d) electronic systems	-	-
e) other	504	1,505
2. Under finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**8,519**	**10,126**
of which: obtained through enforcement of guarantees received		

8.2 Investment property: breakdown of assets measured at cost

Assets/Amount	31.12.2018				31.12.2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned								
a) land	-				39,739			
b) buildings	-				28,113			
2. Under finance lease								
a) land	-				-			
b) buildings	-				-			
Total	**-**				**67,852**		**72,420**	
of which: obtained through enforcement of guarantees received								

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

The nil balance at the reporting date is due to the sale of the properties in the first half of the year.

8.6 Property and equipment: changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**3,136**	**13,534**	**4,075**	**-**	**31,772**	**52,517**
A.1 Total depreciation and net impairment losses	**496**	**7,925**	**3,703**	**-**	**30,267**	**42,391**
A.2 Net opening balance	**2,640**	**5,609**	**372**	**-**	**1,505**	**10,126**
B. Increases						
B.1 Purchases	-	-	16	-	904	920
B.2 Capitalised improvement costs						
B.3 Reversals of impairment losses						
B.4 Fair value gains recognised in:						
a) equity						
b) profit or loss						
B.5 Exchange gains						
B.6 Transfers from investment property						
B.7 Other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	42	-	-	42
C.2 Depreciation	-	267	77	-	299	643
C.3 Impairment losses recognised in:						
a) equity						
b) profit or loss						
B.4 Fair value losses recognised in:						
a) equity						
b) profit or loss						
C.5 Exchange losses						
C.6 Transfers to:						
a) investment property						
b) non-current assets held for sale and disposal groups						
C.7 Other decreases	-	-	235	-	1,606	1,841
D. Net closing balance	**2,640**	**5,342**	**33**	**-**	**504**	**8,519**
D.1 Total depreciation and net impairment losses	496	8,192	4,015	-	32,171	44,875
D.2 Gross closing balance	**3,136**	**13,534**	**4,048**	**-**	**32,676**	**53,394**
E. Cost						

8.7 Investment property: changes

	Total	
	Land	**Buildings**
A. Opening balance	39,739	28,112
B. Increases		
B.1 Purchases		
B.2 Capitalised improvement costs		
B.3 Fair value gains		
B.4 Reversals of impairment losses		
B.5 Exchange gains		
B.6 Transfers to property and equipment		
B.7 Other increases	-	-
C. Decreases		
C.1 Sales	39,739	27,403
C.2 Depreciation	-	709
C.3 Fair value losses		
C.4 Impairment losses		
C.5 Exchange losses		
C.6 Transfers to:		
a) property and equipment		
b) non-current assets held for sale and disposal groups		
C.7 Other decreases	-	-
D. Closing balance	**-**	
E. Fair value	-	-

SECTION 9 - INTANGIBLE ASSETS - CAPTION 90

9.1 Intangible assets: breakdown

Assets/Amount	31.12.2018		31.12.2017	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**-**	**126,931**	**-**	**246,663**
A.2 Other	**36,447**	**-**	**63,047**	
A.2.1 At cost:	-	-	-	-
a) Internally-generated	-	-	-	-
b) Other assets	36,447	-	63,047	-
A.2.2 At fair value:	-	-	-	-
a) Internally-generated	-	-	-	-
b) Other assets	-	-	-	-
Total	**36,447**	**126,931**	**63,047**	**246,663**

Goodwill of €119.7 million was transferred with the Payments business unit.

9.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally-generated		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balance	**246,663**			**157,185**		**403,848**
A.1 Total amortisation and net impairment losses	-			94,138		94,138
A.2 Net opening balance	246,663			63,047		309,710
B. Increases						
B.1 Purchases	-			8,981		8,981
B.2 Increase in internally-generated assets	-			-		-
B.3 Reversals of impairment losses	-			-		-
B.4 Fair value gains recognised in:	-			-		-
- equity	-			-		-
- profit or loss	-			-		-
B.5 Exchange gains	-			-		-
B.6 Other increases	-			-		-
C. Decreases						
C.1 Sales	-	-	-	-	-	-
C.2 Adjustments	-	-	-	-	-	-
- Amortisation	-	-	-	14,762	-	14,762
- Impairment losses	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other decreases	119,733	-	-	20,819	-	140,551
D. Net closing balance	**126,931**	**-**	**-**	**36,447**	**-**	**163,378**
D.1 Total amortisation and net impairment losses	-	-	-	108,900	-	108,900
E. Gross closing balance	126,931	-	-	145,347	-	272,278
F. Cost						-

Key:
FIN = finite life
INDEF = indefinite life

9.3 Intangible assets: other disclosures

Impairment test

DEPObank tested its intangible assets with indefinite useful lives for impairment.

It performed this test on the following CGUs. Except for the changes to the scope of the business, the test was in line with that carried out for 2017:

CGUs	**Goodwill €'mln**
CGU Banking Payments	81.0
CGU Securities Services	45.9
Total	**126.9**

The recoverable amount of a CGU is the higher of:

- Fair value less costs of disposal;
- Value in Use.

The bank estimated value in use using the dividend discount model (excess capital version) based on its as-is 2017-2021 business plan, as resulting after the review of the BankCo business plan updated by the 2019-2023 strategic plan approved by the board of directors on 21 February 2019.

The fair value has been measured using the market multiples method, i.e., using a range between the average and the median of the multiples of a sample of comparables.

The key parameters used to calculate the cost of capital and, hence, value in use, are as follows:

Cost of capital (Ke)	**Banking Payments**	**Securities Services**
Risk-free rate at 31 December 2018	2.73%	2.73%
Equity market risk premium	5.68%	5.68%
Beta	1.1	1.06
Ke	**8.99%**	**8.75%**

The above parameters were calculated as follows:

- risk-free rate: gross return on the 10-year Italian government bonds (BTP) at 31 December 2018 (source: Info provider);
- beta used for consolidated DDM: weighted average of the betas of the comparables identified for each CGU;
- equity market risk premium: in line with best professional valuation practice.

With respect to the CGUs' estimated terminal value:

- growth rate (g): 2.0%, in line with the European authorities' objectives for the Eurozone's inflation rate;
- a prudent increase of 100 bps applied to the discount rate.

Dividends that can be distributed during the plan period and used to calculate the terminal value were determined considering the minimum CET 1 requirements of 14.0% in line with the bank's RAF.
The tests did not identify any impairment indicators at 31 December 2018.

SECTION 10 - TAX ASSETS AND LIABILITIES - CAPTIONS 100 OF ASSETS AND CAPTION 60 OF LIABILITIES

10.1 Deferred tax assets: breakdown

	31.12.2018	31.12.2017
IRAP		
Payment of substitute tax on goodwill	854	3,505
Amortisation/depreciation	1,324	1,457
Other	700	16
IRES		
Payment of substitute tax on goodwill	4,217	17,307
Provisions	3,721	3,574
Amortisation/depreciation	9,698	8,699
Other	2,422	689

10.2 Deferred tax liabilities: breakdown

	31.12.2018	**31.12.2017**
IRAP		
Valuation reserves	1,296	4,107
Goodwill	585	546
Other		
IRES		
Valuation reserves	654	20,396
Goodwill	2,887	2,696
Other	1,071	1,071

10.3 Changes in deferred tax assets (recognised in profit or loss)

	31.12.2018	31.12.2017
1. Opening balance	**34,657**	**33,571**
2. Increases		
2.1 Deferred tax assets recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) reversals of impairment losses		
d) other	3,948	1,619
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets cancelled in the year		
a) reversals	1,571	533
b) impairment due to non-recoverability		
c) change in accounting policies		
d) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
a) conversion into tax credits as per Law no. 214/2011		
b) other		
4. Closing balance	**37,034**	**34,657**

10.3 bis Changes in deferred tax assets as per Law no. 214/2011

	31.12.2018	31.12.2017
1. Opening balance	**28,894**	**27,901**
2. Increases	**1,670**	**1,303**
3. Decreases		
3.1 Reversals	243	310
3.2 Conversion into tax credits		
a) arising on the loss for the year		
b) arising on tax losses		
3.3 Other decreases	15,520	
4. Closing balance	**14,800**	**28,894**

10.4 Changes in deferred tax liabilities (recognised in profit or loss)

	31.12.2018	31.12.2017
1. Opening balance	**21,015**	**21,089**
2. Increases		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	230	230
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities cancelled in the year		
a) reversals	16,144	304
b) due to changes in accounting policies		
c) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
4. Closing balance	**5,101**	**21,015**

10.5 Changes in deferred tax assets (recognised in equity)

	31.12.2018	31.12.2017
1. Opening balance	**590**	**975**
2. Increases		
2.1 Deferred tax assets recognised in the year		
a) related to previous years		
b) due to changes in accounting policies	833	
c) other		
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets cancelled in the year		
a) reversals	1	385
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
3.2 Decrease in tax rates		
3.3 Other decreases	15,520	
4. Closing balance	**-14,098**	**590**

10.6 Changes in deferred tax liabilities (recognised in equity)

	31.12.2018	31.12.2017
1. Opening balance	**7,800**	**9,224**
2. Increases		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	995	
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities cancelled in the year		
a) reversals	7,403	1,424
b) due to changes in accounting policies		
c) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
4. Closing balance	**1,392**	**7,800**

SECTION 12 - OTHER ASSETS - CAPTION 120

12.1 Other assets: breakdown

Captions	31.12.2018	31.12.2017
Tax withholdings on interest to customers and other tax assets	34,236	34,827
Cheques to be settled	2,831	34,844
Partner banks for securities and expired coupons to be collected	242	4,855
Currency mismatches on portfolio transactions	-	-
Fee and commission income and other income to be charged	54,610	78,077
RTGS, transfers, electronic fund transfers, messages received, e-money	224,357	139,948
Other	39,669	68,753
Total	**355,943**	**361,304**

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES AT AMORTISED COST - CAPTION 10

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

Transaction type/Amount	31.12.2018				31.12.2017			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**1,338**	**x**	**x**	**x**	**1,774**	**x**	**x**	**x**
2. Due to banks		**x**	**x**	**x**		**x**	**x**	**x**
2.1 Current accounts and on-demand deposits	797,624	x	x	x	878,371	x	x	x
2.2 Term deposits	118,041	x	x	x	124,428	x	x	x
2.3 Financing	-	x	x	x		x	x	x
2.3.1 Repurchase agreements	9,548	x	x	x	-	x	x	x
2.3.2 Other	-	x	x	x	-	x	x	x
2.4 Commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
2.5 Other liabilities	81,561	x	x	x	89,343	x	x	x
Total	**1,008,112**		**1,008,112**		**1,093,916**		**1,093,916**	

Key:
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

Transaction type/ Group members	31.12.2018				31.12.2017			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	9,702,758	X	X	X	6,908,257	X	X	X
2. Term deposits	99	X	X	X	174	X	X	X
3. Financing						X	X	X
3.1 Repurchase agreements	122,293	X	X	X	340,791	X	X	X
3.2 Other	-	X	X	X	-	X	X	X
4. Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Other liabilities	541,196	X	X	X	556,155	X	X	X
Total	**10,366,346**		**10,366,346**		**7,805,377**		**7,805,377**	

Key:
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

SECTION 2 - FINANCIAL LIABILITIES HELD FOR TRADING - CAPTION 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction type/Amount	31.12.2018					31.12.2017				
	NA	FV			FV*	NA	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Assets										
1. Due to banks	-	-	-	-	-	-	-	-	-	
2. Due to customers	-	-	-	-	-	-	1	-	-	
3. Debt instruments	-	-	-	-	-	-	-	-	-	
3.1 Bonds	-	-	-	-	-	-	-	-	-	
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**371**	**1**	**-**	**-**	
B. Derivatives										
1. Financial derivatives										
1.1 Trading	X	-	4,926	-	X	X		5,670		X
1.2 Associated with fair value option	X	-	-	-	X	X				X
1.3 Other		-	-	-						
2. Credit derivatives		-	-	-						
2.1 Trading	X	-	-	-	X	X				X
2.2 Associated with fair value option	X	-	-	-	X	X				X
2.3 Other	X	-	-	-	X	X				X
Total (B)	**X**	**-**	**4,926**	**-**	**X**	**X**		**5,670**	**-**	**X**
Total (A + B)	**X**	**-**	**4,926**	**-**	**X**	**X**	**1**	**5,670**	**-**	**X**

Key:
FV* = Fair value calculated by excluding gains and losses due to changes in the issuer's credit standing compared to the issue date.
NA = nominal or notional amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

SECTION 6 - TAX LIABILITIES - CAPTION 60

See section 10 of assets.

SECTION 8 - OTHER LIABILITIES - CAPTION 80

8.1 Other liabilities: breakdown

	31.12.2018	31.12.2017
Tax liabilities, withholding taxes to be paid and other amounts to be paid	4,071	18,021
Cheques, cheque truncation flows to be credited	11,250	18,540
Securities and currency transactions and premiums paid for options to be credited	430	1,934
Due to employees	40,548	63,460
Other amounts for fees, commissions and interest to be paid	51,385	61,130
Debit cards	-	45,554
Currency mismatches on portfolio transactions	8,380	5,264
RTGS transfers, payment flows to be credited, e-money	306,418	122,125
Other	30,252	48,600
Total	**452,734**	**384,628**

SECTION 9 - POST-EMPLOYMENT BENEFITS - CAPTION 90

9.1 Post-employment benefits: changes

	31.12.2018	31.12.2017
A. Opening balance	**8,070**	**11,422**
B. Increases		
B.1 Accruals	147	151
B.2 Other increases	-	-
- business combinations	-	-
C. Decreases		
C.1 Payments	1,059	3,012
C.2 Other decreases	3,707	491
D. Closing balance	**3,451**	**8,070**
Total	**3,451**	**8,070**

The decrease is due to the contribution of the Payments business unit to Nexi Payments on 1 July 2018.

9.2 Other information

Main demographic and actuarial assumptions used to measure post-employment benefits at 31 December 2018

Mortality among aged pensioners	Rate for the Italian population broken down by age and gender calculated by ISTAT in 2000
Mortality among total and permanent disability pensioners	Rate inferred from the invalidity tables, broken down by age and gender, used in reinsurance
Annual advances rate	1.76%
Annual turnover	1.86%
Retirement	Rate based on the satisfaction of the first requirement for the mandatory general insurance
Inflation rate	1.50%
Discount rate	1.57% inferred, in accordance with IAS 19.83, from the Iboxx Corporate AA duration 10+ index at the measurement date

Sensitivity analysis

As required by IAS 19, the bank carried out a sensitivity analysis of the liability for post-employment benefits with reference to the most significant actuarial assumptions. It aimed at showing how much the carrying amount of the liability would be affected by reasonably possible variations in each of the assumptions. Specifically, the following table sets out the change in the liability for post-employment benefits assuming that the main parameters used increase or decrease.

Sensitivity analysis of the main evaluation parameters

(Amount in €)

Parameter	+/-	DBO 31.12.2018
Employee turnover	+0.50%	3,443,768
Employee turnover	-0.50%	3,457,963
Discount rate	+0.50%	3,281,001
Discount rate	-0.50%	3,632,860
Mortality rate	+0.25%	3,450,685
Mortality rate	-0.50%	3,450,701

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES - CAPTION 100

10.1 Provisions for risks and charges: breakdown

Items	31.12.2018	31.12.2017
1. Provisions for credit risk for commitments and financial guarantees given	-	391
2. Provisions for other commitments and other guarantees given	-	-
3. Internal pension plans	814	875
4. Other provisions	25,977	22,882
Total	**26,790**	**24,148**

10.2 Provisions for risks and charges: changes

Captions	Provisions for other commitments and other guarantees given	Internal pension plans	Other provisions	Total
A. Opening balance	**391**	**875**	**22,882**	**24,148**
B. Increases				
B.1 Accruals			4,669	4,669
B.2 Changes due to the passing of time		3		3
B.3 Changes due to amendments to the discount rate				-
B.4 Other increases			-	-
C. Decreases				
C.1 Utilisations	391	64	1,574	2,030
C.2 Changes due to amendments to the discount rate				-
C.3 Other decreases				-
D. Closing balance	**-**	**814**	**25,977**	**26,790**

The increase is mainly due to the prudent accrual of approximately €2.5 million for a probable risk that the tax authorities may not allow part of the ACE tax relief (around 8%) deducted by the bank over the last three years.

10.5 Internal pension plans - defined benefit plans

1. Internal pension plans and related risks

The defined benefit internal pension plan comprises accruals made by the bank for its former employees. The estimated liability amounts to €814 thousand at the reporting date.

2. Changes in net plan (assets) liabilities and reimbursement right

At 31 December 2017, the present value of the defined benefits was €875 thousand and €64 thousand was paid during the year.

10.6 Provisions for risks and charges: other

The other provisions were mainly set up for claims and disputes for which an outflow of resources is deemed probable. The caption also includes accruals for charitable donations.

SECTION 12 – EQUITY – CAPTIONS 110, 130, 140, 150, 160, 170 AND 180

12.1 Share capital and treasury shares: breakdown

Captions/Amount	31.12.2018	31.12.2017
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves	239,893	1,692,494
4. Treasury shares (-)	-	(32)
5. Valuation reserves	9,805	60,531
6. Equity instruments	-	-
7. Profit for the year	5,165	89,491
Total	**445,662**	**2,033,283**

The decrease is due to the contribution of the Payments business unit to Nexi Payments on 1 July 2018.

12.2 Share capital - number of shares: changes

Captions	Shares	Other
A. Opening balance		
- fully paid-up		
- not fully paid-up		
A.1 Treasury shares (-)		
A.2 Outstanding shares: opening balance	**14,110,599**	
B. Increases		
B.1 New issues		
- against consideration:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- bonus issues:		
- to employees		
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other increases		
C. Decreases		
C.1 Cancellations	75,191	
C.2 Repurchase of treasury shares		
C.3 Disposals of equity investments		
C.4 Other decreases		
D. Outstanding shares: closing balance	**14,110,599**	
D.1 Treasury shares (+)		
D.2 Closing balance	14,110,599	
- fully paid-up		
- not fully paid-up		

The bank has 14,185,790 fully paid-up outstanding shares. The treasury shares were cancelled during the year.

12.6 Other information

	Carrying amount	
	31.12.2018	**31.12.2017**
Legal reserve	20,000	20,000
Statutory reserves		
Other reserves	219,893	1,672,495
Total	**239,893**	**1,692,495**

Possible use of the reserves

Description	**31.12.2018**	**31.12.2017**	**Possible use**
Legal reserve	20,000	20,000	a
Share premium reserve	148,242	148,242	a,b,c
Property valuation reserve	-	46,219	a,b,c
Valuation reserve FVOCI	11,021	15,599	d
Valuation reserve other	-1,216	-1,287	
Reserve for own shares in portfolio	-	32	e
Unrestricted reserve for own shares	746	746	a,b,c
Income-related reserves as per Law no. 289/2002	10,848	10,848	a,b,c
Merger surplus reserve	1,293,537	1,293,617	a,b,c
Other reserves	-1,085,238	367,252	a,b,c
Total reserves	**397,940**	**1,901,268**	

a = to cover losses
b = dividends
c = capital increase
d = not distributable until realised
e = unuseable until after the sale of own shares in portfolio

Other disclosures

1. Loan commitments and financial guarantees given (other than those at fair value)

	Notional amount of loan commitments and financial guarantees given				
	Stage 1	**Stage 2**	**Stage 3**	**31.12.2018**	**31.12.2017**
Loan commitments					
a) Central banks	-	-	-	-	
b) Public administrations	-	-	-	-	
c) Banks	225,541	-	-	225,541	3,000
d) Other financial companies	1,076,254	-	-	1,076,254	2,052,600
e) Non-financial companies	21,200	-	-	21,200	28,000
f) Households	1,150	-	-	1,150	1,315
Financial guarantees given	**-**	**-**	**-**	**-**	
a) Central banks	-	-	-	-	
b) Public administrations	263	-	-	263	263
c) Banks	2,421	-	-	2,421	2,421
d) Other financial companies	2,620	-	-	2,620	101,962
e) Non-financial companies	752	-	-	752	644
f) Households	-	-	-	-	

3. Assets pledged as guarantee for liabilities and commitments

Portfolios	**31.12.2018**	**31.12.2017**
1. Financial assets at fair value through profit or loss	-	-
2. Financial assets at fair value through OCI	-	-
3. Financial assets at amortised cost	1,298,793	102,100
4. Property, equipment and investment property		
of which: held as inventories	-	

Assets pledged as guarantee mostly consist of government bonds eligible as collateral to guarantee the bank's operations on the reference markets.

5. Management and trading on behalf of third parties

Items	31.12.2018	31.12.2017
1. Execution of customer orders		
a) Purchases		
1. settled	9,559,847	24,954,867
2. unsettled		
b) Sales		
1. settled	8,317,311	24,355,604
2. unsettled		
2. Asset management		
a) Individual		
b) Collective		
3. Securities custody and administration		
a) Third party securities held as part of depositary bank services (excluding portfolio management)	46,900,130	51,546,933
1. securities issued by the reporting bank	-	-
2. other securities	46,900,130	51,546,933
b) Third party securities on deposit (excluding asset management): other	71,794,729	65,791,721
1. securities issued by the reporting bank	39,694	39,694
2. other securities	71,755,034	65,752,027
c) Third party securities deposited with third parties	102,851,680	100,324,138
d) Securities owned by the bank deposited with third parties	5,107,462	2,471,922
4. Other	**1,943,874**	**3,530,708**

Part C - NOTES TO THE INCOME STATEMENT

SECTION 1 - INTEREST - CAPTIONS 10 AND 20

1.1 Interest and similar income: breakdown

Captions	Debt instruments	Financing	Other transactions	Total 31.12.2018	Total 31.12.2017
1. Financial assets at fair value through profit or loss:					
1.1 Held for trading	167	-	-	**167**	**443**
1.2 Designated at fair value	-	-	-	**-**	**-**
1.3 Mandatorily measured at fair value	-	-	-	**-**	
2. Financial assets at fair value through other comprehensive income	11,303	-	X	**11,303**	**27,697**
3. Financial assets at amortised cost					
3.1 Loans and receivables with banks	230	10,964	X	**23,415**	**9,754**
3.2 Loans and receivables with customers	12.220	12,185	X	**12,185**	**19,848**
4. Hedging derivatives	X	X	-	**-**	
5. Other assets	X	X	827	**827**	**850**
6. Financial liabilities	X	X	X	16,758	10,668
Total	**23,920**	**23,149**	**827**	**64,655**	**69,260**
of which: interest income on credit-impaired financial assets					

1.3 Interest and similar expense: breakdown

Captions/Types	Liabilities	Securities	Other transactions	31.12.2018	31.12.2017
1. Financial liabilities at amortised cost					
1.1 Due to central banks	-	X	-	-	-
1.2 Due to banks	1,814	X	-	1,814	2,215
1.3 Due to customers	10,692	X	-	10,692	4,103
1.4 Securities issued	X	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	60
3. Financial assets at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	44	44	40
5. Hedging derivatives	X	X	-	-	
6. Financial assets	X	X	X	16,794	10,454
Total	**12,506**	**-**	**44**	**29,344**	**16,871**

SECTION 2 - FEES AND COMMISSIONS - CAPTIONS 40 AND 50

2.1 Fee and commission income: breakdown

Type of service/Amounts	31.12.2018	31.12.2017
a) Guarantees given	161	177
b) Credit derivatives	-	-
c) Management, brokerage and consultancy services:	-	-
1. Trading in financial instruments	4,680	10,556
2. Trading in foreign currencies	-	-
3. Asset management	-	-
3.1 Individual	-	-
3.2 Collective	-	-
4. Securities custody and administration	5,257	5,086
5. Depository services	44,319	51,449
6. Securities placement	983	1,482
7. Order collection and transmission	978	1,863
8. Consultancy services	189	237
8.1 Concerning investments		-
8.2 Concerning financial structure	189	237
9. Distribution of third party services	-	-
9.1 Asset management	-	-
9.1.1 Individual	-	-
9.1.2 Collective	-	-
9.2 Insurance products	-	-
9.3 Other products	-	-
d) Collection and payment services	54,176	55,586
e) Securitisation servicing services	-	-
f) Factoring services	-	-
g) Tax collection services	-	-
h) Management of multilateral trading systems	-	-
i) Keeping and management of current accounts	-	-
j) Other services	4,823	4,003
Total	**115,566**	**130,439**

2.2 Fee and commission income: product and service distribution channels

Services/Amounts	31.12.2018	31.12.2017
a) Own branches:		
1. Asset management		
2. Securities placement		
3. Third party services and products		
b) Off-premises distribution:		
1. Asset management		
2. Securities placement		
3. Third party services and products		
c) Other distribution channels:		
1. Asset management		
2. Securities placement	983	1,482
3. Third party services and products		

2.3 Fee and commission expense: breakdown

Services/Amounts	31.12.2018	31.12.2017
a) Guarantees received	61	55
b) Credit derivatives	-	-
c) Management and brokerage services:		-
1. Trading in financial instruments	235	513
2. Trading in foreign currencies	162	64
3. Asset management:	-	-
3.1 Own portfolio	-	-
3.2 Third party portfolios	-	-
4. Securities custody and administration	5,466	6,165
5. Placement of financial instruments	921	1,293
6. Off-premises distribution of securities, products and services	1,559	1,743
7. Off-premises distribution of financial instruments, products and services	-	-
d) Collection and payment services	18,531	16,660
e) Other services	4,698	3,382
Total	**31,633**	**29,875**

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

Captions/Income	31.12.2018		31.12.2017	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	1		16	
B. Other financial assets mandatorily measured at fair value				
C. Financial assets at fair value through other comprehensive income	2,161		1,567	
D. Equity investments	1,872		89,801	
Total	**4,034**	**-**	**91,385**	**-**

SECTION 4 - NET TRADING INCOME - CAPTION 80

4.1 Net trading income: breakdown

Transactions/Income components	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income [(A+B) - (C+D)]
Financial assets held for trading					
1.1 Debt instruments	85	1,509	82	337	1,175
1.2 Equity instruments	-	164	-	178	-14
1.3 OEIC units	-	-	-	2	-2
1.4 Financing	-	-	-	-	-
1.5 Other					
2. Financial liabilities held for trading					-
2.1 Debt instruments	-	-	-	-	-
2.2 Liabilities					-
2.3 Other					-
3. Other financial assets and liabilities: exchange gains					**10,020**
4. Derivatives					
4.1 Financial derivatives:					
- On debt securities and interest rates					-
- On equity instruments and equity indexes	-	4,822	-	4,515	307
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges associated with the fair value option	X	X	X	X	
Total	**85**	**6,495**	**82**	**5,032**	**11,486**

SECTION 6 - NET PROFIT ON SALES OR REPURCHASES - CAPTION 100

6.1 Net profit on sales or repurchases: breakdown

Captions/ Income components	31.12.2018			31.12.2017		
	Gain	Loss	Net gain	Gain	Loss	Net gain
Financial assets			-			-
1. Financial assets at amortised cost						
1.1 Loans and receivables with banks			-			-
1.2 Loans and receivables with customers			-			-
2. Financial assets at fair value through other comprenhensive income	7	3	4	211		211
2.1 Debt instruments		-	-		-	-
2.2 Financing					-	-
Total assets (A)	**7**	**3**	**4**	**211**	**-**	**211**
Financial liabilities at amortised cost			-			-
1. Due to banks			-			-
2. Due to customers			-			-
3. Securities issued			-			-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

SECTION 7 - NET GAIN ON OTHER FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 110

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

Transactions/Income components	Unrealised gains (A)	Realised gains (B)	Unrealised losses (C)	Realised losses (D)	Net gains [(A+B)-(C+D)]
1. Financial assets					
1.1 Debt instruments					
1.2 Equity instruments					-
1.3 OEIC units	3,973		669		3,304
1.4 Financing			10		-10
2. Foreign currency financial assets: - Exchange gains (losses)	**X**	**X**	**X**	**X**	
Total	**3,973**	**-**	**679**	**-**	**3,294**

SECTION 8 - NET IMPAIRMENT LOSSES FOR CREDIT RISK - CAPTION 130

8.1 Net impairment losses for credit risk associated with financial assets at amortised cost: breakdown

Transactions/ Income components	Impairment losses (1)			Impairment gains (2)		31.12.2018 (3)=(1)-(2)	31.12.2017 (3)=(1)-(2)
	Stages 1 and 2	Stage 3 Write-off	Stage 3 Other	Stages 1 and 2	Stage 3		
A. Loans and receivables with banks							
- Financing							-
- Debt instruments	32					32	
of which: purchased or originated credit-impaired							
B. Loans and receivables with customers							
- Financing						-	-
- Debt instruments	7,288					7,288	
of which: purchased or originated credit-impaired							
C. Total	**7,320**	**-**	**-**	**-**	**-**	**7,320**	**-**

SECTION 10 - ADMINISTRATIVE EXPENSES - CAPTION 160

10.1 Personnel expense: breakdown

Type of expense/Amounts	31.12.2018	31.12.2017
1) Employees	55,890	134,823
a) wages and salaries	40,535	60,284
b) social security charges	10,339	15,329
c) post-employment benefits	244	283
d) pension and similar costs	82	115
e) accrual for post-employment benefits	88	59
f) pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:		
- defined contribution plans	3,146	4,186
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	1,456	54,567
2) Other personnel	28	783
3) Directors and statutory auditors	1,241	1,208
4) Retired personnel	-	-
5) Cost recoveries for personnel seconded to other companies	-2,801	-2,969
6) Cost reimbursements for personnel seconded to the bank	2,738	3,340
Total	**57,096**	**137,185**

10.2 Average number of employees by category

Personnel employed*	31.12.2018	31.12.2017
a) Managers	28	41
b) Junior managers	257	379
c) Other employees	298	375

* Other personnel

10.3 Defined-benefit company pension funds: costs and income

The internal defined benefit pension plan only covers retired employees as the plan for the current employees is of a defined contribution nature.
Costs of €3.2 thousand for the defined benefit plan recognised in profit or loss mainly comprise the interest cost.
There are no plan assets.

10.5 Other administrative expenses: breakdown

Type of expense	31.12.2018	31.12.2017
- data processing	24,030	28,931
- post office, valuables transportation and couriers	599	973
- external services	13,146	9,524
- interbank network traffic	2,614	6,248
- internet connections and automation costs	3,970	4,057
- market access	1,007	2,212
- professional services	15,802	20,087
- agents' commissions	467	1,503
- blank cashier's cheques	86	71
- maintenance and lease	11,343	19,100
- building management costs, leases, heating and lighting	3,581	5,220
- stationery and forms	170	219
- insurance	420	505
- telegraph, telephone and telex	326	441
- membership fees	1,520	1,453
- surveillance and cleaning	351	730
- other	4,560	6,841
- taxes and duties	1,629	2,761
Total	**85,623**	**110,876**

The table shows the fees invoiced in 2018 by the independent auditors engaged to perform the statutory auditor as per Legislative Decree no. 39 of 27 January 2010:

Service	Provider	€'000
Audit	KPMG SPA	242
Total		**242**

SECTION 11 - NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES - CAPTION 170

11.3 Net accruals to other provisions for risks and charges: breakdown

Type of expence	31.12.2018	31.12.2017
Accruals for risks and sundry charges	3,531	1,418
Other accruals	-	-
Total	**3,531**	**1,418**

SECTION 12 - DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY - CAPTION 180

12.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

Assets/Income component	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Property, equipment and investment property				
A.1 Owned				
- Property and equipment	643			643
- Investment property	709			709
- Inventories	X			
A.2 Acquired under finance lease				
- Property and equipment				-
- Investment property				-
Total	**1,352**	**-**	**-**	**1,352**

SECTION 13 - AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS - CAPTION 190

13.1 Amortisation and net impairment losses on intangible assets: breakdown

Assets/Income component	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Intangible assets				-
A.1 Owned				-
- Generated internally				-
- Other	14,762	-		14,762
A.2 Acquired under finance lease				-
Total	**14,762**	**-**	**-**	**14,762**

SECTION 14 - NET OTHER OPERATING INCOME - CAPTION 200

14.1 Other operating expense: breakdown

	31.12.2018	31.12.2017
Other expense	2,066	2,135
Return of revenue from services	1,604	3,842
Total	**3,670**	**5,977**

14.2 Other operating income: breakdown

	31.12.2018	31.12.2017
Lease income	1,231	1,485
Revenue from services	39,786	76,846
Recovery of stamp duty from customers and postal expenses	147	145
Other income	2,499	2,907
Total	**43,663**	**81,383**

SECTION 15 - GAINS (LOSSES) ON EQUITY INVESTMENTS - CAPTION 220

15.1 Net gains on equity investments: breakdown

Income component/Amounts	31.12.2018	31.12.2017
A. Gains		
1. Fair value gains		
2. Gains on sales	-	14,590
3. Impairment gains		
4. Other income		
B. Losses		
1. Fair value losses	-	-
2. Impairment losses		
3. Losses on sales		
4. Other losses		
Net gains	**-**	**14,590**

SECTION 18 - NET GAINS (LOSSES) ON SALES OF INVESTMENTS - CAPTION 250

18.1 Net gains (losses) on sales of investments: breakdown

Income component/Amounts	31.12.2018	31.12.2017
A. Property		
- Gains on sales	8,427	-
- Losses on sales	4,920	-
B. Other assets		
- Gains on sales	900	-
- Losses on sales	127	7
Net gains (losses)	**4,280**	**-7**

SECTION 19 - INCOME TAXES - CAPTION 270

19.1 Income taxes: breakdown

Income components/Amount	31.12.2018	31.12.2017
1. Current taxes (-)	-24,860	11,886
2. Change in current taxes from previous years (+/-)	-1,151	1,924
3. Decrease in current taxes for the year (+)		0
3.bis Decrease in current taxes for the year due to tax assets as per Law no. 214/2011(+)		0
4. Change in deferred tax assets (+/-)	2,377	1,087
5. Change in deferred tax liabilities (+/-)	16,144	74
6. Income taxes (-)	-7,490	14,971

19.2 Reconciliation between the theoretical and effective tax expense

IRES	31.12.2018	31.12.2017
Reconciliation between the theoretical and effective rates:		
Theoretical rate	27.5%	27.5%
Exempt revenue and other decreases	-28.95%	-52.46%
Non-deductible costs	39.2%	1.5%
Effective rate	37.8%	-23.46%

The increase in the effective rate compared to the theoretical rate mainly refers to the tax gain on the sale of the properties.

IRAP	31.12.2018	31.12.2017
Reconciliation between the theoretical and effective rates:		
Theoretical rate	5.57%	5.57%
Exempt revenue and other decreases	-2.0%	-5.1%
Non-deductible costs	3.8%	2.9%
Effective rate	7.3%	3.4%

Part D - COMPREHENSIVE INCOME

COMPONENTS OF OTHER COMPREHENSIVE INCOME

Captions		2018	2017
10.	Profit for the year	5,164,942	89,490,653
	Items that will not be reclassified subsequently to profit or loss		
20.	Equity instruments at fair value through other comprehensive income		
	a) Fair value gains	12,273,797	1,247,533
	b) Transfers to other equity items		
70.	Defined benefit plans	106,392	97,345
100.	Related tax	-1,029,410	-439,329
	Items that will be reclassified subsequently to profit or loss		
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income		
	a) fair value losses	-21,412,627	-4,388,314
	b) reclassification to profit or loss		
	- impairment losses		
	- gains/(losses) on sales		
	c) other changes		
180.	Related tax	7,081,156	1,451,215
190.	**Total other comprehensive expense**	**-2,980,692**	**-2,031,549**
200.	**Comprehensive income (captions 10+190)**	**2,184,250**	**87,459,104**

PART E - RISKS AND RELATED HEDGING POLICIES

INTRODUCTION

DEPObank attaches great importance to risk management and control to guarantee the reliable and sustainable generation of value in a controlled risk environment.

The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the bank's risk profile, by fostering a culture of risk-awareness and enhancing the transparent and accurate representation of the risk level of its portfolios.

The bank's internal controls, being the organisational, regulatory and methodological system used to effectively perform guidance and strategic, management and technical-operating controls, are designed to provide reasonable assurance that the bank will achieve its operating efficiency and effectiveness objectives and that its financial reporting is reliable and compliant with the ruling laws and regulations.

The internal controls are structured into different levels, as follows:

- line controls, designed to ensure the bank's correct operations: they are hierarchical controls performed internally by the production units and are usually part of the back office procedures or are performed alongside them;
- risk management controls, implemented to define risk measurement methods, check compliance with limits assigned to the various units (level 2 controls) and to ensure each unit's operations comply with the risk/return objectives;
- compliance controls, performed to monitor risks of non-compliance with internal and external regulations;
- internal audit controls, implemented to identify irregular transactions, violations of procedures, internal and external regulations and to assess the overall working of the internal controls.

Independent, non-operating units perform the risk management activities as required by the internal regulations and the internal audit procedures.

The board of directors is responsible for the internal controls and the precise definition of the bank's risk appetite and, accordingly, the definition and approval of strategies and risk management policies. The board of directors also ensures that the internal controls are consistent with the bank's risk management policy.

The risk management and control process is regulated by a governance model hinged on the segregation of management processes from risk control processes and their development in line with the bank's hierarchical structure, including through a delegation process.

The risk management unit monitors risks and it carries out its guidance, control and coordination duties in close coordination with the board of statutory auditors and management. It reports to the board of statutory auditors, the risk committee and the managing director.

The risk management unit measures, monitors and reports on the bank's risks and checks that its equity is sufficient to cover the various types of risks.

The unit is specialised in legislative issues and acts in accordance with the policy to manage non-compliance risks approved by the board of directors.

The internal controls include the risk policy, which sets out the principles, objective and methods to manage (methods and tools) the main risks faced by the bank as a result of its activities. They also comprise the RAF, which reconciles strategic planning with risk management as it defines the level and type of risk that the bank is willing to incur to achieve its strategic objectives.

Therefore, the RAF embodies the bank's risk management policies by defining the general risk appetite principles and the related controls over:
- the bank's overall risk profile;
- the main specific risks.

The RAF defines parameters for each risk that represent its optimal level of exposure acceptable to the bank to achieve its objectives and define its business strategy (risk target), an early warning level (risk trigger) and a maximum risk level (risk limit). The bank defines these parameters considering, inter alia, the market scenario and existing regulatory constraints.

Given the importance of risk management to strategic planning, the bank has defined the operating approach, roles and responsibilities of the units in charge of identifying, measuring and monitoring the transactions of greater importance in a specific operating procedure. Measurement of the risk of a transaction of greater importance involves assessing whether the transaction's risk profile matches the risk appetite set out in the RAF. This profile reflects the risk policies approved by the board of directors in the specific risk policy and the rules and regulations issued by the supervisory authorities for supervised banks.

The risk policy and a specific operating procedure are applicable to the ICAAP/ ILAAP process as well, which also complies with the requirements of Bank of Italy circular no. 285 of 17 December 2013 (Supervisory provisions for banks), as subsequently amended, and the EBA and ECB guidelines.

The board of directors defines the risk appetite and, therefore, the risk strategies and management policies based on an assessment of the bank's capital adequacy.

Basel 3

On 1 January 2014, the reforms of the Basel Committee agreements ("Basel 3") were transposed into law of the European Union. Their objective was to strengthen the capacity of banks to absorb shocks arising from financial and economic tensions, regardless of their origin, to improve risk management and governance and to strengthen the transparency and disclosure of banks. The Committee maintained the three pillar approach, which was the basis of the previous capital agreement known as "Basel 2", integrating and strengthening it to increase the quantity and quality of the capital base of the intermediaries, as well as introducing countercyclical supervisory tools and rules on the management of liquidity risk and on containment of leverage.

At Community level, the contents of Basel 3 were transposed into two legal instruments on 26 June 2013:

- Directive 2013/36/EU (the Capital Requirements Directive - CRD IV), which deals with, inter alia, the conditions for access to banking activity, the freedom of establishment and the freedom to provide services, the process of prudential supervision and the additional own funds;
- Regulation (EU) no. 575/2013 (Capital Requirements Regulation - CRR), governing the prudential supervision of the First Pillar and public disclosure rules (Third Pillar).

In addition to the European Union legislation, Bank of Italy circular no. 285 of 17 December 2013 groups the prudential supervisory regulations applicable to Italian banks and banking groups, reviewed and updated to adapt domestic legislation to the changes introduced in the international regulatory framework, particularly with respect to the new European Union framework for banking supervision, as well as to take into account the needs identified in the supervision of banks and other intermediaries.

The adequacy of the risk control system is also reported on in the annual report of the supervisory review process for the purpose of capital and liquidity adequacy (ICAAP/ILAAP report), which was approved and sent to Bank of Italy in June 2018.

As part of the adoption of Basel 3, the bank publishes the document entitled "DISCLOSURE BY INSTITUTIONS ACCORDING TO REGULATION (EU) no. 575/2013" annually on its website (www.depobank.it). It contains information on capital adequacy, risk exposure and the general characteristics of the systems used to identify, measure and manage this information.

SECTION 1 - CREDIT RISK

QUALITATIVE DISCLOSURE

1. General issues

Credit risk is the risk that an unexpected variation in the credit standing of a counterparty that has an exposure with the bank will lead to a related unexpected variation in the credit position. Therefore, credit risk does not arise only on a counterparty's possible insolvency but also the simple deterioration in its credit standing.

DEPObank is a second level bank and its core business is the provision of products and services mainly in the payment systems and securities custody, administration and settlement services sectors. Lending is not a core business but is solely related to the provision of products and services and with the specific treasury business (managed with operating ceilings) and the securities service business (mainly managed through current account overdrafts).

2. Credit risk management policies

2.1 Organisational aspects

The activities that generate credit risk are managed by the chief financial officer's (CFO) unit (specifically the treasury and credit & branches units and those units in charge of securities services.

With respect to the first level controls, the units check and monitor that the financial transactions performed by them comply with the maximum operating limits and/or caps. As part of the second level controls, the risk management unit checks compliance with the operating limits and large exposures. It also calculates the exposure with related parties every day.

The risk management unit also monitors credit exposures by checking the existence and size (at month end) of overdrafts on corporate and bank accounts (and the related credit facilities) when the number of non-performing exposures is immaterial.

Also because of the limited number of exposures normally taken on by the bank, its credit risk measurement methods and the related controls over credit risk trends are simple and lean; it does not use scoring systems or external and/or internal ratings. The bank is currently considering what methods to use to measure credit and the other risks, especially liquidity risk, in line with the projections included in the 2019-2023 business plan.

Pursuant to the supervisory provisions (Bank of Italy circular no. 285), the bank's assessment of credit risk includes counterparty risk, that is the risk that a counterparty to a transaction may default before the transaction's cash flows have been finalised. This latter risk is negligible considering the bank's total weighted assets, as it has always been below 1% of the total credit and counterparty risk.

The bank's organisational structure ensures the proper monitoring and management of risks. With specific respect to credit risk, the board of directors has the sole power to make policies that affect the bank's operations. It approves the strategies and risk management policies and the bank's organisational structure for internal controls. The delegation system provided for by an internal policy approved by the board of directors attributes specific powers to some bodies and units for decisions about lending. As required by the internal regulations, credit risk is managed and monitored by the:

- board of directors;
- managing director;
- credit & financial committee;
- credit & branches unit.

2.2 Management, measurement and control systems

The agreement of credit facilities is regulated by a specific policy and they are provided to:

- banks;
- stock brokerage companies;
- financial companies duly included in the registers regulated by the Consolidated Banking Act;
- large corporate customers;
- OEICs;
- Fund Management Companies.

The bank only provides credit facilities to retail customers who are employees in the form of current account overdrafts and personal loans. It does not provide mortgage loans.

The credit facilities offered by DEPObank, diversified by type of customer, include:

- operating treasury facilities;
- intermediation caps in the Target 2 and E-Mid settlement system;
- syndicate loans;
- endorsement credits and other commitments for guarantees issued (sureties, letters of patronage);
- cash credit facilities.

The lending approval procedure starts after receipt of a formal application from the customer by the relevant unit which is sent to the credit & branches unit. This stage includes the correct identification of the risk and an assessment of the customer's reliability, i.e., its ability to meet its financial commitments arising from the receipt and subsequent use of the financing.

Customers do not have to make specific applications for operating limits and/or intermediation caps. The preliminary investigation is initiated by the treasury unit or the competent internal unit.

In order to monitor counterparties that operate in the retail intermediation services sector, the bank has introduced specific operating limits to monitor and check these parties' operations. In certain cases, it asks for guarantees to mitigate any risks it takes on.

All the applications for credit and allocations of operating limits are reviewed by the credit office, together with the unit manager and then approved by the credit & financial committee. If no obstacles are identified, the credit & financial committee expresses its opinion on the application, including about the guarantees acquired or to be acquired for the relevant boards of directors to take their decision.

A delegation structure, approved by the board of directors, allows the authorised parties to take decisions within set limits.

After the credit facility is provided, risks are checked and monitored as follows:
- periodic assessments of the customers and reviews of their positions;
- checks of overruns;
- checks of information from Bank of Italy's central credit register;
- identification of indications that the risk is more serious.

MANAGEMENT OF OVERRUNS

The credit office checks and analyses any overruns every day and informs the relevant units of all positions with overruns (current accounts in Euro and foreign currency with and without credit facilities). The units firstly check the accounting entries and, if necessary, make the relevant adjustments. They analyse the reasons for the overruns and invite the customers to immediately rectify their positions if this is appropriate. They also inform the credit office and the risk management unit of their actions.

The relevant reclassification procedure is activated for positions with particular difficulties, which consists of a resolution taken by the duly authorised bodies and the related notification to the central credit register pursuant to Bank of Italy regulations. In addition, following the introduction of circular no. 285/2013, a structured process for the continuous monitoring of non-performing exposures has been defined and the scope of the risk management unit's activities has been revised. The scope has been extended to include, among other things, credit quality monitoring. The related results are included, together with those of the credit risk monitoring, in a special section of the dashboard.

The data in the dashboard, sent on a quarterly basis to Bank of Italy, show that the overruns can vary significantly, due to the limited number of counterparties, but however, the amounts involved are very limited overall compared to the total credit facilities.

OPERATING LIMITS

The treasury unit manager supervises and checks that all the financial transactions carried out by their unit comply with the operating limits and/or approved caps. The risk management unit monitors compliance with the operating limits on a daily basis as a second level control. These limits are granted on the basis of standard parameters and vary depending on the nature of the instrument and its implicit volatility as well as the duration or residual life of the transaction.

The bank has an application which performs the centralised check of the existing operating limits each day and issues alerts when the threshold is exceeded.

RISK CONCENTRATION LIMITS

The risk management unit monitors compliance with the risk concentration limits (large exposures, regulated by the Bank of Italy in Part Two, Chapter 10, of circular no. 285 of 17 December 2013 as subsequently updated) on a daily basis, as a follow-on of the level 1 controls already performed by the relevant units.

LIMITS TO EXPOSURES TO RISKY TRANSACTIONS AND CONFLICTS OF INTEREST WITH RELATED PARTIES

Regulations covering the limits to risky transactions with related parties and parties related to them introduced exposure limits (considering individual regulatory capital) vis-à-vis “Company personnel”, “Investors exercising control or significant influence”, “Other investors” and “Parties subject to control or significant influence”.
In addition to the controls over exposures to the individual related parties, the bank also calculates the overall exposure to all the related parties and the parties related to them each day.

2.3 Measurement of expected credit losses

IFRS 9 requires that impairment losses on loans and debt instruments be calculated using the expected credit loss method, which is based on two main aspects:

- the stage allocation of credit exposures;
- calculation of the expected credit loss.

The staging allocation is based on the loans’ and bonds’ original or subsequent credit quality. Specifically:

- Stage 1: newly-acquired credit exposures and exposures that have not undergone significant credit risk deterioration compared to the initial carrying amount and exposures with a low credit risk at the reporting date;
- Stage 2: performing exposures that have undergone significant impairment in their credit risk compared to their initial carrying amount;
- Stage 3: impaired credit exposures.

The bank uses a stage allocation method for its debt instruments based on a combination of relative and absolute factors:

- assessment of the credit risk ratings, applying the low credit risk exemption to investment grade securities (at least two of three rating agencies or a safe PD rating >=1%[1]).
- the transaction-level comparison between the PD at the origination date and reporting dates; in line with the EBA stress test, a PD delta of more than 200% is considered: the 12-month PD is used as the comparative factor.

The PD is calculated in two steps: calculation of the risk-neutral PD, obtained from market data and related to the individual issuer; and calculation of the real world PD, for which the risk premium is deducted from PD implicit in the market spread.

[1] The safe level is calculated as the maximum of the 95th percentile of the 12-month PD trend observed over time.

2.4 Credit risk mitigation techniques

In order to mitigate credit risk, the relevant bodies may decide to tie the granting of credit facilities to the receipt of suitable guarantees, based on the results of the related credit facility application investigation. These guarantees may be collateral, such as securities and/or cash deposits, contractual guarantees or endorsement guarantees.

The credit office and the securities services units regularly check, at least once a year, the quantitative and qualitative adequacy of the guarantees given by customers. In the case of ascertained total or partial default, they request the customers integrate the guarantees on a timely basis. If this does not take place, they immediately revise the position to comply with the identified risks.

At the reporting date, the bank has not enforced any of the guarantees granted by counterparties to mitigate the impact of credit risk on the internal capital (so-called “credit risk mitigation”). The only type of exposure for which the credit risk mitigation guarantees are enforced is that relating to repo transactions, for which the bank has entered into GMRAs to ensure, inter alia, a reduction in the use of own funds.

3. Credit-impaired exposures

3.1 Management policies and strategies

The Credit & Financial Committee regularly examines all potentially irregular positions, approving recovery actions and, based on suitable parameters, the exposure’s possible reclassification. Its decisions are submitted for approval to the board of directors.

Under current legislation, financial assets are categorised in line with the debtor’s creditworthiness:

1) non-performing exposures: on-statement of financial position (loans and receivables) and off-statement of financial position assets (financial guarantees given and loan commitments) that, according to Bank of Italy, fall into one of the following categories:
   - bad exposures: exposures to debtors that are insolvent, even when they have not yet been legally declared insolvent, or in substantially similar circumstances, regardless of the bank’s credit loss forecasts. They do not include exposures whose irregular position is due to their country risk;
   - unlikely to pay exposures: (other than those classified as bad) exposures in respect of which the bank believes the debtors are unlikely to meet their contractual obligations in full (principal and interest) unless action such as the enforcement of guarantees is taken;
   - non-performing past due exposures: (other than those classified as bad and unlikely-to-pay exposures) exposures that are overdrawn and/or past-due by more than 90 days at the reporting date and exceed a set materiality threshold, which differs, as allowed by current legislation, depending on whether a debtor or transaction approach is adopted;

2) performing past due/overdrawn exposures: exposures that are both those that are overdrawn and/or past due by more than 90 days but that are not considered non-performing (e.g., because they do not exceed the materiality threshold set by current legislation and those that are overdrawn and/or past due by less than 90 days;

3) forborne exposures: forbearance is a change to the original terms and conditions of a contract or a total or partial refinancing when a debtor in financial difficulty may cause a loss for the lender. The debtor does not have to be in default. Forbearance measures can apply to exposures classified as performing (performing forborne exposures) or non-performing (non-performing forborne exposures). The application of forbearance measures may be triggered by exposures that became past due by more than 30 days at least once in the three months preceding the contract amendment (forbearance presumption), thus lowering the warning threshold compared to the 90 days provided for by the definition of non-performing exposures. Accordingly:
   - non-performing forborne exposures: when the forbearance measures are applied to exposures classified as non-performing;
   - performing forborne exposures: when the forbearance measures are applied to exposures classified as performing when the forbearance presumption occurs (see above).

Forborne exposures are subject to continuous monitoring and may be reclassified as non-forborne after an observation period of 24 months and 36 months for performing and non-performing exposures, respectively. The definition of forborne exposures does not replace the existing non-performing asset categories, but is an additional informational and monitoring tool.

The bank has recognised the impairment losses identified during an individual assessment of the individual non-performing exposures.

3.2 Write-offs

None.

3.3 Purchased or originated credit-impaired exposures

None.

4. Financial assets subject to renegotiations for commercial reasons and forbearance measures

Renegotiations are approved and carried out as part of the bank's lending process. The bank's core business does not include lending, which is however strictly correlated to the products and services offered to support and complement its depositary services. Lending is considered a "second level" business for a bank whose core business comprises the provision of products and services for payment systems and securities custody, administration and settlement systems. In this segment, the assessment and granting of credit facilities are originated by an existing business. Identifying the exposures that qualify for the application of forbearance measures is usually part of the review and check of existing credit lines. This activity requires a preliminary investigation and, hence, a specialist analysis and the approval of the relevant boards. Accordingly, forbearance measures are approved after the relevant bank's bodies, in compliance with the segregation of duties and independence rules, have suitably assessed the debtor's credit rating.

In 2018, the bank had five exposures (loans and receivables with customers) classified as forborne, totalling €9.3 million. They relate to the real estate funds to which the bank provides depositary services. Accordingly, they are revocable credit facilities which were renegotiated upon renewal. They were classified as performing at the reporting date and, based on the internal staging allocation rules, fall into IFRS 9 stage 2. The exposures are monitored by the relevant units and they have been classified as forborne by less than six months. There are no additional forborne exposures relating to previous years. The bank did not request additional guarantees as part of the forbearance measures, also because, as part of its depositary services, it constantly monitors the exposures' cash flows. Being revocable credit facilities with a maximum term of 12 months and bullet repayment, there were no direct impact on the present value of their net cash flows. The bank measured and tested these exposures for impairment using its internal model, whereby the 12-month probability of default (PD) is estimated on the basis of its own historical figures. However, it also estimated the expected credit losses using the most recent data available and cash flow recovery stress scenarios.

QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

A.1 Non-performing and performing credit exposures: carrying amount, impairment losses, performance and business breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amount)

Portfolios/Quality	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets at amortised cost	391	-	-	-	7,262,624	7,263,015
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total 31.12.2018	**391**	**-**	**-**	**-**	**7,262,624**	**7,263,015**
Total 31.12.2017	**391**	**-**	**-**	**-**	**5,394,227**	**5,394,618**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross amount and carrying amount)

Portfolios/Quality	Non-performing				Performing			
	Gross amount	Total impairment losses	Carrying amount	Partial/ total write-offs	Gross amount	Total impairment losses	Carrying amount	Total (carrying amount)
1. Financial assets at amortised cost	2,088	1,697	391	-	7,269,944	7,320	7,262,624	7,263,015
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-
3. Financial assets at fair value through profit or loss	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31.12.2018	**2,088**	**1,697**	**391**	**-**	**7,269,944**	**7,320**	**7,262,624**	**7,263,015**
Total 31.12.2017	**2,088**	**1,697**	**391**		**5,394,227**	**-**	**5,394,227**	**5,394,618**

Portfolios/Quality	Assets with low credit quality		Other assets
	Accumulated losses	Carrying amount	Carrying amount
1. Financial assets held for trading	-	-	2,666
2. Hedging derivatives	-	-	-
Total 31.12.2018	**-**	**-**	**2,666**
Total 31.12.2017	**-**	**-**	**17,376**

A.1.3 Breakdown of financial assets by past due bracket (carrying amounts)

Portfolios/Quality	Stage 1			Stage 2			Stage 3		
	between 1 day and 30 days	between 30 days and 90 days	over 90 days	between 1 day and 30 days	between 30 days and 90 days	over 90 days	between 1 day and 30 days	between 30 days and 90 days	over 90 days
1. Financial assets at amortised cost	118,493	-	-	-	15,645	637	-	-	391
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31.12.2018	**118,493**	**-**	**-**	**-**	**15,645**	**637**	**-**	**-**	**391**

A.1.4 Financial assets, loan commitments and financial guarantees given: total impairment losses and provisioning

Reasons/ Risk stages	Total impairment losses													Total accruals on commitments to provide funds and financial guarantees given			Total
	Stage 1				Stage 2				Stage 3				of which: purchased or originated credit-impaired financial assets				
	financial assets at amortised cost	financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	financial assets at amortised cost	financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening balance	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-1,697**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Increase in financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cancellations other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net impairment losses for credit risk (+/-)	-7,320	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contract modifications that do not entail derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-7,320	-	-	-	-	-	-	-	-1,697	-	-	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Collections of written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Information on the calculation of impairment losses on financial assets is provided below.

Financial assets at amortised cost: securities owned by the bank

The bank adopted a sophisticated approach to calculate the amount of the loss allowance. Specifically:

- the PD is the likelihood of a default over a particular time horizon;
- the LGD (loss given default) is the share of an asset that is lost if a borrower defaults and, hence, the expected recovery rate;
- the EAD (exposure at default) is the total amount of the bank's exposure when a borrower defaults, which is the asset's amortised cost at the reporting date.

EAD*PD*LGD=ECL (Expected credit loss)

Impairment losses on financial assets classified into stage 1 are equal to the 12-month expected credit losses (see IFRS 9.B5.5 - B5.5.43).

Impairment losses on financial assets classified into stages 2 and 3 are equal to the lifetime expected credit losses (see IFRS 9.B5.5.3 and B5.5.43).

Probability of default

The bank's model provides for a two-step calculation of the PD:

1. calculation of the risk-neutral PD, based on market and individual issuer's inputs;
2. calculation of the real-world PD, whereby the market spread PD is adjusted for its risk premium.

The risk-neutral PD is estimated using daily market information and credit spreads (CDS spreads). Usually, credit spreads of individual issuers are preferred. If, for a certain issuer, equally relevant credit spreads are available on different markets, the CDS spreads are preferred. If there are no specific credit spreads on the market, or they are illiquid or immaterial, the default probability term structure of an issuer is determined using the market comparables model. This model considers comparable issuers for which specific credit spreads are available or a reference cluster for which a significant credit spread may be estimated. Mapping individual issuers to comparables or clusters is based on an analysis of:

- business segment;
- geographical segment;
- credit rating (ECAI);
- key financial figures.

The real-world PD is estimated starting from the risk-neutral PD and is, therefore, strongly affected by market inputs, and includes forward-looking information. It is calculated using models based on the Merton method, in order to identify the market spread PD adjusted for its premium risk component.

The forward-looking approach derives from the use of credit derivatives to calculate the PD, whose price already comprises future expectations.
The model uses historical data of the three months preceding the valuation date in order to ensure a minimum stability in the inputs.
Based on the above, the bank applied an average PD of approximately 0.31% to its proprietary portfolio at the reporting date. The financial assets at amortised cost almost exclusively consist of Italian government bonds.

Loss given default (LGD)

The LGD is assumed to be constant over the entire life of the financial assets and is calculated on the basis of:

- the issuer type (government or corporate bonds);
- the instrument's ranking (covered, senior or subordinated);
- the instrument's rating;
- the issuer's country risk.

The above data are the standard market inputs used to price CDS.
Specifically, for its government bonds, the bank used the LGD calculated on a historical basis and set out in the annual "Moodys Sovereign Default Rates" report. It amounts to 0.45 and will change only if material differences are subsequently reported in the above document (which is usually published annually).

Staging allocation

The staging allocation is based on the securities' original or subsequent credit quality. Specifically:

- Stage 1: includes newly acquired credit exposures, exposures that have not undergone significant credit risk deterioration compared to the situation on the date of their initial recognition and exposures with a low credit risk at the reporting date;
- Stage 2: performing exposures that have undergone significant impairment in their credit risk compared to their initial carrying amount (IFRS 8.B5.5.9);
- Stage 3: credit-impaired exposures.

Staging allocation is based on a combination of relative and absolute factors:

- assessment of the credit risk ratings, applying the low credit risk exemption to investment grade securities (at least two of three rating agencies or a safe PD rating >=1%);
- the transaction-level comparison between the PD at the origination date and reporting dates; in line with the EBA stress test, a PD delta of more than 200% is considered.

This is a numerically symmetrical model, i.e., the threshold for the transfer from stage 1 to stage 2 and vice versa is the same. A further timing check has been included in order to avoid that the assets with a PD delta close to the 200% threshold change stage continuously, i.e., the transfer from stage 2 to stage 1 takes place only if the PD delta persists for a reasonable timeframe (from three to six months).

The PD delta is calculated on the basis of the 12-month PD. This approach is in line with the CDS spread trends. Indeed, if an issuer faces difficulties, the short-term CDS spreads are higher than the long-term ones and, therefore, the worse scenario is considered when calculating the PD.

Financial assets at amortised cost: loans and receivables

The impairment model is based on the historic PDs using the PDxEADxLGD formula, where:

- PD: estimated using the exposures traditionally classified as non-performing;
- LGD: estimated using historical recovery rates for exposures classified as non-performing or unpaid.

With respect to exposures classified in stage 2, given that:

- the exposures are all short-term or very short-term;
- the bank can immediately revoke the credit line in the case of on-demand exposures;

the 12-month PD reflects the exposures' assumed default over their residual life, i.e., given the type of exposure, there are no differences between the 12-month and lifetime models.
The bank decided to use the average of the past three years to ensure that the historic PDs reflect the current portfolio's composition and risk level.
Therefore, the bank considered the following for the impairment of its loans and receivables:

- they are "protected" by the bail-in legislation except for a few immaterial cases;
- exposures from non-bank customers relate to major corporate customers that have never defaulted;
- the fact that the historic PD is zero for the financial assets at the reporting date, even considering the worsening in the domestic economic cycle and a rise in country risk, means a forward-looking approach is necessary; however, this should not have a significant impact on impairment.

Based on the above, the model used to measure loans and receivables with banks and customers has a zero PD.

The bank assesses its valuation models and the carrying amounts once a year including as part of the new guidelines included in its 2019-2023 business plan approved by the board of directors on 21 February 2019.

A.1.5 Financial assets, loan commitments and financial guarantees given: transfers among the various credit risk stages (gross and nominal amounts)

Portfolios/Risk stages	Gross/nominal amounts					
			Transfer between stage 2 and 3		Transfer between stage 1 and 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets at amortised cost	16,282	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Loan commitments and financial guarantees given	-	-	-	-	-	-
Total 31.12.2018	**16,282**	**-**	**-**	**-**	**-**	**-**
Total 31.12.2017	**-**	**-**	**-**	**-**	**-**	**-**

A.1.6 On- and off-statement of financial position credit exposures with banks: gross amount and carrying amount

Type of exposure/Amounts	Gross amount		Total impairment losses and provisions for credit risk	Carrying amount	Partial/total write-offs
	Non-performing	Performing			
A. ON-STATEMENT OF FINANCIAL POSITION					
a) Bad exposures	-	X	-	-	-
- including: forborne exposures	-	X	-	-	-
b) Unlikely to pay exposures	-	X	-	-	-
- including: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- including: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- including: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	1,636,179	32	1,636,147	-
- including: forborne exposures	X	-	-	-	-
Total (A)	**-**	**1,636,179**	**32**	**1,636,147**	**-**
B. Off-statement of financial position					
a) Non-performing	-	X	-	-	-
b) Performing	X	219,214	-	219,214	-
Total (B)	**-**	**219,214**	**-**	**219,214**	**-**
Total (A+B)	**-**	**1,855,393**	**32**	**1,855,360**	**-**

A.1.7 On- and off-statement of financial position credit exposures with customers: gross amount and carrying amount

Type of exposure/Amounts	Gross amount		Total impairment losses and provisions for credit risk	Carrying amount	Partial/total write-offs *
	Non-performing	Performing			
A. On-statement of financial position					
a) Bad exposures	2,088	X	1,697	391	-
- including: forborne exposures	-	X	-	-	-
b) Unlikely to pay exposures	-	X	-	-	-
- including: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- including: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- including: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	5,633,772	7,287	5,626,484	-
- including: forborne exposures	X	-	-	-	-
Total A	**2,088**	**5,633,772**	**8,985**	**5,626,875**	**-**
B. Off-statement of financial position					
a) Non-performing	-	X	-	-	-
b) Performing	X	1,133,190	-	1,133,190	-
Total B	**-**	**1,133,190**	**-**	**1,133,190**	**-**
Total A+B	**2,088**	**6,776,962**	**8,985**	**6,760,065**	**-**

*To be shown for disclosure purposes.

A.1.9 On-statement of financial position credit exposures with customers: gross non-performing positions

Reasons/Categories	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures
A. Esposizione lorda iniziale	**2,088**	**-**	**-**
- di cui: esposizioni cedute non cancellate		-	-
B. Increases	**-**	**-**	**-**
B.1 From performing exposures	-	-	-
B.2 From purchased or originated credit-impaired exposures	-	-	-
B.3 Transfers from other categories	-	-	-
of non-performing exposures	-	-	-
B.4 Contract modifications that do not entail derecognition	-	-	-
B.5 Other increases	-	-	-
C. Decreases	**-**	**-**	**-**
C.1 To performing exposures not subject to forbearance measures	-	-	-
C.2 Write-offs	-	-	-
C.3 Collections	-	-	-
C.4 Gains on sales	-	-	-
C.5 Losses on sales	-	-	-
C.6 Transfers to other categories	-	-	-
of non-performing exposures	-	-	-
C.7 Contract modifications that do not entail derecognition	-	-	-
C.8 Other decreases	-	-	-
D. Closing gross amount	**2,088**	**-**	**-**
- Including: exposures transferred but not derecognised	-	-	-

A.1.9 bis On-statement of financial position credit exposures with customers: gross forborne exposures broken down by credit quality

Reasons/Categories	**Forborne exposures non-performing**	**Forborne exposures performing**
A. Opening gross amount	**-**	**-**
- Including: exposures transferred but not derecognised	-	-
B. Increases		**9,380**
B.1 Transfers from performing exposures	-	9,380
B.2 Transfers from purchased or originated credit-impaired exposures	-	X
B.3 Transfers from other categories of non-performing exposures	X	-
B.4 Other increase	-	-
C. Decreases	**-**	**-**
C.1 Transfers to performing exposures not subject to forbearance measures	X	-
C.2 Write-offs	-	X
C.3 Collections	X	-
C.4 Write-off	-	-
C.5 Losses on sales	-	-
C.6 Transfers to other categories of non-performing exposures	-	-
C.7 Contract modifications that do not entail derecognition	-	-
C.8 Other decreases	-	-
D. Closing gross amount	**-**	**9,380**
- Including: exposures transferred but not derecognised	-	-

A.2 Classification of financial assets, loan commitments and financial guarantees given based on external and internal ratings

A.2.1 Breakdown of financial assets, loan commitments and financial guarantees given by external rating class (gross amounts)

Exposures	External rating class						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**7,272,032**	**7,272,032**
- Stage 1	-	-	-	-	-	-	7,253,669	7,253,669
- Stage 2	-	-	-	-	-	-	16,275	16,275
- Stage 3	-	-	-	-	-	-	2,088	2,088
B. Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B)	**-**	**-**	**-**	**-**	**-**	**-**	**7,272,032**	**7,272,032**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
C. Loan commitments and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**219,213**	**219,213**
- Stage 1	-	-	-	-	-	-	191,742	191,742
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	27,471	27,471
Total (C)	**-**	**-**	**-**	**-**	**-**	**-**	**219,213**	**219,213**
Total (A+B+C)	**-**	**-**	**-**	**-**	**-**	**-**	**7,491,245**	**7,491,245**

A.2.2 Breakdown of financial assets, loan commitments and financial guarantees given by internal rating class (gross amounts)

Exposures	Internal rating class						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets at amortised cost							**7,272,032**	**7,272,032**
- Stage 1							7,255,366	7,255,366
- Stage 2							16,275	16,275
- Stage 3							391	391
B. Financial assets at fair value through other comprehensive income							**-**	**-**
- Stage 1							-	-
- Stage 2							-	-
- Stage 3							-	-
Total (A+B)	**-**	**-**	**-**	**-**	**-**	**-**	**7,272,032**	**7,272,032**
of which: purchased or originated credit impaired								
C. Loan commitments and financial guarantees given							**219,213**	**219,213**
- Stage 1							191,742	191,742
- Stage 2							-	-
- Stage 3							27,471	27,471
Total (C)							**219,213**	**219,213**
Total (A+B+C)	**-**	**-**	**-**	**-**	**-**	**-**	**7,491,245**	**7,491,245**

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.1 On- and off-statement of financial position guaranteed credit exposures with banks

	Gross amount	Carrying amount	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
			Mortgaged property	Property under finance lease	Securities	Other collateral	CLN	Central counterparties	Banche	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. Guaranteed exposures:																
1.1. Fully guaranteed	892,923	892,923	-	-	892,686	-	-	-	-	-	-	-	-	-	-	892,686
- including: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Partly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Off-statement of financial position guaranteed exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1. Fully guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Partly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 On- and off-statement of financial position guaranteed credit exposures with customers

			Collateral (1)				Personal guarantees (2)										
							Credit derivatives					Endorsement credits					
								Other derivatives									Total (1)+(2)
	Gross amount	Carrying amount	Mortgaged property	Property under finance lease	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. Guaranteed exposures:																
1.1 Fully guaranteed	260,367	260,367	-	-	260,364	-	-	-	-	-	-	-	-	-	-	260,364
- including: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Partly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Off-statement of financial position guaranteed exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Fully guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Partly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including: non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Breakdown of on- and off-statement of financial position credit exposures with customers by business segment

Exposure/Counterparts	Public administrations		Financial companies		Financial companies (including insurance companies)		Non-financial companies		Households	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position										
A.1 Bad exposures	-	-	391	1,491	-	-	-	206	-	-
- including: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-	-	-
- including: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
- including: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	5,178,193	7,287	282,390	-	-	-	163,772	-	2,132	-
- including: forborne exposures	-	-	-	-	-	-	-	-	-	-
TOTAL A	**5,178,193**	**7,287**	**282,781**	**1,491**	**-**	**-**	**163,772**	**206**	**2,132**	**-**
B. Off-statement of financial position	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	263	-	1,109,823	-	-	-	21,952	-	1,150	-
TOTAL B	**263**	**-**	**1,109,823**	**-**	**-**	**-**	**21,952**	**-**	**1,150**	**-**
TOTAL (A + B) 31.12.2018	**5,178,456**	**7,287**	**1,392,603**	**1,491**	**-**	**-**	**185,724**	**206**	**3,282**	**-**
TOTAL (A + B) 31.12.2017	**2,632,976**	**-**	**2,127,281**	**1,491**	**17,994**	**-**	**98,292**	**206**	**2,339**	**-**

B.2 Breakdown of on- and off-statement of financial position credit exposures with customers by geographical segment

Exposure/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	**Total impairment losses**	**Carrying amount**	**Total impairment losses**	**Carrying amount**	**Total impairment losses**	**Carrying amount**	**Total impairment losses**	**Carrying amount**	**Total impairment losses**
A. On-statement of financial position										
A.1 Bad exposures	391	1,697	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	5,622,470	7,287	4,017	-	-	-	-	-	-	-
TOTAL A	**5,622,861**	**8,984**	**4,017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,133,187	-	-	-	-	-	-	-	-	-
TOTAL B	**1,133,187**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31.12.2018	**6,756,048**	**8,984**	**4,017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31.12.2017	**4,866,814**	**1,697**	**10,643**	**-**	**1,426**	**-**	**-**	**-**	**-**	**-**

B.3 Breakdown of on- and off-statement of financial position credit exposures with banks by geographical segment

Exposure/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position										
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	1,538,849	32	67,302	-	27,310	-	1,171	-	1,515	-
TOTAL A	**1,538,849**	**32**	**67,302**	**-**	**27,310**	**-**	**1,171**	**-**	**1,515**	**-**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	216,587	-	2,626	-	-	-	-	-	-	-
TOTAL B	**216,587**	**-**	**2,626**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) (31.12.2018)	**1,755,436**	**32**	**69,928**	**-**	**27,310**	**-**	**1,171**	**-**	**1,515**	**-**
Total (A+B) (31.12.2017)	**739,191**	**-**	**38,597**	**-**	**27,359**	**-**	**8,736**	**-**	**3,663**	

B.4 Large exposures

	31.12.2018	31.12.2017
a) Carrying amount	410,957	11,103,404
b) Weighted amount		-
c) Number	8	4

C. SECURITISATIONS

Not applicable.

D. DISCLOSURE ON UNCONSOLIDATED STRUCTURED ENTITIES (OTHER THAN SECURITISATION SPVs)

QUANTITATIVE DISCLOSURE

Captions/ Type of structured entities	Assets	Total assets (A)	Liabilities	Total liabilities (B)	Carrying amount (C = B-A)	Maximum exposure to risk of losses (D)	Difference between exposure to risk of losses and carrying amount (E = D-C)
1. OEIC		**27,085**	**-**	**-**	**27,085**	**75,000**	**47,915**

E. TRANSFERS

Not applicable.

F. CREDIT RISK MEASUREMENT MODELS

DEPObank does not use internal credit risk measurement models.

SECTION 2 - MARKET RISK

2.1 INTEREST RATE RISK AND PRICE RISK - REGULATORY TRADING BOOK

QUALITATIVE DISCLOSURE

A. General issues

Market risk is the risk of incurring losses generated by operating on the market for financial instruments (regulatory trading book), currencies and commodities, due to fluctuations in market factors or the issuer's situation. Activities that generate market risk are performed by the Chief Financial Officer (CFO) Area, the treasury unit and the securities services units.

The finance regulation governs these activities and defines the operating limits for the subcomponents of market risk, such as currency risk, interest rate risk on the trading book, issuer risk, country risk and counterparty risk. In addition, the regulation sets operating limits for the various activities for the amounts involved, VaR, the stop loss as well as the criteria and methods to monitor positions.

B. Interest rate and price risk management processes and measurement methods

The first level controls are carried out by the CFO Area and the securities services units for the activities related to them, while the second level controls are performed by the risk management unit. This unit monitors market risk on a daily basis using the VaR. It also performs second level controls on compliance with assigned limits.

The VaR model is a parametric model with a confidence interval of 99% and a time horizon of 10 days, in line with the Basel Committee's guidelines. The VaR, defined to obtain a reasonable estimate of potential losses in normal market conditions, is not designed to, nor does it, include an analysis of extreme events. Stress tests are used to check the impact of extreme conditions on the portfolio and violations of the assumptions underlying the model used by identifying the remaining risk and providing information complementary to VaR. Daily stress tests are performed on the VaR of securities and currencies as well as the daily calculation of VaR replacing the current volatility with the maximum volatility seen in the previous 12 months.

The risk management unit also checks and processes ex post the data related to the bank's total risk positions each day and prepares the reports necessary to check the limits set by the finance regulation. It also performs specific tests to check the level of existing risk scenarios or future scenarios for the current portfolio. If the VaR limits are exceeded, the risk management unit manager promptly informs the relevant unit, its manager and the managing director.

QUANTITATIVE DISCLOSURE

1. Regulatory trading book: breakdown by residual maturity (repricing date) of financial assets and liabilities and financial derivatives

Currency: Euro

Type of assets, liabilities and derivatives/ Residual maturity	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	Between 1 and 5 years	Between 5 and 10 years	After 10 years	Open term
A. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	2	-	4	1	1	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	8,453	-	-	-	-	-	8,493
+ Short positions	-	44	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	56,696	-	-	-	-	-	-
+ Short positions	-	992,181	-	-	-	-	-	-

Currency: Other

Type of assets, liabilities and derivatives/ Residual maturity	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	Between 1 and 5 years	Between 5 and 10 years	After 10 years	Open term
A. Assets								
1.1 Debt instruments								
- with early repayment option	-	1	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
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	-	990,400	-	-	-	-	-	-
+ Long positions	-	56,750	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2. Regulatory trading book: breakdown of exposure in equity instruments and share indexes by main stock exchange

Type of operations/Listing index	Listed	Unlisted
	ITALY	
A. Equity instruments		
- Long positions	1	-
- Short positions	-	-
B. Unsettled transactions involving equity instruments	**-**	**-**
- Long positions	-	-
- Short positions	-	-
C. Other derivatives on equity instruments	**-**	**-**
- Long positions	-	-
- Short positions	-	-
D. Derivatives on share indexes	**-**	**-**
- Long positions	-	-
- Short positions	-	-

2.2 INTEREST RATE AND PRICE RISKS - BANKING BOOK

QUALITATIVE DISCLOSURE

A. General aspects, interest rate and price risk management processes and measurement methods

The banking book's interest rate risk is the risk of a loss of value due to potential variations in interest rates. The main source of this risk is repricing risk, i.e., the risk arising from the temporary mismatching of maturities and the repricing of assets and liabilities, the main aspects of which are:

- yield curve risk, the risk arising from the exposure of the bank's positions to changes in the slope and shape of the yield curve;
- basis risk, the risk arising from the mismatching of changes in interest rates paid and received on different instruments that may have similar repricing characteristics.

The bank monitors the impact of unexpected changes in market interest rates on its banking book exposures using the following approaches:

- current income, to assess the interest rate based on the sensitivity of net interest income to changes in rates over a set time period. Negative variations in the net interest income affect the bank's potential financial stability by weakening its capital adequacy. A change in net interest income is caused by interest rate risk;
- economic value, changes in interest rates may affect the economic value of the bank's assets and liabilities. A bank's economic value is the present value of its expected cash flows, which are the sum of the present value of the expected cash flows from its assets, liabilities and derivatives. Unlike the current income approach, the economic value approach considers the risk generated by repricing or the maturity gap over a long time period.

The following risk measures are an essential part of the interest rate risk management model:

- the sensitivity of net interest income;
- the sensitivity of the economic value.

The sensitivity analysis of net interest income shows its sensitivity to parallel shocks in interest rates. The bank calculates sensitivity using a constant rate and volume approach. Under this model, exposures nearing maturity are reinvested at constant volumes, rates and maturities. The scenarios applied as the same as those for the sensitivity analysis of economic capital.

The sensitivity analysis of economic value assesses the impact on shocks in the yield curve on equity. The method applied is that set out in circular no. 263/2006 and currently by circular no. 285/2013 for class 2 banks, revising, as required by the same legislation, the simplified assumptions concerning the estimate of the stable share (so-called "core component") and its distribution in the time bands, so as to make the calculation of risk more consistent with its operations. Based on the method set out in the above circular, in order to calculate internal capital:

- in normal conditions, "the annual changes in interest rates recorded in a 6-year observation period, considering alternatively the 1st percentile (fall) or the 99th (upside)" are applied;
- in a stress scenario, the assumed changes in the interest rates based on the scenarios selected by the bank are applied, as well as a parallel increase or decrease of 200 bps. If the bank's economic value decreases by more than 20% of its own funds, the ECB or Bank of Italy discusses this situation with the bank and reserve the right to take the appropriate measures.

QUANTITATIVE DISCLOSURE

1. Banking book: breakdown by residual maturity (repricing date) of financial assets and liabilities

Currency: Euro

Type of assets, liabilities and derivatives/ Residual maturity	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	Between 1 and 5 years	Between 5 and 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	2,528,525	503,565	15,104	507,096	1,633,251	-	-	-
1.2 Financing to banks	166,237	1,364,740	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current accounts	42,488	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	131,784	260,546	174	324	1,128	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	-	-	-	-	-	-	-	-
- current accounts	8,753,008	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	49,902	122,293	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	724,754	-	-	-	-	-	-	-
- other payables	199,603	9,548	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-

continued

Currency: Euro

Type of assets, liabilities and derivatives/ Residual maturity	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	Between 1 and 5 years	Between 5 and 10 years	After 10 years	Open term
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-statement of financial position financial transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions								

Currency: Other

Type of assets, liabilities and derivatives/ Residual maturity	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	Between 1 and 5 years	Between 5 and 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	95,813	-	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current accounts	11,849	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-statement of financial position liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	-	-	-	-	-	-	-	-
- current accounts	949,750	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	326	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	74,208	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

continued

Currency: Other

Type of assets, liabilities and derivatives/ Residual maturity	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	Between 1 and 5 years	Between 5 and 10 years	After 10 years	Open term
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position financial transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2.3 CURRENCY RISK

QUALITATIVE DISCLOSURE

A. General aspects, management and assessment of currency risk

Currency risk arises on trading activities on behalf of customers. The risk management unit monitors this risk constantly by calculating the VaR while the treasury unit performs the relevant first level controls.
The bank's exposure to currency risk, calculated using the net foreign currency positions and a method in line with the supervisory regulations, is contained because every significant foreign currency transaction with institutional counterparties is usually hedged on the market with an offsetting transaction. Transactions involving small amounts carried out on behalf of customers or for trading purposes that generate a position exposed to currency risk are monitored in real time by the treasury unit in compliance with the limits set by the applicable regulation. The bank only maintains positions exposed to currency risk within very limited ceilings (which are always fully respected) set for the total maximum exposure, for each currency and VaR.

B. Currency hedges

The trading book is completely hedged with spot forex positions. The risk management unit checks that the VaR on existing positions is always within the limits set by the finance regulation every day.

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets, financial liabilities and derivatives by currency

Items	Currency					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other currencies
A. Financial assets						
A.1 Debt instruments	1	-	-	-	-	-
A.2 Equity instruments	3,108	-	-	-	-	152
A.3 Financing to banks	35,429	23,826	1,856	2,828	5,344	26,530
A.4 Financing to customers	5,068	246	3,991	501	2	2,041
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**23**	**18**	**-**	**2**	**2**	**51**
C. Financial liabilities						
C.1 Due to banks	34,329	20,487	824	1,486	4,481	12,601
C.2 Due to customers	566,215	123,398	125,987	28,593	23,346	83,345
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other liabilities assets	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	617,968	119,616	129,297	26,825	22,192	74,501
+ Short positions	42,075	29	8,275	-	1	6,370
Net assets	**661,597**	**143,706**	**135,144**	**30,156**	**27,540**	**103,275**
Net liabilities	**642,619**	**143,914**	**135,086**	**30,079**	**27,828**	**102,316**
Difference (+/-)	**18,978**	**-208**	**58**	**77**	**-288**	**959**

SECTION 3 – DERIVATIVES AND HEDGING POLICIES

3.1 TRADING DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: reporting date notional amounts

Underlying assets/ Type of derivatives	31.12.2018				31.12.2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counter-parties	Without central counterparties			Central counter-parties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt instruments and interest rates	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	764	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	5,461	-
c) Forwards	-	-	990,393	-	-	-	822,399	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**12**	**-**	**-**	**-**	**12**	**-**
Total	**-**	**-**	**990,405**	**-**	**-**	**-**	**828,636**	**-**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by product

Type of derivatives	31.12.2018				31.12.2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counter-parties	Without central counterparties			Central counter-parties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	382	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	2,653	-	-	-	1,094	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	4	-
Total	**-**	**-**	**2,653**	**-**	**-**	**-**	**1,480**	**-**
2. Negative fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	382	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	4,926	-	-	-	5,240	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	48	-
Total	**-**	**-**	**4,926**	**-**	**-**	**-**	**5,670**	**-**

A.3 OTC trading financial derivatives - notional amounts, gross positive and negative fair value by counterparty

Underlying asset	Central counterparties	Banks	Other financial companies	Other
Contracts not covered by netting agreements				
1) Debt instruments and interest rates				
- Notional amount	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
2) Equity instruments and share indexes				
- Notional amount	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
3) Currencies and gold				
- Notional amount	X	990,393	-	-
- Positive fair value	X	2,653	-	-
- Negative fair value	X	4,926	-	-
4) Commodities				
- Notional amount	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
5) Other				
- Notional amount	X	-	-	12
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
Contracts covered by netting agreements				
1) Debt instruments and interest rates				
- Notional amount	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
2) Equity instruments and share indexes				
- Notional amount	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
3) Currencies and gold				
- Notional amount	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
4) Commodities				
- Notional amount	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
5) Other				
- Notional amount	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-

A.4 Residual life of OTC financial derivatives: notional amounts

Underlying/Residual maturity	Up to 1 year	From 1 to 5 years	After 5 years	Total
A. Regulatory trading book				
A.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
A.2 Financial derivatives and equity instruments and share indexes	-	-	-	-
A.3 Financial derivatives on currencies and gold	990,393	-	-	990,393
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	12	12
Total 31.12.2018	**990,393**	**-**	**12**	**990,405**
Total 31.12.2017	**828,625**	**-**	**12**	**828,637**

B. CREDIT DERIVATIVES

None.

SECTION 4 - LIQUIDITY RISK

QUALITATIVE DISCLOSURE

A. General aspects, management and assessment of liquidity risk

Liquidity risk is the risk that the bank is not able to meet its obligations when they expire and/or has to incur borrowing costs at other than market conditions due to an unbalanced net financial position as a result of its inability to raise funds or because of limits to its ability to monetise assets.

The board of directors supervises the strategic management of the liquidity risk to which the bank is exposed and ensures the adoption of the crisis management plans, ensuring the effectiveness and efficiency of the solutions to be undertaken. The managing director is responsible for defining the guidelines for the liquidity risk management process and for implementing strategic guidelines, as part of maintaining an effective liquidity risk management and control system. The board of statutory auditors and the risk committee are responsible for overseeing the adequacy and compliance of the liquidity risk management process with the requirements established by the regulations.

The bank's business model consists of providing banking services to operators of the Italian banking and financial system, with lending and financial investment services offered as a non-core business, mainly to other banks. In addition to the liquidity held in the current accounts as part of the depository services and the time gap between the recording of credit transactions and payment orders to counterparties, the bank covers its requirements using liquidity from: highly liquid assets, funding from repos, funding from the unsecured (e-MID) and secured (MIC) interbank market and refinancing transactions with the ECB.

The related "Liquidity risk policy and contingency funding and recovery plan", approved by the board of directors, sets the guidelines for liquidity management (liquidity risk policy) and the rules to be adopted in a liquidity crisis (contingency funding and recovery plan). It incorporates the most recent regulatory updates (Bank of Italy circular no. 285/2013) and the principles of the risk policy, thus integrating and completing the rules defined in the finance regulation.

The RAF includes specific liquidity parameters, which are both regulatory (liquidity coverage ratio - LCR - and the net stable funding ratio - NSFR) and internal (ratio between the minimum net accumulated balance and total assets) in order to best regulate the bank's operations.

The bank monitors its short-term liquidity to ensure that it can meet expected or unexpected cash payment obligations in the next four months[2]. It calculates two indicators to concurrently check its short-term sustainability both on a going concern basis and in stress scenarios:

- cumulative net balance, referring to the daily analysis of one-month rolling liquidity;
- minimum cumulative net balance, referred to the weekly analysis of the time buckets up to four months, on the basis of the maturity ladder.

Liquidity is monitored on a going concern and stress scenario basis. The results of the stress test are used to check:

- the bank's ability to cope autonomously (time to survival) with unforeseen liquidity crises in the initial period in which they occur and before launching structural measures aimed at modifying the structure of assets/liabilities;
- if the level of limits/early warning ensures the maintenance of liquidity reserves such as to allow the bank to cope with the initial period of systemic or idiosyncratic stress;
- the effectiveness of management in the event of a crisis.

The stress tests are based on the calculation of the Basel 2 factor, LCR (also used to check the liquidity risk tolerance level), for the more important exposures. Specifically, the bank considers the counterbalancing capacity, large corporate and interbank current account overruns and credit facilities.

Liquidity risk includes the intraday liquidity risk which arises on the temporary mismatch between payment flows (with settlement in daily cut-offs or following orders received from customers) and incoming flows (the latter being regulated to various intraday cut-offs) that can make it impossible for the bank to meet its obligations when they fall due, due to the temporary lack of funds. The bank defines rules for the maintenance of a minimum portfolio of eligible securities to ensure intraday or period refinancing from the central banks and ensure that the intraday liquidity risk is hedged.

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets and liabilities by residual contractual maturity

[2] The reference time period for short-term liquidity can extend up to 12 months, but it is four months for the bank as exposures with longer maturities are of a residual nature and solely refer to own securities that are due to expire.

Currency: Euro

Captions/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and a month	Between 1 and 3 months	From 3 to 6 months	From 6 months to 1 year	Between 1 and 5 years	After 5 years	Indefinite
Assets										
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	2	-	1	2	-
A.3 OEIC units	27,088	-	-	-	-	-	-	-	-	-
A.4 Financing	-	-	-	-	-	-	-	-	-	-
Banks	378,896	220,612	470,009	248,348	168,829	-	-	-	-	213,442
Customers	400,683	1	13,059	18,606	228,865	179	332	1,128	-	-
Liabilities	-	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
Banks	1,917,036	-	-	102,157	-	-	-	15,890	-	-
Customers	8,793,687	-	-	-	-	-	-	99	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	621,624	122,308	-	9,554	-	-	-	-	-	-
Off-statement of financial position	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
Long positions	-	37,383	7,908	-	-	-	-	-	-	-
Short positions	-	762,527	241,055	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Financing to be received	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Firm loan commitments	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-

Currency: Other

Captions/Residual maturity	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and a month	Between 1 and 3 months	From 3 to 6 months	From 6 months to 1 year	Between 1 and 5 years	After 5 years	Indefinite
Assets										
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	1	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	-	-	-	-	-	-	-	-	-	-
Banks	95,813	-	-	-	-	-	-	-	-	-
Customers	11,849	-	-	-	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-	-	-	-	-
B.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
Banks	74,208	-	-	-	-	-	-	-	-	-
Customers	949,750	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	326	-	-	-	-	-	-	-	-	-
Off-statement of financial position	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
Long positions	-	747,624	242,776	-	-	-	-	-	-	-
Short positions	-	48,804	7,946	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Financing to be received	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Firm loan commitments	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Derivati creditizi senza scambi di capitale	-	-	-	-	-	-	-	-	-	-
Long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE DISCLOSURE

A. General aspects, management and assessment of operational risk
Operational risk is the risk of losses arising from errors or shortfalls in internal procedures, human resources or systems and external factors. This risk also comprises IT risk, legal risk, model risk, conduct risk and the risk related to financial transactions, including those related to market risk.

Operational risk is characterised by cause-effect relationships whereby if one or more trigger events occur, this causes a detrimental event to which a loss is directly linked. Therefore, an operating loss is the result of negative effects created by operating events, recorded by the bank and that affect its profit or loss.

The main characteristic of operational risks is that they are inherent to the bank's business and are, therefore, unavoidable and omnipresent. This implies that they are inherent in the decision to perform a certain activity and, in general, the bank's operations rather than, in the case of the other risks, the bank intentionally taking on credit or financial positions based on its risk appetite to achieve its target risk/return profile. In order to measure the bank's exposure to operational risks and the effects of any mitigating actions, it has to combine the qualitative and quantitative information.

In this context, the internal controls must be the main safeguard for the prevention and containment of these risks. In particular, internal policies and procedures must be approved and implemented to define, identify, assess and manage exposure to operational risks.

The operational risk governance framework consists of a structured set of processes, functions and resources for the identification, assessment and control of operational risks, including those arising from infrequent and insignificant events, with particular regard to the objective of ensuring effective prevention and mitigation measures for risks themselves.

Elements of this framework, in line with the provisions of prudential supervisory regulations, are:

- the assessment of exposure to operational risks as a process that is tightly integrated into the risk management process in all internal activities;
- formalisation and attribution of responsibilities;
- the reporting system.

In addition to what is entailed in terms of capital requirement, the bank has activated a specific process aimed at fully analysing the operational risks to which it is exposed, identifying any areas of vulnerability and setting up adequate management and control systems. The framework consists of four basic elements:

- identification;
- measurement;
- monitoring and reporting;
- operations.

The **identification** of operational risks takes place through the collection of operational risk information and the consistent and coordinated processing of all relevant sources of information; the objective pursued is the establishment of a complete information base. The necessary information is internal loss data with all the information relevant for management purposes and the subjective assessments acquired through the self-assessment of risks and controls.
The collection of this information takes place on the basis of specific classification models, designed to guarantee a homogeneous representation of the data.
The identification phase consists of the following processes:

- collection of operational loss data. The bank has set up a system for the collection and storage of the operational risks data, including significant losses and the related recoveries, which are suitable for conferring effectiveness on the management system. The loss data collection (LDC) process provides for the collection of all the injurious events of the processes of each business line;
- identification and assessment of operational risks. The bank has implemented a system to identify potential losses related to operational events that, regardless of past events, present a plausible probability of occurrence. The process of identifying and assessing operational risks is carried out during:
  a. design of new services/products, identifying the possible types of injurious events related to the initiative, their possible impact in terms of project and/or product/service and the objectives and actions of control and mitigation to be adopted;
  b. identification and evaluation of the consistency of the risk profile of the transactions of greater importance with the defined risk appetite;

c. periodic assessment of the operational risk profile of existing processes: at least once a year, an overall assessment is carried out, for the relevant business segments, of the level of exposure to operational risks through the risk control self-assessment process (RCSA);
d. periodic assessment of the IT risk for the best qualification of operational risk by identifying the specific risks inherent in the ICT sphere.

Measurement is the risk assessment activity aimed to quantify the capital to be allocated for operational risk. The bank calculates regulatory capital for operational risks using the basic method, in consideration of the degree of compliance with the minimum qualitative-quantitative requirements defined for access to the most advanced models (standardised and advanced). In addition, for a better assessment of the exposure to risks, the bank has implemented a quantitative process for assessing operational risks by which expected and unexpected losses are calculated on various percentiles. It sets up a provision for expected losses.

The **Monitoring** phase of the risk profile has the objective of defining a set of risk indicators that allow the reporting of any critical issues and/or anomalies by means of an adequate reporting system. These indicators include both the specific qualitative and quantitative indicators relating to the expected operations within the RAF, described above, and the indicators of conduct risk, defined as the current or prospective risk of losses resulting from the inappropriate supply of financial services, including cases of inadequate conduct (fraud/negligence) by the bank.

The **Reporting** phase aims to ensure timely and appropriate communication to support the management decisions of the corporate bodies and the organisational functions. Reporting includes the results of the following activities:
- identification and monitoring of loss events identified through the loss data collection (LDC) and risk control self-assessment (RCSA) processes;
- the assessment of operational risks to which the bank processes are exposed (e.g., evaluation of new products/services/ transactions of greater importance);
- the definition of action plans undertaken in the management and mitigation of risks, with indication of the time horizon of the plan, the contact person responsible for managing it, as well as any supporting operating documents;
- the performance of the monitoring indicators (RAF, indicators for monitoring risk measurement and control systems).

Planning and development of the controls are subjected to follow-up processes through their inclusion in a dashboard and are monitored by the control units (risk management, compliance and internal audit), which check all the actions taken to improve the internal controls. The findings of the monitoring process are assembled once a quarter and communicated regularly to the internal bodies to provide a complete picture of the main critical issues the bank is exposed to and the status of the remedial actions taken or to be implemented, and then sent to Bank of Italy.

The Operational Risk **Management** phase aims to continuously evaluate risk control and reduction strategies, deciding, based on the nature and extent of the risk, whether to take on the risk, implement mitigation policies or transfer it to third parties, depending on the risk propensity expressed by senior management.

A fundamental operational risk mitigation tool is the business continuity and disaster recovery plan, which is revised annually as required by the supervisory instructions about internal controls. Bank of Italy extended the concept of business continuity to all critical “business processes”, not just the technological component but all the factors (human resources, logistics, essential services, etc.) that assist the mitigation of operational risks in new crisis situations.

Business continuity includes all those measures designed to reduce to an acceptable level the damage caused by accidents or catastrophes that could directly or indirectly affect the bank while the disaster recovery plan sets out the technical and organisational methods to resolve events that cause the unavailability of data processing centres. It is designed to ensure that the important IT procedures can continue to be performed at alternative sites.

Finally, an additional mitigation tool, in particular with regard to unexpected risks, consists of insurance coverage, that the bank uses for certain areas of risk that are inherent to the business and to cases (typically low frequency and high impact) that are not effectively mitigated with the sole prevention of operational line controls.

QUANTITATIVE DISCLOSURE

Operational risk

31.12.2018		31.12.2017	
Years	**Relevant indicator**	**Years**	**Relevant indicator**
2016	180,026	2015	174,948
2017	177,867	2016	180,026
2018	129,515	2017	177,867
Average	**162,469**		**177,614**
Operational risk	**24,370**		**26,642**

Given the group's reorganisation and related reduction in the bank's profit-making ability, after receipt of authorisation from Bank of Italy, the bank changed the calculation method for the key indicator of the basic method for 2018 and the two previous years presented in the above table.

Part F - EQUITY

B. QUANTITATIVE DISCLOSURE

B.1 Equity: breakdown

Captions/Amounts	31.12.2018	31.12.2017
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves		
- income-related		
a) legal	20,000	20,000
b) statutory		
c) own shares	746	777
d) other	208,299	1,660,869
- other	10,848	10,848
4. Equity instruments		
5. Treasury shares		-32
6. Valuation reserves		
- Equity instruments at fair value through OCI		
- Hedges of equity instruments at fair value through OCI		
- Financial assets (other than equity instruments) at fair value through OCI	11,021	15,599
- Property, equipment and investment property		
- Intangible assets		
- Hedges of investments in foreign operations		
- Cash flow hedges		
- Hedging instruments (elements not designated)		
- Exchange gains (losses)		
- Non-current assets held for sale		
- Financial liabilities at fair value through profit or loss (changes in own credit worthiness)		
- Net actuarial losses on defined benefit plans	-1,216	-1,287
- Share of valuation reserves of equity-accounted investees		
- Special revaluation laws	-	46,219
7. Profit for the year	5,165	89,491
Total	**445,662**	**2,033,283**

B.2 Fair value reserves: breakdown

Assets/Values	31.12.2018		31.12.2017	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	-	-	14,540	-189
2. Equity instruments	11,034	-13	1,248	-
3. Financing				
Total	**11,034**	**-13**	**15,788**	**-189**

B.3 Fair value reserves: changes

	Debt instruments	Equity instruments	Financing
1. Opening balance	**14,352**	**1,248**	
2. Increases			
2.1 Fair value gains			-
2.2 Impairment losses for credit risk		X	
2.3 Reclassification of fair value losses to profit or loss on sale		X	
2.4 Transfers to other equity reserves (equity instruments)			
2.3 Other increases		9,774	
3. Decreases			
3.1 Fair value losses			
3.2. Impairment gains for credit risk			
3.3 Reclassification of fair value gains to profit or loss: on sale		X	
3.4 Transfers to other equity reserves (equity instruments)			
3.5 Other increases	14,352		
4. Closing balance	**-**	**11,021**	**-**

B.4 Actuarial reserves: changes

The actuarial reserve for the defined benefit plans solely refers to the post-employment benefits vested before 1 January 2006. As there are no plan assets, the reserve solely shows the actuarial gains or losses on the bank's liability, which changed as follows:

	Gross actuarial gains (losses)	Taxes	Actuarial reserve
Opening balance	**-1,697**	**409**	**-1,287**
Actuarial gains	97	-27	71
Actuarial losses			-
Closing balance	**-1,599**	**382**	**-1,216**

SECTION 2 - OWN FUNDS AND RATIOS

2.1 - Own funds

A. QUALITATIVE DISCLOSURE
The bank calculated its own funds at the reporting date in accordance with the new harmonised regulations for banks and investment companies set out in the CRD IV and the CRR of 26 June 2013. This Directive and Regulation transposed the standards defined by the Basel Committee for banking supervision (the Basel 3 framework) into EU legislation. The bank also considered the provisions of Bank of Italy circulars no. 285, no. 286 and no. 154.
Its Tier 1 capital amounts to €290,412 thousand. The bank does not have Additional Tier 1 capital or Tier 2 capital. Therefore, its own funds made the Tier 1 capital.

At the reporting date, the bank's capital ratios were above the regulatory limits.

More information is available in the disclosure to the public on own funds and capital adequacy ("Third Pillar").

Part H - RELATED PARTY TRANSACTIONS

1. Fees of key management personnel

The fees paid by the bank to its directors and key management personnel, as defined in part 2, are set out below.

	31.12.2018
Directors' fees	913
Key management personnel's and statutory auditors' fees	8,581
Total	**9,494**

2. Information on related party transactions

The aim of IAS 24 (Related party transactions) is to ensure that an entity's financial statements include the additional disclosures necessary to understand whether its financial position and performance may be affected by related party transactions and balances.

Based on this standard, applied to its organisational and governance structure, the bank identified the following related parties:

a) the parties that, directly or indirectly, including through subsidiaries, trustees or nominees, control, including jointly, the bank or hold an investment in it that gives them significant influence;

b) companies controlled or jointly controlled by the parties set out in the previous point;

c) the subsidiaries, associates or jointly controlled entities of the bank;

d) key management personnel of the bank, its parent and its subsidiaries, associates and joint ventures;

e) close relatives of the natural persons included in points a) and d);

f) the pension fund set up for employees or related entities.

The effects of transactions carried out with the related parties identified above are summarised in the following table.

(Amount in € thousands)

Transactions with related parties	**Total financial statements caption**	**Subsidiaries**	**Other related parties**	**Directors, managers and statutory auditors**
40. Financial assets at amortised cost	7,263,015	-		-
a) loans and receivables with banks	1,636,141	-		-
b) loans and receivables with customers	5,626,874	-	272,499	-
120. Other assets	355,943		21,957	
80. Other liabilities	452,734		4,110	
10. Interest and similar income	64,655	-	37	-
20. Interest and similar expense	-29,344	-	126	-
40. Fee and commission income	115,566		700	-
160. Administrative expenses	-142,718		-9,997	-9,494
200. Other net operating income	39,993		455	-

The transactions are governed by specific agreements that, while aiming at optimising synergies and economies of scale and purpose and the use of centres of excellence, make reference to objective parameters that are constant over time, characterised by transparency and substantial fairness. Transfer pricing is defined and formalised based on parameters that account for the actual use of the service by each end user.
Transactions with related parties are part of the company's normal operations and generally take place at market conditions.

Part I - SHARE-BASED PAYMENT

None.

DEPObank
BANCA DEPOSITARIA ITALIANA

Report of the Board of Statutory Auditors

DEPObank S.P.A.

* * *

Report of the Board of Statutory Auditors for the Shareholders' Meeting

(pursuant to art. 2429, paragraph 2, of the Italian Civil Code)

* * *

During the 2018 financial year, the Board of Statutory Auditors performed its supervisory duties in accordance with the terms and conditions established by current legislation. The activity of the Board of Statutory Auditors took place in coordination with KPMG S.p.A., which is responsible for auditing the accounts.

As a preliminary point it should be noted that the Board of Statutory Auditors in office at the date of this report is composed of Mr. Gianluigi Fiorendi (Chairman), Mr. Lorenzo Banfi and Mr. Paolo Lazzati, Statutory Auditors.
The Board thus composed was appointed by the Shareholders' Meeting on 26 April 2018 and was assigned the duties of the Supervisory Body pursuant to Legislative Decree no. 231/2001 on 27 April 2018.

* * *

Particularly significant transactions - Corporate reorganization project

During 2018, the reorganization project of the banking Group that was controlled by Nexi S.p.A. was executed (resulting in a spin-off transaction), which led to the termination of the aforementioned banking group and to a greater focus on the activity carried out by the bank, which changed its name to DEPObank - Banca Depositaria Italiana S.p.A.

The reorganization project of the Nexi Banking Group was part of the broader reorganization project of the group controlled by Mercury UK HoldCo Limited, a company based in the UK owned by the consortium of funds managed by Advent International Corporation, Bain Capital Investors LLC and Clessidra SGR S.p.A., majority shareholder of Nexi S.p.A. and controlling shareholder (totalitarian) of Latino Italy S.r.l.

The project was aimed at creating two distinct groups, the first of which dedicated to the development of activities related to digital payments (Payments Group), while the second - consisting of DEPObank - to focus on the development of Securities Services and Payments services that require the possession of a banking license (Banking Group), with the aim of a strategic repositioning of the bank in the medium term.

To complete the reorganization, with effect from 1 July 2018:
- Nexi S.p.A., following the demerger, changed its company name to DEPObank - Banca Depositaria Italiana S.p.A.;
- Latino Italy S.p.A. (Receiving company, new parent company of the Payments division) changed its company name to Nexi S.p.A.

The reorganization, as structured, did not change the corporate nature of DEPObank, which therefore continued to operate, albeit on a more limited scope, without interruption with the same qualification and the same authorizations for banking activities already under Nexi S.p.A. (and previously under ICBPI S.p.A.).

DEPObank transferred its registered office to Milan, via Anna Maria Mozzoni 1.1, also with effect from 1 July 2018.

Other corporate actions

During the 2018 financial year, in pursuit of the strategic objective, already identified in the Group's Business Plan, of seeking ever greater focus on the areas of operations in terms of the products offered, the type of clients served and the distribution channels used, the company had implemented some transactions to dispose of assets considered non-strategic and in particular:
- with effect from 30 May 2018, the sale of the equity investment held in the share capital (25%) of the associate Hi-Mtf Sim S.p.A. was completed;
- with effect from 31 May 2018, the sale of the "Brokerage and Market Making" business unit to Equita Sim was completed, operating in the area of Securities Services and Treasury and focused on providing investment services to qualified counterparties and professional clients;
- with effect from 30 June 2018 the sale of the buildings held by the company for investment purposes (Milan / Assago) was completed.

Strategic Plan

The 2018 financial year saw the management body repeatedly involved in redefining the company's strategic positioning, in view of and due to the reorganization project of the Group.

In the meeting of 18 January 2018, the Board of Directors of Nexi S.p.A., as part of the activities aimed at carrying out the Group Reorganization project, had approved the "2017-2021 Business Plan of BankCo", which outlined the strategy of the Banking Group (so-called "BankCo") following the reorganization.

The BankCo Plan followed the development lines already provided for in the aforementioned activities in the Nexi Group Business Plan approved in February 2017, focused on: (i) An expansion of the services offered to clients in relation to certain business lines, (ii) The disposal of some activities that are no longer core and (iii) A simplification of the current organizational structure.

The new Board of Directors of DEPObank, which took office after the reorganization of the Group (July 2018), started a process to revise the BankCo Plan and more generally the development and growth strategy of the company, which was conducted through:
- Direct checks to further analyse the consistency of the BankCo Plan with respect to the actual organizational, economic and financial structure of DEPObank (as a result of the reorganization) and its sustainability in light of the results of the first part of the plan time frame;
- Reflections on the potential opportunities for strengthening the DEPObank business model, with particular reference to the Bank's Asset Side Strategy.

On this last aspect, from an in-depth analysis of the Italian banking market, conducted with the support of a primary advisor, specialized lending to medium Italian companies emerged as an attractive market segment to enhance DEPObank and guarantee an interesting and profitable growth.
The Board of Directors of 26 September 2018 positively assessed the initiative, starting the implementation of the Project and integrating it with the BankCo Plan (subject to its revision and realignment over the 2019-2023 time frame).

As a result of the aforementioned process, the Board of Directors in the meeting of 21 February 2019 therefore approved the "Strategic Plan 2019-2023" of the bank ("DEPObank: the Italian FinTech Multispecialist").

Organizational structure of DEPObank

Once the project for the separation of banking activities was finalized, DEPObank took on an organizational structure divided into 3 BUs (Depositary Bank & Controls, Securities Services Operations and Banking Payments), in addition to the control functions, support functions and the CIO Area.

The corporate organization of DEPObank was also defined in light of the decisions taken, again as part of the reorganization project of the Mercury Group, with regard to outsourcing at Nexi Payments:
(i) Commercial activities relating to the Payments Business Unit;
(ii) Ordinary IT management activities in some application and technological areas.

These activities are the subject of specific service contracts, defined in the aforementioned project area, which entered into force on 1 July 2018.

As part of the Quality Management System, during the first half of the year, the verification for the confirmation of the ISO9001 Certification of Nexi S.p.A. (before the demerger) was successful.

In the second half of the year, following the aforementioned company reorganisation, the scope of the certification was limited for DEPObank solely to treasury and cash services and the ISO9001: 2015 certification of the new headquarters in Via Anna Maria Mozzoni 1.1 in Milan was also obtained.

Transactions with related parties

The Board of Directors has adequately reported and illustrated the transactions entered into with related parties indicated, in accordance with IAS 24, in the Management Report and in the Notes to the Financial Statements, to which reference is made.

It should be remembered that, in order to control the risk that the proximity of certain parties (so-called "related parties") to the company's decision-making centers may compromise the objectivity and impartiality of corporate decisions, with possible distortions in the allocation process of resources, exposure of the company to inadequately measured or monitored risks, potential damage to the company and its stakeholders, DEPObank adopted a Regulation on Transactions with Related Parties in compliance with the provisions contained in the Bank of Italy circular n . 263 of 2006 ("New prudential supervisory provisions for banks"). In addition, the Board of Directors, by resolution of 2 July 2018, appointed a Committee (so-called Related Parties Committee) to which these transactions are submitted.

In the first half of 2018, relations with other Group companies, aimed at optimizing synergies and economies of scale, were governed by specific contractual agreements.

* * *

Activities performed by the Board of Statutory Auditors during the year

- The Board of Statutory Auditors supervised compliance with the law, regulatory provisions and the Articles of Association.

- The financial statements for the year ended 31 December 2018, complete with the Notes to the Financial Statements and accompanied by the Directors' Report on operations, were approved on 21 March 2019 by the Board of Directors and made available to the Board of Statutory Auditors in accordance with the law.

- In carrying out its control activities, the Board of Statutory Auditors followed the rules established by Legislative Decree n. 39/2010, the Bank of Italy Circular 285/2013, the Bank of Italy Communication no. 264010 of 3 March 2008 and subsequent updates, the Joint Document Banca d'Italia, Consob, Isvap (now Ivass) n. 2 dated 6/2/2009 and n. 4 of 3/3/2010, the contents of art. 2429, paragraph 2 of the Civil Code, as well as the principles of conduct recommended by the Association of Chartered Accountants.

- To carry out the aforementioned supervisory functions, the Board of Statutory Auditors acquired the information both through meetings with the heads of the competent corporate structures, especially those of control, and through participation in the meetings of the Board of Directors, the Risk Committee and the Remuneration Committee (the latter ceased with effect from 1 July 2018).

- The Board of Statutory Auditors, in the 2018 financial year, attended all the meetings of the Board of Directors and met with the Chief Executive Officer, the Chief Financial Officer and the Chief Information Officer to further analyse particular matters. In these meetings, it received adequate information on the activity carried out and on the most significant economic, financial and equity transactions of the company. It is reasonably possible to ensure that the actions resolved and implemented comply with the law and the company by-laws and are not manifestly imprudent, or risky, or in conflict of interest, or in contrast with the resolutions adopted by the shareholders' meeting, or such to compromise the integrity of the assets.

- The Board of Statutory Auditors supervised, as far as it is concerned, the adequacy of the organizational structure and compliance with the principles of correct management. This is by collecting information from the heads of the organizational functions and meetings with the auditing company, for the purpose of mutual exchange of relevant data and information. In this regard, there are no particular observations to report.

- The adequacy of the overall internal control system was verified with frequent meetings with the heads of the Audit, Risk Management and Compliance & AML departments, with the examination of the reports periodically presented to the Board of Statutory Auditors, the Board of Directors and the Risk Committee (Quarterly Tableau de Bord, progress reports on planned activities and annual activity plans, etc.).

In particular:
- At the meeting of 9 February 2018, the Board of Directors approved the 2018 activity plans of the Control Functions;
- At the meeting of 9 February 2018, the Board of Directors approved the updating of the Nexi Group coordination bodies and control functions and the general operating regulation of the Nexi Group's corporate control functions;

- At the meeting of 9 February 2018, the Board of Directors approved the updated version of the Nexi Group non-compliance risk management policy;
- At the meeting of 21 March 2018, the Board of Directors acknowledged the results of the activities carried out by the Control Functions in 2017 and approved the revision of the RAF metrics; on the same date, it acknowledged the Report on significant operational functions, the Report on significant malfunctions in 2017-management of retail payment systems, the Report on the internal reporting system for violations of the Nexi Group for the year 2017, the Annual Self-assessment Report of the permanence of the eligibility requirements of the Depositary Bank, the Disaster Recovery Test Planning for 2018;
- At the meeting of 27 April 2018, the Board of Directors approved the Report on the procedures for carrying out investment services;
- At the meeting of 24 May 2018, the Board of Directors acknowledged the activities carried out to ensure compliance of the PSD2 and GDPR projects with the applicable legislation;
- At the meeting of 28 June 2018, the Board of Directors approved the ICAAP / ILAAP Report as at 31 December 2017;
- At the meeting of 17 July 2018, the Board of Directors approved the new organizational structure and the general regulations;
- At the meeting of 31 July 2018, the Board of Directors approved the update of the Risk Appetite Framework (RAF);
- At the meeting of 31 July 2018, the Board of Directors approved the update of the Liquidity Risk Policy and Contingency Funding and Recovery Plan;
- At the meeting of 31 July 2018, the Board of Directors approved the Business Continuity Plan;
- At the meeting of 11 September 2018, the Board of Directors approved the updating of the non-compliance risk management policy and the Anti-money laundering and anti-terrorism policy;
- At the meeting of 25 September 2018, the Board of Directors approved the 2018 Recovery Plan;
- At the meeting of 6 November 2018, the Board of Directors approved the Risk Management Policy - Risk Policy, the Operational Risk Policy - ORM Policy and the SGSI (Information Security Management System) Policy;
- At the meeting of 11 December 2018, the Board of Directors approved the updating of the outsourcing policy, the ICT Resource Acquisition Policy, the human resources management policy, the development of new project initiatives, the Public Disclosure Regulation and the Market Abuse Policy.

• The Board of Statutory Auditors monitored the correct procedure of anti-money laundering controls by the company.

• The Board of Statutory Auditors supervised the implementation by the company of the remedial actions and interventions identified and suggested by the Audit Department.

• The Supervisory Body, established pursuant to Legislative Decree 8 June 2001, n. 231 and whose functions were consolidated in the Board of Statutory Auditors, continued its activity without finding anomalies or reprehensible actions.

• The adequacy of the administrative-accounting system and the reliability of the latter to correctly represent the management-related issues were verified. This through the acquisition of information from the heads of the respective functions, the examination of the company documents and the analysis of the results of the work performed by the auditing company, as well as overseeing the activity of those responsible for internal control.

• The Board of Statutory Auditors held periodic meetings with the representatives of the independent auditors, exchanging information relating to the company's accounting control activities. No significant and / or critical issues arising from the supervision of the financial reporting process emerged in relation to this activity.

- In addition to the auditing tasks for the annual and half-year accounts, the auditing company KPMG S.p.A. and other subjects belonging to the “network” of the auditing company were assigned different tasks for which, in the 2018 financial year, invoices were received for the amounts shown below:

DEPObank S.p.A.

KPMG ENTITY	DESCRIPTION OF SERVICE	FEES INVOICED IN 2018 (INCLUDING EXPENSES)
KPMG Advisory S.p.A.	BUSINESS CONTINUITY MANAGEMENT	54,442
KPMG Advisory S.p.A.	GAP ANALYSIS COMPLIANCE AND IT SUPPORT	287,147
KPMG Advisory S.p.A.	PAYCO' S RISK MANAGEMENT ANALYSIS	40,000
KPMG Advisory S.p.A.	BUY SIDE FINANCIAL AND TAX DUE DILIGENCE SPARKLING'S ACQUISITION	22,440
		404,029

- The report on operations for the 2018 financial year is compliant with current regulations, consistent with the resolutions of the management body and with the results of the financial statements; as already mentioned, it contains adequate information on the activity of the financial year and on transactions with Related Parties. The explanatory notes to part E contain an indication of the risks and related hedging policies, as recommended by the joint documents Banca Italia, Consob, Isvap n. 2 dated 6 February 2009 and no. 4 of 3 March 2010.

- The financial statements are prepared according to the structure and layouts required by current regulations. In particular, the financial statements for the year ended 31 December 2018, in compliance with the provisions of Community Regulation no. 1606 of 19 July 2002, was drafted in compliance with international accounting standards, International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Boards (IASB), as approved by the European Commission and adopted by the Italian Legislator with Legislative Decree 38/2005.

  In preparing the financial statements, the IAS / IFRS standards in force at 31 December 2018 were applied, as well as the financial statement instructions issued by the Bank of Italy with the Provision dated 22 December 2005, the contextual Circular no. 262, and subsequent updates. No exceptions were made to the application of IAS / IFRS accounting standards.

  The auditing company issued its report on 12 April 2019. The opinion expressed on the financial statements of the year is conformity, as it provides: (i) A true and fair representation of the financial situation as well as the economic results and cash flows, and (ii) Complies with the accounting principles. The opinion on the Management Report is also conformity with the law.

- The auditing company stated that, in accordance with art. 17 of legislative decree. 39/2010, there are no grounds to compromise its independence.

- During the year, the Board of Statutory Auditors issued the opinions required by law, the Supervisory regulations and the Articles of Association. Among others, we highlight the following opinions:
  - 18 January 2018, pursuant to art. 2437-ter of the Italian Civil Code, the determination of the liquidation value of the Nexi shares on which to exercise the right of withdrawal in the context of the partial proportional demerger process of Nexi in favour of Latino Italy;
  - 21 March 2018, the variable remuneration of the Chief Executive Officer for 2017 and the variable remuneration of the members of the General Management for the 2018 financial year;
  - 27 April 2018, pursuant to art. 2389 of the Civil Code, the determination of the amount of compensation due to directors with particular duties;
  - 27 April, 2018, the one-year extension of the consulting contract with Advent, Bain and Clessidra;
  - 2 July 2018, pursuant to art. 2389 of the Italian Civil Code, the determination of the amount of compensation due to directors with special duties;
  - 17 July 2018, the establishment, pursuant to article 21, paragraph 3 of the Articles of Association, of the Strategic & Financial Steering Committee;
  - 17 July 2018, the appointment of the Audit department manager and the Compliance & AML department manager as well as manager of suspicious transaction reporting (STR);
  - 11 September 2018, the objectives of the Chief Executive Officer and the Deputy Chairman for the second half of 2018;
  - 11 September 2018, the objectives of the heads of control functions for the second half of 2018;
  - 25 September 2018, the updating of the Compliance Department 2018 activity plan;
  - 6 November, 2018, the fringe benefits of the Deputy Chairman;
  - 6 November, 2018, the updating of the Corporate Governance Project.

- The Board of Statutory Auditors did not receive any reports pursuant to art. 2408 Italian Civil Code or complaints.

- The supervisory activity of the Board of Statutory Auditors was acknowledged in the minutes of the 18 meetings held during 2018. The Board of Statutory Auditors also attended the 14 meetings of the Board of Directors: it is acknowledged that the supporting documentation for the topics on agenda was complete and sent in reasonable time.

- During the supervisory activity carried out and on the basis of the information obtained from the auditing company, no omissions, or reprehensible actions, or irregularities were revealed, or in any case significant facts such as to require reporting to the supervisory bodies or mention in this report.

* * *

Supervisory Activities pursuant to art. 3 paragraph 7 of legislative decree n. 254/2016

The Board of Statutory Auditors supervised compliance with the provisions of Legislative Decree no. 254/2016 on non-financial communications and information on diversity; the subject in charge of the legal control of the accounts - KPMG S.p.A. - verified the preparation of the non-financial statement and issued a “limited assurance engagement” regarding the compliance of the information provided with the requirements of the decree and the reporting standards and guidelines used to prepare the information.

Supervisory Activities pursuant to art. 19 of legislative decree n. 39/2010

It should be noted that pursuant to art. 19 of the legislative decree n. 39/2010, the Board of Statutory Auditors is in charge of monitoring the financial reporting process; to check the effectiveness of the internal quality control and risk management systems of the company and internal audit; to monitor the statutory audit of the financial statements and to verify and monitor the independence of the auditing company.
Even if the preceding report already partially provides the indications referred to in the aforementioned art. 19, it is specified that from the supervisory activity related to the financial disclosure process, the internal control and risk management system, to the statutory audit activity and the independence of the auditor, no further elements emerged to be reported.

* * *

Proposal to the Shareholders' Meeting

- Financial statements as at 31 December 2018
Considering also the results of the activities carried out by the body in charge of accounting control, the results contained in the report issued on 12 April 2019, the Board of Statutory Auditors expresses a favourable opinion for the approval of the financial statements as at 31 December 2018 which closed with a net profit of € 5,164,942 (2017: € 89,490,653); no impediment to the proposal by the Board of Directors relating to its allocation.
The Board of Statutory Auditors informs that, with the approval of the Financial Statements ended 31/12/2018, the mandate for the Statutory Audit of the Accounts assigned to KPMG Spa, a non-renewable appointment, expires.
According to art. 13 Legislative Decree n. 39/2010, the Board of Statutory Auditors, that has already been activated for some time, will proceed to present the "reasoned proposal" to the Shareholders' Meeting for the resolution in this regard.

Milan, 12 April 2019

The Board of Statutory Auditors

Gianluigi Fiorendi
Chairman

Lorenzo Banfi

Paolo Lazzati

(signed on the Italian original which remains the definitive version)

DEPObank

BANCA DEPOSITARIA ITALIANA

Report of the Auditing Company

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

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

To the shareholders of
DEPObank S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of DEPObank S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

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

Basis for opinion

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

Key audit matters

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

Corporate reorganisation

Key audit matter	Audit procedures addressing the key audit matter
As discussed by the directors in their report, in 2018, the banking group headed by the bank was reorganised. The objective was to separate the two businesses: one to develop the digital payment operations (the payments business) and another (DEPObank S.p.A.) focused on the securities and payment services that require a banking licence (the banking business). From a corporate viewpoint, separation took place on 1 July 2018 with: — the contribution by the bank to Nexi Payments S.p.A. of the non-banking business unit, which includes, inter alia, the activities related to the payment services that do not require a banking licence, the e-money issuance activities, the bank's trademarks and logos and the personnel necessary to ensure the full autonomy of the new group to be headed by Latino Italy S.r.l., against Nexi Payments S.p.A's capital increase. — the partial demerger of the bank to Latino Italy S.p.A. performed by transferring all the bank's investments in the banking group companies and the loan granted by Mercury UK Holdco Limited.	Our audit procedures included: — analysing the contract documents relating to the corporate reorganisation; — analysing the effects of the above transactions on the bank's financial statements; — assessing the appropriateness of the disclosures about the transactions carried out to complete the corporate reorganisation.

Recoverability of goodwill

Notes to the financial statements "Part A – Accounting policies": paragraphs A.2.7 "Intangible assets" and A.2.15 "Other information"

Notes to the financial statements "Part B - Notes to the statement of financial position - Assets": section 9 "Equity investments"

Key audit matter	Audit procedures addressing the key audit matter
The financial statements at 31 December 2018 include goodwill of €127 million. The bank's directors calculated the recoverable amount of goodwill as the higher of its fair value less costs to sell and value in use. They estimated its value in use applying the dividend discount model (excess capital version) based on the bank's as-is 2017-2021 business plan as resulting after the review of the "BankCo business plan", updated by the 2019-2023 strategic plan approved by the board of directors on 21 February 2019. The fair value has been measured using the market multiples method, using a range between the average and the median value of a sample of comparables. These methods are very complex and use valuation methods that require estimates, which, by their very nature, are uncertain and subjective. For the above reason, we believe that the recoverability of goodwill is a key audit matter.	Our audit procedures included: — understanding the process adopted to prepare the impairment test; — checking the accuracy of the data used to estimate the recoverable amount by comparing them to the figures of the bank's as-is 2017-2021 business plan as resulting after the review of the "BankCo business plan", updated by the 2019-2023 strategic plan approved by the board of directors on 21 February 2019; — checking the reasonableness of the model adopted for impairment testing and the related assumptions, including by means of comparison with external data and information. We carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures about goodwill and the related impairment test.

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

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

On 7 May 2010, the bank's shareholders appointed us to perform the statutory audit of its financial statements as at and for the years ending from 31 December 2010 to 31 December 2018.

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

Milan, 12 April 2019

KPMG S.p.A.

(signed on the original)

Roberto Fabbri
Director of Audit

DEPObank
BANCA DEPOSITARIA ITALIANA

Shareholders’ Meeting resolutions of 29 April 2019

Shareholders' Meeting resolutions

of 29 April 2019

Below is a summary of the resolutions adopted by the Ordinary Shareholders' Meeting held on first call on **29 April 2019**:

1. FINANCIAL STATEMENTS AT 31 DECEMBER 2018;
DIRECTORS' REPORT, REPORTS OF THE BOARD OF STATUTORY AUDITORS AND THE INDEPENDENT AUDITORS; RELATED RESOLUTIONS.
The Shareholders' Meeting approved the financial statements at 31 December 2018 as presented by the Board of Directors and the relative assignment of the profit of the financial year.

2. APPOINTMENT OF THE INDEPENDENT AUDITORS FOR THE STATUTORY AUDIT OF THE 2019-2027 FINANCIAL STATEMENTS.
The Shareholders' Meeting appointed the auditing firm Deloitte & Touche S.p.A. as independent auditors for the statutory audit of the 2019-2027 financial statements.

3. REMUNERATION AND INCENTIVE POLICIES;
RELATED RESOLUTIONS.
The Shareholders' Meeting approved the remuneration and incentive policies of DEPObank as proposed by the Board of Directors.

DEPObank
BANCA DEPOSITARIA ITALIANA

Corporate positions as at 29 April 2019

Corporate positions

as at 29 April 2019

BOARD OF DIRECTORS

Chairman	Paolo Mario Tadini
Deputy Chairman	Pier Paolo Cellerino
CEO	Fabrizio Viola
Directors	Fabio Calì Giovanni Camera Rosa Cipriotti Francesco Colli Umberto Colli Ottavio Rigodanza Ezio Simonelli Paolo Vagnone

BOARD OF STATUTORY AUDITORS

Chairman	Gianluigi Fiorendi
Statutory auditors	Lorenzo Banfi Paolo Francesco Maria Lazzati
Substitute auditors	Andrea Brambilla Gianluca Pozzi

GENERAL MANAGEMENT

Deputy Vice General Manager	Paolo Testi

DEPObank
BANCA DEPOSITARIA ITALIANA

Shareholders' list

Shareholders' list

Equinova UK HoldCo Limited	London
Banco BPM S.p.A.	Milan
Credito Valtellinese S.p.A.	Sondrio
Banca Popolare di Sondrio S.c.p.A.	Sondrio
UBI Banca S.p.A.	Bergamo
Banca di Cividale S.c.p.A.	Cividale
ICCREA Banca S.p.A.	Rome
Banca Sella Holding S.p.A.	Biella
Banca Popolare del Frusinate S.c.p.A.	Frosinone
Banca Popolare Vesuviana Soc. Coop.	S. Giuseppe Vesuviano

2018 Individual Non-Financial Statement

Prepared in accordance with Legislative Decree n. 254 of 2016

Content

Methodological note

REPORTING STANDARDS

The Individual Non-Financial Statement of DEPObank (hereinafter also "Statement"), prepared in accordance with Article 3 of Legislative Decree no. 254 / 2016 (hereinafter also "Decree"), contains information on environmental issues, social, personnel, respect for human rights and the fight against corruption, useful to provide stakeholders with accurate, comprehensive and transparent activities of DEPObank - Banca Depositaria Italiana S.p.A (hereinafter also "DEPObank" and "Bank"), its performance, results achieved and impacts produced confirming the commitment of a Bank able to grow and create value while respecting the expectations of its stakeholders, thanks to continuous improvement, with a view to economic, social and environmental sustainability.

The present 2018 Individual Non-Financial Statement, which will be published on an annual basis, is prepared according to the GRI Standards (core in accordance option). Published in 2016 by the Global Reporting Initiative, today it is the most widespread and internationally recognized standard on non-financial reporting. In order to facilitate the reader in finding information within the document on pages 301-305, the GRI Content Index is shown.

The information included in the non-financial reporting reflects the principle of materiality or relevance, as required by both the relevant legislation and the GRI Standards. It follows that the topics covered by the non-financial reporting are those that, following the materiality analysis, described on pages 246-247 of this document, have been considered relevant, as they are able to reflect the social and environmental impacts of the Bank's activities or to influence the decisions of its stakeholders.

To request information on the Statement and its contents it is possible to write to the Corporate & Legal Affairs Service of DEPObank: corporateaffairs@depobank.it.

SCOPE AND REPORTING PROCEDURE

The data and the qualitative and quantitative information contained in this individual non-financial statement of DEPObank refer to the performance of the Bank in the financial year ended 31 December 2018.

The scope of reporting includes the company DEPObank S.p.A., formerly Nexi SpA, which changed to the new company name with effect from 1 July 2018, within the framework of the reorganization project of the former Nexi Banking Group.

The 2018 financial year was characterized by the implementation of the banking group reorganization project, which was controlled by the Bank (Nexi S.p.A.), that led to the termination of this banking Group with the separation of the banking activities from other corporate departments dedicated to payment services for a greater focus on the activity carried out by the Bank. The latter changed to the new name of DEPObank - Banca Depositaria Italiana S.p.A.

The reorganization of the Nexi Banking Group is part of the broader reorganization project of the Group controlled by Mercury UK HoldCo Limited (a company based in Great Britain, owned by the consortium of funds managed by Advent International Corporation, Bain Capital Investors LLC and Clessidra SGR S.p.A., currently the 100% controlling shareholder of Nexi S.p.A. (formerly Latino Italy S.r.l.)). In the same reorganization project, a new company, Equinova UK HoldCo Limited, was created which holds the majority of the shares of DEPObank.

The project saw the creation of two distinct organisations, the first dedicated to the development of activities related to digital payments (payments group, now called "Nexi Group"), while the second, constituted by DEPObank, to focus on the development of securities services and payment services that require a banking license, with the aim of a strategic repositioning of the Bank over the medium term.

Under the corporate point of view, the separation of the two groups was executed on 1 July 2018, the date on which the sale of a business unit by Nexi S.p.A. to Nexi Payments S.p.A was also carried out, composed of about 400 employees. Given the average number of DEPObank employees, over 500, and the other income and equity parameters, during 2018 the Bank fell within the scope of application described in Article 2 of Legislative Decree 254/2016.

The scope for 2018 refers, for this reason, only to banking activities carried out by DEPObank for the whole of 2018. Where useful, data referring to the Bank's boundary in 2017 has been provided to compare or contextualize information, net of certain exceptions for which a summary and quantitative comparison with the previous year was provided as envisaged by the Decree. The following Statement is the first individual statement of a non-financial nature of DEPObank, however in 2018 the Company prepared and published a non-financial consolidated statement relating to the performance of the former Nexi Banking Group for the financial year ended 31 December 2017, available on the DEPObank and Nexi Group websites.

REPORTING PROCESS

The preparation of the individual non-financial statement of DEPObank for 2018 was based on a structured reporting process that provided for:

- the involvement of all the corporate structures / functions responsible for the relevant areas and the related data and information under the Statement. They were asked to identify and evaluate the material issues, projects and the most significant initiatives to be described in the Statement, as well as to collect, analyse and consolidate the data, with the task of verifying and validating the information reported in the Statement, each for their own area of expertise. In particular, the data and information included in the Statement derive from a non-financial reporting system (data collection forms) specifically implemented to meet the requirements of Legislative Decree 244/2016 and the GRI Standards. The data were processed by means of extractions and precise calculations and, where specifically indicated, by estimates;
- the approval of the Statement by the Board of Directors, called on 21 March 2019 for the approval of the 2018 financial statements;

- the issue of a conformity assessment on the Statement by KPMG S.p.A., in the form of a limited assurance;
- the publication of the Statement, on the corporate website, within the Management Report, in order to make it available transparently to all stakeholders.

REPORTING PRINCIPLES

The reporting in the individual non-financial statement of DEPObank for 2018 followed these principles:

Materiality	The Statement describes the main economic, social and environmental impacts directly connected to the activities of DEPObank and which are of greater significance both for the Bank and for the internal and external stakeholders involved in corporate activities.
Inclusiveness	The Statement takes into account the expectations and interests of all those who in various capacities contribute or are influenced by company activities. It provides a description of the most relevant DEPObank stakeholders and the main documentary sources and dialogue channels through which their interests and expectations are identified.
Sustainability Context	The reporting of non-financial results was carried out taking into account the socio-economic context in which the Bank operates and the most significant issues for the sector to which it belongs, also through the analysis of sustainability information of national and international groups in the sector of reference.
Completeness	The choices regarding the matters reported and the scope of the Statement were made to allow stakeholders to formulate a complete assessment on the Bank's main economic, social and environmental impacts.
Balance between positive and negative aspects	The Statement presents the main sustainability performances of DEPObank, reporting both aspects in a transparent manner in which the Bank shows positive results and trends, and areas in which there is room for further improvement.
Comparability	The indicators present in the Statement are chosen and structured to allow the comparability over time of the performance of DEPObank.
Accuracy	To ensure the accuracy and homogeneity of the information reported in the Statement, data subject to direct analysis was used, limiting the use of estimates as much as possible. If necessary, the estimates are reported within the text and are based on the best calculation methods currently available.
Timeliness	The Statement is prepared on an annual basis and made public in the same reporting period as the Financial Statements.
Reliability	All the data and information reported in the Statement have been validated by the managers of the pertinent company departments and have been processed on the basis of documentary evidence that proves its existence, completeness and accuracy.
Clarity	The Statement contains information presented in an understandable and accessible manner to all stakeholders.

Identity and Profile

Who we are

DEPObank is the Bank specializing in securities services and bank payment services.

Created from the separation of the banking activities of the Nexi Group, it offers services to over 400 clients including Banks, Asset Management Companies, Pension Funds, Public Administration (PA), Corporate, Real Estate Brokerage Companies and Payment Service Providers (PSP).

DEPObank holds leadership positions in various business areas, thanks to a wide and diversified offer that extends to the design and development of IT, data transmission, payment and database management systems and services, as well as technical and financial consulting activities. In the last year, as depositary bank, it managed over Euro 60 billion in assets and, in Banking Payments, executed around 600 million transactions.

DEPObank carries out banking and financial activities and acquires equity interests in companies and institutions that also carry out banking, financial and insurance activities or other related activities.

The DEPObank structure is organized in teams with high specialization, which support the client in daily operations and in the development of customized and functional solutions and services, unique on the Italian market. DEPObank has international collaborations and partnerships, to be competitive and innovate the core business, also in the global context.

Operating Revenues
€ 162.6 million

Asset Under Management
Depositary Bank
€ 63.2 billion

Subscribers Transfer Agent
2 million

Over
400 Clients

Asset Under Management
Fund Accounting
€ 44.7 billion

Asset Under Custody
Global Custody
€ 120.6 billion

Payment transactions including:

- Bank transfers and collections 266.8 m
- Card settlement transactions 197.5 m
- Checks & receivables 62.2 m
- INPS Pension Payments 11.5 m
- Payments for other client customers 55 m

593.1 million

DEPObank services

DEPObank specializes in securities services and banking payment services.

In an international context it is positioned as an Italian pole and system bank, able to provide solutions fully in line with market developments, for the growth and consolidation of different types of clients. A team of professionals dedicated to Treasury and Capital Market activities offers tailored solutions, to support business development.

Securities services

DEPObank offers a complete range of solutions in line with the most recent developments in the financial and regulatory markets:

- **Fund Services**
  - Depositary Bank
  - Fund Administration
  - Transfer Agent
- **Local & Global Custody**

Banking payment services

The Bank offer:

- **Intermediary Bank Services** for Banks and PSPs, which allow indirect members of BI-Comp/Target2/EBA clearing to settle all payment transactions;
- **Structured services for the management of collections and payments dedicated to** Companies and Public Administration.

Treasury and capital market

DEPObank has a long and thorough experience in domestic and international contexts, providing a valid support to the development of its Clients' core activities in the sectors:

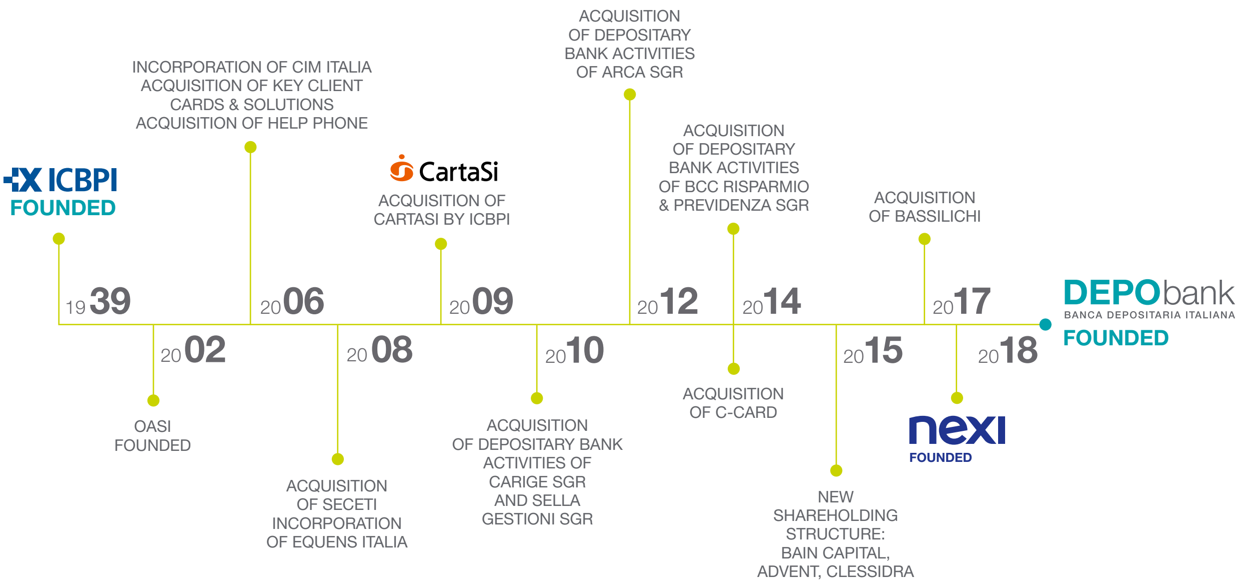
- **Fixed Income**
- **Repos**
- **Derivatives**
- **Forex**
- **Euro e Currency Deposits**

History

DEPObank - Banca Depositaria Italiana S.p.A. was established on 1 July 2018 from the separation of the banking activities of the Nexi Group.

It is therefore built on the solidity and expertise of ICBPI and CartaSi, the company from which Nexi originated and which in over 70 years of activity have contributed to the growth and innovation of the country's financial and banking system.

The new path moves from this heritage and is diversified with projects that continue to look at the evolution and growth of the economic system as a whole. In particular, today DEPObank specializes in securities services and banking payment services and is positioned as an Italian player, leader in the domestic market.



Mission and Vision

DEPObank places the expertise and experience of its Professionals at the disposal of its Clients, to give continuity to a history of quality, excellence and innovation.

High specialization in Securities Services and Banking Payment Services remain a point of reference and guarantee of competitiveness for the entire Italian financial system.

Positioning

The quality of the relationship with clients is the first distinctive feature of DEPObank.

This translates into simplifying and making the operations of Banks, Financial Institutions, Asset Managers, Pension Funds, Public Administration (PA), Corporates and Payment Service Providers (PSP) efficient and competitive.

A team of highly specialized professionals is able to offer tailor-made solutions and services with levels of excellence that are unique on the Italian market.

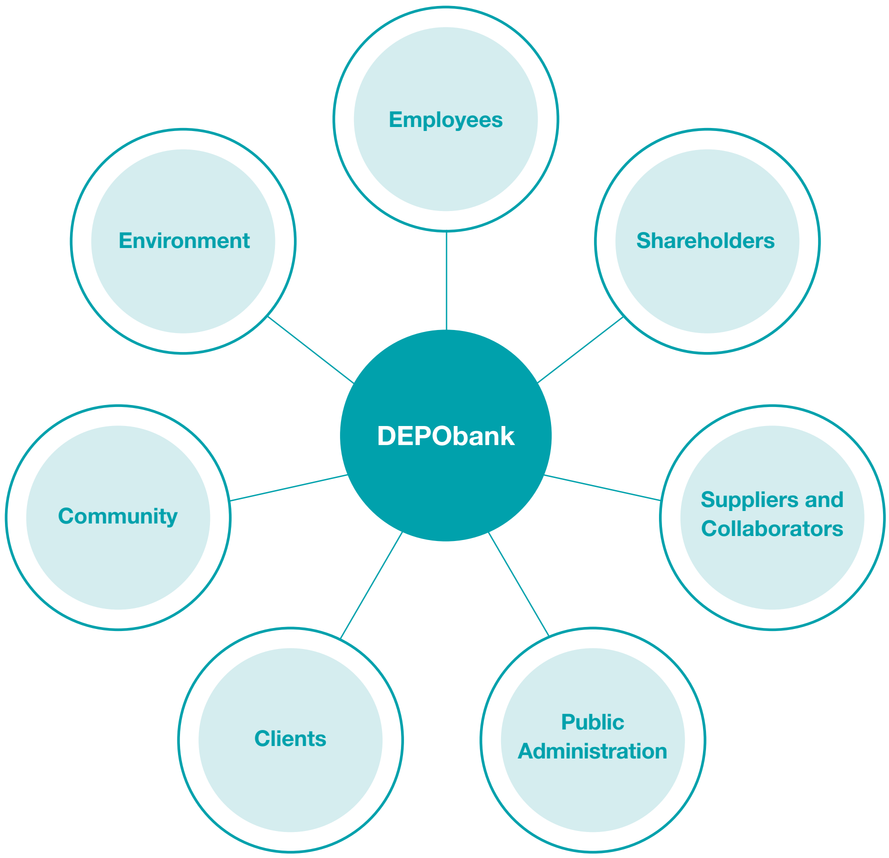
Reliability, concreteness and time-to-market are the essential elements of their work and the added value that they offer every Client every day.

Relations with stakeholders and identification of material issues for the business

DEPObank stakeholders

DEPObank places the relationship with internal and external stakeholders at the center of its work, since it believes that thanks to the structured dialogue and constant involvement of its stakeholders, it is possible to understand their level of satisfaction with respect to the Bank's operations and improve its performance in the long period. For this reason, it adopts a differentiated approach to respond to the different needs of the identified stakeholders.

The relationships with the stakeholders are defined within the Code of Ethics and are inspired by the principles of impartiality, fairness and transparency. The main categories of DEPObank stakeholders have been identified with the direct contribution of the company functions that have provided a mapping of the existing relationships, in line with what has been defined within the Code of Ethics.



No particular critical issues emerged from the stakeholder engagement activities carried out in 2018, which are described in the individual paragraphs of this document, but useful hints for improvement for the services and the operating and management models.

National Category Associations

DEPObank is a member of the main trade associations in the banking and financial sector in order to dialogue and discuss with players and experts in the sector. For DEPObank, being part of these associations represents an opportunity to consolidate its system of relationships and to achieve positive effects on the territory, both economically and socially thanks to the collaboration with other companies.

DEPObank is a member of the following main national trade associations:

ABI - Associazione Bancaria Italiana (Italian Banking Association): Association that operates by promoting initiatives for the growth of the banking and financial system, in a competitive perspective in line with national and European Union legislation.

Conciliatore Bancario Finanziario (Banking-Financial Conciliator): Association that offers ways to address and resolve issues that may arise between a client and a bank or financial intermediary.

FITD - Fondo Interbancario di Tutela dei Depositi (Interbank Deposit Protection Fund): Private Consortium established in 1987 on a voluntary basis and subsequently mandatory, which aims to guarantee the depositors of the consortium banks, which provide the financial resources necessary to pursue the purpose of the Consortium.

Assosim - Associazione italiana degli Intermediari mobiliari (Italian Association of Securities Intermediaries): Association that represents the market professionals of the Italian securities market towards State Bodies and Public Administrations. Founded in 1991, since 2007 membership has been extended to law firms, consultancy and IT solutions development companies, and in general to those who provide services to securities brokers.

Our Shareholders[1]

The definition of material issues

DEPObank has launched a process to define the material issues to be included in the non-financial statement and to be developed in its own approach to sustainability.

The starting point of this path was the analysis of the sustainability aspects of the competitors and of the best practices in the sector. In parallel, an analysis was carried out on corporate documents, such as the Code of Ethics, and on external sources including sector studies, media and internet research, as well as multi-stakeholder standards and initiatives, in order to identify material issues applying in the sector and already supervised and deemed important within the Bank. After defining a list of possible material issues, the DEPObank management assessed the applicability and relevance of the issues on the basis of the company point of view, taking into account the expectations of its stakeholders.

[1] The data refer to shareholders from 30 January 2019 following the sale by BPER of its stake (1.5%) in favour of Equinova UK Holding.

The issues identified are as follows:
- Employment protection;
- Training and development of its people;
- Performance evaluation and remuneration;
- Talent attraction and personnel selection;
- Health and Safety Promotion;
- Diversity and equal opportunities;
- Fight against corruption;
- Privacy and data security;
- Continuous innovation;
- Continuity of services;
- Claims management;
- Marketing communication;
- Ethics, integrity and compliance.

Protecting the environment and respecting human rights are topics addressed in this Statement as required by Legislative Decree 254/2016. However, the Bank does not include these issues among the material ones for the purpose of drafting the non-financial Statement after having considered its own operational, territorial and regulatory context. DEPObank recognizes the importance of environmental protection and respect for human rights and for this reason it has included these issues in its own Code of Ethics and has initiated management procedures for them: the Group is committed to reducing its impact on the environment and ensures diversity and respect in relations with its employees, clients and suppliers, with particular attention to the fight against discrimination.

The governance model

The international context and the role of the banking and financial sector require particular attention to corporate governance to ensure good management, as well as risk management and the launching of concrete actions to combat corruption.

In order to achieve its strategic objectives and ensure the quality of governance and risk management, DEPObank defines its organizational model within its corporate by-laws and internal regulations and regularly monitors the adequacy and effectiveness. The corporate bodies have been assigned the tasks and powers according to the most suitable structure to ensure the efficiency of the management and the effectiveness of the controls in compliance with current legislation and the By-laws.

DEPObank has adopted a so-called traditional governance model, based on the presence of two bodies appointed by the shareholders: the Board of Directors, as management body, and the Board of Statutory Auditors with control functions over the management.

The statutory audit of the accounts is entrusted to an auditing company, in compliance with the applicable legislative and statutory provisions on the subject.

BOARD OF DIRECTORS

The management of the company lies exclusively with the Board of Directors, made up of 11 members, elected by the ordinary Shareholders' Meeting through list voting. The appointment took place on 28 June 2018 (with effect from 1 July 2018), based on the lists of candidates who meet the requirements set by law and by the Articles of Association.

The Board of Directors is appointed by the Shareholders' Meeting on the basis of lists presented by the shareholders, either alone or jointly, who hold at least 7% of the shares with the right to vote in the ordinary shareholders' meeting. The appointment process, as well as the revocation procedures and the replacement of the members of the corporate bodies are described within the Bank's Articles of Association and comply with the provisions of the law. The Directors can be of three different types: executive, non-executive, independent. Particular importance is placed on the issues of diversity within the Bank, which in fact must be guaranteed based on the different criteria (competences, experience, age, gender, national and international calibre), better described in the paragraph relating to the diversity of management and control bodies in this chapter. The Directors remain in office for a period not exceeding three financial years and may be re-elected.

The Board is the body to which the strategic supervision and management functions are reserved according to the social will expressed by the Shareholders' Meeting, therefore it is invested with the fullest powers for the ordinary and extraordinary management of the company, except for what is, by law or by Articles of Association, reserved for the Shareholders' Meeting. The Board of Directors is responsible for:

- determination of strategic company guidelines and objectives and the verification of their implementation;
- approval of the bank's organizational and corporate governance structure, guaranteeing the clear distinction of duties and functions, as well as the prevention of conflicts of interest, and ensuring the verification of their correct implementation and timely correction where necessary;
- approval of the strategic, industrial and financial plans of DEPObank;
- approval of accounting and reporting systems;
- supervision of the public information and communication process of the company;
- assessment, based on the report of the delegated bodies and the comparison with the management bodies, of the general management trend, verifying over time the choices and decisions made by the delegated bodies.

The Board of Directors is also assigned the exclusive competences expressly provided for in the Articles of Association, including the determination of the business plan, the regulations of the operating rules of the company and the resolution in cases of merger.

In order to fulfil regulatory obligations more effectively and support the company's decision-making processes, the following corporate bodies with their own operating regulations have been set up by the Board of Directors:

- **Strategic & Financial Steering Committee**, with consultative duties to support the Board of Directors, it provides non-binding opinions on matters such as the company's operating and economic performance, the strategic plan and the budget policies;
- **Risk Committee**, with the function of supporting the Board of Directors in matters of risks and the internal control system;
- **Related Parties Committee**, which verifies the formal and substantial regularity of the transactions with Related Parties as well as the advantage and substantial correctness of the relative conditions.

The members of the internal board committees are appointed by the Board on the basis of the respective regulations governing their composition, duties and functioning.

The characteristics declared by the Directors were appropriately diversified and also suitable to guarantee a properly balanced composition of the internal board committees.

In accordance with the Supervisory Provisions of the Bank of Italy, the Board of Directors is required to periodically submit to a self-assessment process, formalizing the methods and timing in a specific corporate regulation.

A specific training session was held for the Board of Directors, from when the current Board took office (1 July 2018) until February 2019, on personal data protection in accordance with the general data protection regulation (Regulation 2016/679/UE, General Data Protection Regulation).

The Chairman of the Board of Directors

The Chairman monitors the Company's performance, promotes the effective functioning of the corporate governance system by favouring the internal dialectic in a neutral manner, urging the participation of non-executive members in the Board's work and ensuring the balancing of powers between executive and non-executive Directors.
The Chairman convenes and chairs the Board of Directors, establishing the agenda and ensuring that issues of strategic importance are treated with priority. A Deputy Chairman currently elected by the Board is also present.

Furthermore, the Chairman does not have management powers and therefore does not perform an operational role.

The Chief Executive Officer

The management of DEPObank is entrusted to the CEO, elected from among the members of the Board of Directors.

The Chief Executive Officer, in line with the guidelines set by the Board of Directors, has the task of managing and coordinating the various company components for the purpose of implementing the business plan, and also prepares the necessary measures to ensure an efficient and effective internal control system.

The Chief Executive Officer, in relation to specific issues, makes use of the following committees with advisory functions: the Management Committee, the Credit & Financial Committee and the Operational Risk Committee.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is the body that is entrusted with the control function of the company and is composed of three statutory auditors and two substitute auditors, who were elected by the Shareholders' Meeting on 26 April 2018 between subjects in possession of the prescribed requirements of good repute, professionalism and independence through the list voting established by the articles of association.

The assignments, duties and term in office are those established by law.
The Board of Statutory Auditors of DEPObank, also called the Statutory Board, also acts as 231 Supervisory Body.

In carrying out its supervisory duties, the Board of Statutory Auditors uses the information flows coming from the functions and internal control structures, activating a continuous reciprocal exchange of information with them relevant for the performance of their respective duties, in particular on compliance of the laws, regulations and statutes, the correct management as well as the functioning of the internal control system and the adequacy of the risk management and control system. The Board is also informed of the activity carried out by the Risk Committee through the participation of the Chairman of the Board of Statutory Auditors, or an auditor designated by it, at its meetings.

Since by law the accounting control is entrusted to an external auditor, the Board of Statutory Auditors holds duties connected with the assessment of the adequacy and functioning of the accounting structure, including the related information systems, in order to ensure a correct representation of the corporate events.

Similar to what happens for the Board, the Board of Statutory Auditors periodically verifies its adequacy in terms of powers, functioning and composition (with particular attention to the existence of the requisites prescribed for its members), taking into account the size, complexity and activities carried out by the Bank.

Diversity in management and control bodies

The directors of DEPObank are appointed by the Shareholders' Meeting in accordance with the requirements provided for by the current provisions and by the Articles of Association in terms of professionalism, integrity and independence, on the basis of which an adequate degree of diversification must be guaranteed, also in terms of skills, experience, age, gender and national and international projection, adapted to the Company's operations.

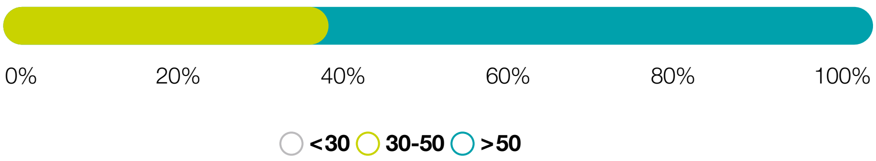
In line with the Supervisory provisions, the Board of Directors and the Board of Statutory Auditors of DEPObank annually carry out a self-assessment process in order to periodically assess their qualitative and quantitative composition, the size, the degree of diversity and preparation professionalism of its members, the balancing guaranteed by the non-executive and independent members, the adequacy of the appointment processes and the selection criteria and the professional updating. Based on the outcome of this process, any insufficiencies or areas for improvement are identified and the remedial actions to be taken are defined.

The Chairman of the Board of Directors, in order to guarantee a common background on banking and financial regulation, ensures that the Bank prepares and implements induction programs and training plans for the members of the corporate bodies.

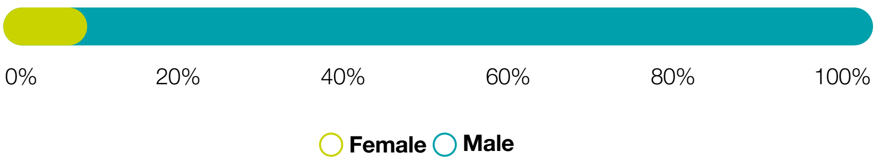
Composition of the Board of Directors and the internal board committees

Board Members (n°)	Board of Directors	Strategic & Financial Committee	Risk Committee	Related Parties Committee
Number of Directors	**11**	**5**	**5**	**3**
- executive	1	1	-	-
- non-executive	10	4	5	3
- independent	4	-	3	3
- female	1	-	1	1
- male	10	5	4	2
- <30	-	-	-	-
- 30-50	4	3	2	1
- >50	7	2	3	2

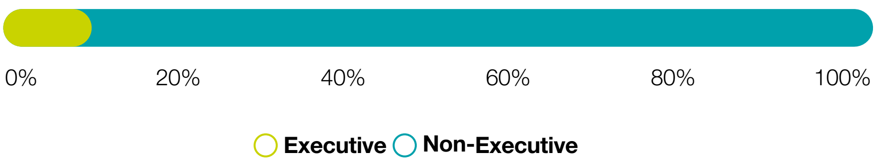
Composition of the Board of Directors - Age groups



Composition of the Board of Directors - Gender



Executive and Non-Executive Directors



Internal controls, compliance and risk management

The internal control system

DEPObank's Internal Control System is a process aimed at providing reasonable assurance on the achievement of corporate objectives of effectiveness and efficiency of operating activities, reliability of financial statement information and compliance with the laws and regulations in force.

In order to ensure that the aforementioned objectives are pursued, DEPObank exercises strategic control over the evolution of the various areas of activity in which it operates and the incumbent risks on the portfolio of the activities performed. This control regards the expansion of the activities carried out and the acquisition and disposal policies. In addition to the strategic control, there is management control, aimed at ensuring to maintain the conditions of economic, financial and capital balance, and the technical-operational control, aimed at evaluating the various risk profiles brought by the individual businesses.

The Internal Control System is structured on different levels of control, such as:

- Line controls, generally incorporated in the procedures or performed in back office activities by the same production units, are hierarchical controls aimed at ensuring the correct execution of operations;
- Risk management controls, performed by the Risk Management Department, aimed at defining risk measurement methods, verifying compliance with the limits assigned to the various operational functions (second level controls) and checking the consistency of the operations of the individual production areas with risk and return objectives;
- Compliance checks on the rules, carried out by the Compliance & AML function, aimed at protecting the risks connected to the lack of compliance with external and internal regulations;
- Internal audit activities carried out by the Internal Audit function, aimed at identifying anomalous trends, violations of internal and external procedures and regulations, as well as assessing the overall functioning of the Internal Control System.

THE PLAYERS OF THE INTERNAL CONTROL SYSTEM

DEPObank internally assigns roles and responsibilities to ensure the correct functioning of the Internal Control System.

- The **Board of Directors** is responsible for the overall management and supervision of the system for managing the risk of non-compliance with the regulations. In particular, it defines and approves the business model, being aware of the risks to which this model exposes the Bank and understanding the ways in which the risks are identified and assessed.

The Board of Directors defines the objectives, the tolerance threshold and the risk governance policies as well as the guidelines of the Internal Control System, verifying that this is consistent with the strategic guidelines and the risk appetite established and that it is capable to capture the evolution of business risks and the interaction between them.

The risk management process is assessed by the Board of Directors, which verifies compatibility with strategic objectives and risk governance policies, as well as the correct functioning of risk measurement systems. The Risk Appetite Framework (RAF) is established with the support of the Risk Committee and is periodically evaluated in order to ensure consistency with the risk objectives and compatibility with actual risk, taking into consideration the evolution of internal and external conditions in which the Bank operates.

Furthermore, the Board of Directors approves the establishment of the corporate control functions, the responsibilities, the coordination and collaboration procedures and the information flows, verifying compliance with the requirements and provisions of the prudential supervisory provisions.

- The **Chief Executive Officer** ensures the consistency between the management process, the risk appetite and the risk governance policies, explicitly taking into account the results of the stress tests and the evolution of the economic situation. The CEO must ensure that, for each type of risk, adequate internal and independent analyses are conducted, limiting reliance on external ratings, and must also facilitate the development and dissemination of an integrated risk culture at all levels in relation to the various types of risks and extended to the entire Bank.

  The responsibility to establish the corporate structures and functions involved in the risk management process is entrusted to the Chief Executive Officer, who ensures that the tasks are clearly attributed, preventing potential conflicts of interest. The CEO also ensures that the relevant activities are managed by qualified personnel, with an adequate degree of independent assessment and with adequate experience and knowledge for the tasks to be performed.

- The **Board of Statutory Auditors** (Statutory Board) is the body with the control function which monitors compliance with the laws, regulations and articles of association, compliance with the principles of correct management, the adequacy and proper functioning of the organizational structure, administrative and accounting procedures adopted. The Board performs the functions of a Supervisory Body pursuant to Legislative Decree 231/2001 and, together with the Board of Directors, is responsible for directing and overall supervision of the risk management system and non-compliance with the regulations.

- The **Risk Committee** performs support functions in relation to the Board of Directors on the topic of risks and the internal control system, paying particular attention to all those instrumental and necessary activities so that the Board can correctly and effectively determine the RAF and the policies of risk governance.

The Risk Committee makes proposals to the Board of Directors on the appointment and removal of the Heads of the Audit, Compliance, Anti-Money Laundering and Risk Management functions.

The tasks assigned to the Risk Committee include the preliminary examination of the activity programs (including the Audit plan) and the annual reports of the Audit, Compliance & AML and Risk Management functions addressed to the Board of Directors. It also expresses assessments and formulates opinions to the Board on compliance with the principles to which the internal control system and company organization must be standardized and the requirements that must be met by the corporate control functions.

- The **Related Parties Committee** verifies the formal and substantial regularity of the minor and significant transactions with Related Parties, the actual interest of DEPObank in carrying out the transaction, as well as the advantage thereof. The Related Parties Committee evaluates annually the organization and performance of internal controls on the overall activity of assumption and management of the Bank's risks towards Related Parties and its consistency with the strategic and management guidelines.

Risk management, compliance and internal audit activities are performed by non-operational and independent functions:

- The **Audit** function works in close liaison with the Board of Statutory Auditors and the Chief Executive Officer and reports on its work to the Board of Directors, the Board of Statutory Auditors and the Risk Committee. This function assesses the completeness, adequacy, functioning and reliability of the organizational structure and of the other components of the Internal Control System as well as the effective compliance with the laws, the articles of association, the regulatory, internal and internal regulations. Through on-site and remote audits, it checks the regularity of operations and the trend of risks, assesses the effectiveness of the RAF definition process and the compliance of the company operations with the RAF and the strategies approved by the corporate bodies.

- The **Compliance & AML** function reports directly to the Chief Executive Officer and works in close collaboration with the Board of Statutory Auditors. It reports on its work to the Board of Statutory Auditors, the Risk Committee, the Chief Executive Officer and the Board of Directors.

  The purpose of the function is to ensure compliance of company operations with the rules and oversees the management of the risk of non-compliance throughout the business, according to a risk-based approach. To this end, it verifies that the internal procedures are adequate to prevent this risk according to the policy for managing the risk of non-compliance approved by the Board of Directors. In carrying out its control duties, the function can intervene in all the Company's activities, including those in outsourcing, it has free access to all the necessary information and documentation and, if necessary, to perform its duties appropriately, involves other Organizational Units.

The activities include ex ante and on-going checks on the compliance of the company's operations with the law, supervisory and self-regulation rules, while the ex post verifications are generally carried out on a sample basis to verify the functioning and correct implementation of the legislation.

The operating phases of the non-compliance risk management process are reported below.

The function also includes the Anti-money laundering function, as a function responsible to prevent money laundering and terrorist financing. The Head of the function also holds the role of Corporate Anti-Money Laundering Manager and Corporate Anti-Money Laundering Delegate in reporting suspicious transactions pursuant to art. 35 Legislative Decree 231/2007.

- The **Risk Management** Department verifies the policies relating to the monitoring of all forms of risk affecting the Company in the performance of its activities and operates in close connection with the Board of Statutory Auditors and the Chief Executive Officer. The activity of the Department is focused on the measurement, monitoring and reporting of the risks connected to DEPObank activities and on the verification of the adequacy of the assets necessary to cover the various types of risk.

  In line with the performance of its duties, the Risk Management Department collaborates in the definition and implementation of the Risk Appetite Framework and the related risk governance policies, through an adequate management process. It also supports the governing bodies of the Company in determining the operational limits to the assumption of various types of risk and in the definition of risk management and measurement policies (Risk Policy).

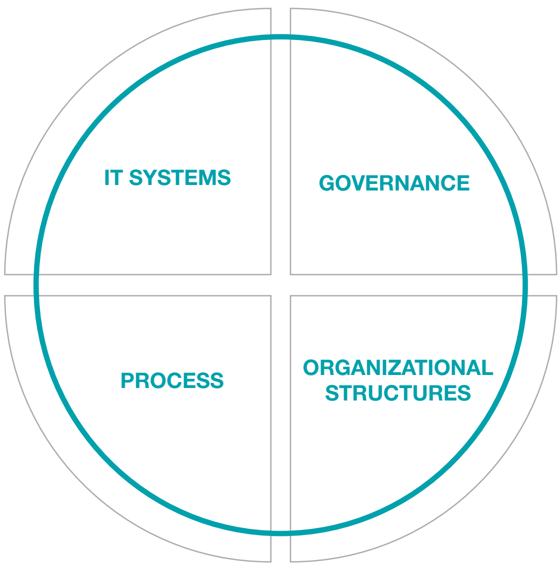
  The Department reports on its work to the Board of Statutory Auditors, the Risk Committee, the Chief Executive Officer and the Board of Directors.

- The **Process Managers** and **Organizational Unit Managers** play a role of primary importance as they are the final recipients, together with their resources, of the execution of the line controls set up to protect the business risks that have been identified and mapped in the assessment forms of operational risks and risks pursuant to Legislative Decree 231/2001, and regardless of their formalization in corporate procedures.

Lastly, DEPObank has established an **Operational Risk Committee**, convened quarterly, which has tasks related to the analysis of risk exposure, support for the decision-making process, the evaluation of measurement methods and the monitoring of the performance of risk mitigation actions.

Non-financial risk management

The DEPObank risk management model, in line with the requirements of Legislative Decree 254/2016, includes the identification, assessment and management of the risks generated and subject to by the Bank, described below. To this end, DEPObank has defined a risk management framework, which identifies its governance and responsibilities, as well as supporting IT processes and systems.
The Risk Policy of DEPObank, included in the Internal Control System, identifies the principles, aims and management methods of the main risks to which the Bank is exposed and uses the Risk Appetite Framework (RAF), the instrument that defines the level and type of risk tolerated by the Bank and acts as a link between strategic planning and risk management.



RISKS RELATED TO CORRUPTION

Banks have a central role in preventing corruption and money laundering given the centrality of the sector in the exchange of money. These crimes hinder the development of deserving subjects and slow down economic and sustainable growth as they distort competition between companies. To prevent these crimes, in line with the requirements of the 2012 legislation for prevention, the Bank has a robust corporate governance and organization, which is also important for limiting legal and reputational risks for companies.

The types of crimes related to corruption that may affect the Bank are listed in the Criminal Code and Legislative Decree 231/2001 on the administrative responsibility of companies and include: crimes committed in relations with the Public Administration, corruption for the performance of the function, corruption for an act contrary to the duties of office, corruption in judicial acts, instigation to corruption, extortion, undue induction to give or promise benefits, corruption of a person in charge of a public service, embezzlement, bribery, corruption and instigation to corruption of members of the bodies of the European Communities and officials of the European Communities and foreign States, corporate crimes and corruption between private individuals.

DEPObank ensures full cooperation with the competent authorities in the fight against all crimes pertaining to its scope of activity, with particular reference to corruption, money laundering and terrorist financing. With regard to the crime of corruption, a specific organizational, management and control model was adopted (hereinafter “Model 231”), which establishes rules and procedures to prevent the commission of the crimes provided for by the decree.

This Model includes the new provisions of Law n.186 dated 15/12/2014, on the subject of “self-laundering”, a case that presents analogy characters or relevance with the crime of corruption. Furthermore, during 2018, the process of updating the 231 Organizational Model continued, started in 2017 and currently being finalized, which had the objective of revaluating the exposure to the risk of crime pursuant to Legislative Decree 231/2001, and possibly to strengthen the control protocols provided for in the company regulations. The Bank has also adopted policies and regulations on anti-money laundering and anti-terrorism aimed at ensuring its compliance with legal obligations.

The Supervisory Body is also the Board of Statutory Auditors (Statutory Board), to guarantee the correct functioning and constant updating of the model and the reporting and sanctioning systems. The Board reports to the Corporate Bodies on the adoption and effective implementation of Model 231/2001, the supervision of its functioning and its updating with respect to all the activities and organizational structures that are subject to the verifications connected to the implementation of the Model.

According to the amount limits set by the relevant legislation, all transactions are subject to monitoring by dedicated IT applications, which support the identification of evidence potentially connected with money laundering or other illegal activities, including corruption. The intercepted situations are subsequently subjected to the evaluation of the Organizational Units.

The Audit function also operates in support of the Supervisory Body, as well as an independent third-level control reporting directly to the Board of Directors. Among the activities under the Function, there are also aspects of verification of the control processes present in the company and aimed at intercepting / preventing corruption risks.

RISKS RELATED TO CLIENTS

It is important for DEPObank to manage the relationship of trust established with its clients, based on fairness and transparency. This attention stems from the awareness that complete, clear and correct information contributes to client satisfaction and, at the same time, helps to prevent the risk of litigation with clients and loss of reputation, as well as the risk of inspections and penalties from part of the competent Supervisory Authorities. The Circular letter n. 285 of 17 December 2013 of the Bank of Italy identified a set of transparency disclosure requirements that allow market players and clients to have fundamental information on assets, risk exposure, risk assessment processes and, consequently, on the capital adequacy of banks. In compliance with these rules and with a view to transparency, DEPObank publishes the information on the company website annually.

In this perspective of correct and transparent relationship with clients, issues related to reputational risk, conduct risk and IT risk must also be considered

Reputational risk

Reputational risk is defined as the current or potential risk of a decline in profits or capital resulting from a negative perception of the image of the Bank by clients, counterparties, shareholders of the Bank, investors or supervisory authorities.

This risk can arise when the reputation of DEPObank is threatened or weakened due to risky behaviour, choices and / or strategic initiatives, unclear management policies and any other factor that can be perceived negatively by the various stakeholders, in particular by clients (Institutional and Corporate), the Control Bodies (Supervisory Bodies, International Networks, Regulatory Bodies) and by the Shareholders causing, directly or indirectly, a decline in profits or capital.

All actions to ensure strict compliance with internal and external regulatory provisions, self-regulation (e.g. codes of conduct, Code of Ethics) within the Internal Control System are aimed at reputational risk, as well as the existence of an adequate training of personnel to ensure understanding and knowledge of the aforementioned prescriptions.

In accordance with the provisions of the Bank of Italy in Circular 285/2013, the Risk Management Department has created an integrated framework for the assessment and control of Reputational Risk in which the key principles for identification, monitoring and the management of reputational risk are specified, in accordance with the requirements set by the legislation. The reputational risk management system allows the bank to generate useful indications regarding the company's exposure to the same risk and, consequently, to identify any actions to be implemented for its mitigation. In particular, the greater reputational risks for DEPObank are connected to the operational risks related to the various services offered and to the level of service that the Bank undertakes to guarantee contractually. Another significant reputational risk derives from the risk of non-compliance, in particular in the context of identifying external regulations and analysing new projects, for which the Compliance & AML function also assesses the reputational risk component.

Conduct risk

Conduct risk, for an institution, is the current or potential risk of loss due to inadequate provision of financial services, including cases of wilful misconduct or negligence. Conduct risk may derive from many operational processes and products and is a sub-category of operational risks, as part of legal risk.

To monitor conduct risk, DEPObank has developed a specific framework that is an integral part of the methodologies for assessing and controlling Operational Risks and which aims to avoid economic losses and repercussions on reputation relevant to the Bank in terms of penalties, costs legal, impact on market shares, etc. The effectiveness of the framework is ensured by the active involvement of Top Management, Business Units and Control Functions.

The framework for managing conduct risk is made up of four elements, the first of which is the identification of risk drivers and the mapping of relevant processes, taking into account past and future phenomena of conduct risk. The risk drivers identified are the following: behaviour, processes and external context. The second element is the assessment of the risk through the weighting of the individual indicators and the overall aggregation between indicators of current events and forward-looking indicators. The third is the monitoring and activation of actions for risk management and governance. This monitoring is carried out quarterly through the trend analysis of the individual indicators, the monitoring of the synthetic ratings for the risk drivers and the overall rating of the conduct risk and the qualitative follow-ups on the main phenomena of the observed risks. Finally, the fourth element is the periodic reporting system to Top Management. The outcomes of the conduct risk management framework are summarized and reported quarterly to the Top Management by the Risk Management Department, highlighting any anomalies and related actions taken.

IT risk

The characteristics of DEPObank's mission and the context in which it operates imply the attribution of a high value to the information dealt with in the corporate processes, therefore it considers information security an indispensable factor for the protection of information assets.

DEPObank pays particular attention to the issue of information security during the entire life cycle of business services (design, development, testing, inspection and provision), both through direct supervision and through contractual and monitoring controls with suppliers under total or partial outsourcing.

The Bank, for this reason, is committed to adopting the security elements necessary to guarantee an appropriate level of protection, taking into account the principle of proportionality in relation to the value of the data, the regulatory and contractual requirements of the processes and the risks to which they are exposed, adopting measures to protect the security of operations carried out for itself and its clients.

DEPObank:

- recognizes the importance of safeguarding corporate assets in its financial, physical, intellectual property and reputation aspects;
- conducts its activities conforming to the principles of integrity and loyalty in every operation and transaction, by registering, authorizing and documenting correctly;
- guarantees the continuity of the service, in accordance with the laws and regulations in force;
- complies with all laws and regulations governing the activity and requires all its contractors, consultants and other third parties with whom it has relations, to comply with the same conduct;
- in the context of the services offered, and in particular of the payments, DEPObank constantly operates to monitor and minimize the risks of violations in the confidentiality, integrity and availability of data, fraud and the illegal or unauthorized use of sensitive and personal data, aware that the evolution of its strategies, the products and services provided, the technologies used, modify the risks to be faced.

In relation to the characteristics of the Company and the context in which it operates, the Bank has developed an Information Security Management System (ISMS), whose objective is the protection of the corporate information assets, as an essential element of competitive advantage and basis for business development, in line with the IT risk appetite defined at company level.

This protection is achieved through the adoption of a series of technological, organizational and procedural measures, commensurate with the criticality and value of the information itself, aimed at guaranteeing the confidentiality, integrity and availability of information. Furthermore, in relation to market requirements and regulatory aspects, the aspects of conformity, verifiability, accountability, authenticity and non-repudiation are also pursued, applying the principle of proportionality (i.e. ensuring that the information is protected from false denial of reception, transmission, creation, transport, delivery and collection).

The System is integrated with the IT risk analysis process which aims to identify the specific risks relating to the ICT scope and identify any countermeasures aimed at obtaining an improvement in the risk profile, as well as the determination of qualitative elements at support for the definition of the optimal risk retention and / or transfer strategy and comparison with the corporate Risk Appetite Framework.

The results of the IT risk analysis process lead to an adjustment of the appropriate controls to reduce the probability of occurrence or the impact of an unwanted event, contribute to the overall assessment of the business risks, influence the calculation of the overall risk, helping to keep it within the limits identified within the RAF through a specific metric.

Finally, DEPObank is aware that the effectiveness of an Information Security Management System depends in particular on the creation of a widespread security culture at all company levels and therefore promotes the awareness of all personnel and the implementation of processes of training differentiated according to the needs and operational areas.

Integrity in business conduct

The responsible management of DEPObank's business is based on the principles of impartiality, fairness and transparency, defined in its own Code of Ethics and to which all those who participate in the corporate activities inspire their behaviour: Directors, Statutory Auditors, employees, temporary workers, consultants and collaborators in any capacity, as well as for any subject who may act on behalf of the Bank. DEPObank is committed to promoting an environment characterized by a strong sense of ethical integrity, an indispensable factor for achieving the company's success.

The Code of Ethics contains references and guiding principles, complementary to legal and self-regulation obligations, which guide the conduct in continuity and consistency with the mission of the Company and its fundamental values. The Code and its possible updates are defined and approved by the Board of Directors and constitute the basis of the preventive control system, entrusted to the Supervisory Body.

The guidelines are outlined within the Code of Ethics according to the following areas.

- **Human resources**: the Code of Ethics establishes the principles of personnel selection and management, such as compliance with criteria of objectivity, competence and professionalism in relations with employees, promoting equal opportunities, without favouritism, with the aim of ensuring, managing and developing the best existing skills on the labour market. The definition of business plans and training and development programs are aimed at promoting the development of each person's skills and competences based on merit criteria. The Company undertakes to prevent any form of psychological, physical and sexual harassment of employees and does not allow any discrimination based on age, health status, sex, religion, origin, political or cultural opinions in order to encourage the serenity of all employees and collaborators.

- **Health, safety and the environment**: the Company is committed to safeguarding the health and safety of its employees by providing suitable environments and workplaces, in compliance with the relevant national and international directives. In particular, it promotes the creation of safe and healthy work environments and working conditions that respect individual dignity to encourage the physical and moral integrity of employees and collaborators. Furthermore, DEPObank strives for sustainable development, respecting the environment and the rights of future generations, responsibly using available resources.

- **Conduct in business activities**: the Bank's relations with various stakeholders, including shareholders, clients, suppliers, the Public Administration, the competition and the community, must be based on compliance with the provisions of the law and applicable regulations, including those concerning confidentiality and protection of personal data, anti-money laundering, anti-corruption, antitrust and management of privileged information. Respect and adherence to its values is also required from suppliers, which must sign the DEPObank Code of Ethics.

Business ethics and the fight against corruption

DEPObank is oriented to guarantee excellence, quality and economical advantage of the products and services offered in compliance with the principles of fairness and professional ethics. Compliance with regulations and fairness of business are fundamental elements for the banking sector and in this regard, in the Code of Ethics, the Bank condemns any form of corruption, active and passive, without any exception, even if carried out with private parties. An important factor in the perspective of a bank is the trust that the latter establishes with all its stakeholders, for this reason the Company promotes behaviours that are inspired by criteria of legality, transparency, common sense and personal ethics, consistent with the corporate values and procedures and with the awareness of not exposing the Bank to regulatory and reputational risks.

The Code of Ethics prohibits any form of favouritism aimed at inducing a Public Official to improperly carry out any function of a public nature in a way that is not compliant with or contrary to its duties, the improper influence of the work of a private counterparty, influencing an official act (or an omission) by a Public Official or any decision in violation of an official duty and in any case, the violation of the applicable laws, in particular for the benefit or in the interest of the Company. Not only the payment and the promise of money is forbidden, but also any offer of gifts, contributions in kind, such as sponsorships, jobs, dissemination of confidential information on financial instruments that can influence the market and other advantages or other benefits.

DEPObank has an Organizational and Control Model pursuant to Legislative Decree 231/2001 to manage the issue of prevention and the fight against corruption in a careful and effective manner.

Model 231 is based on an analysis of company operations, constantly updated, carried out with the aim of identifying the areas potentially affected by the types of offenses, as defined by the legislation, which require a strengthening of the internal control system.

The identification of the areas exposed to risk of crime is carried out by means of the assisted Self Assessment in order to:

- inform and make all Company personnel aware that any unlawful conduct, even if in good faith to improve company results, may result in penal sanctions for the individual and fines and bans for the company;
- share and formalize the need for correct behaviour in the conduct of business by all the subjects that work for the Company and the complete respect of the current legislation;
- introduce specific procedures and measures of control, monitoring and sanctioning, effectively adequate to combat the crimes pursuant to Legislative Decree 231/2001

During 2018, an update of the Model was launched also for the purpose of revaluating the exposure to the risk of crimes pursuant to Legislative Decree 231/2001, in light of the latest additions to the decree. The completion of the Model update phase is scheduled for the first quarter of 2019.

In specific reference to crimes against the Public Administration such as corruption against the State and corruption between private individuals (Article 2635 of the Italian Civil Code, paragraph 3), the Company designed its own Model taking into consideration the main elements that qualify the Governance of the Company, or:

- **Articles of Association** - defines the corporate purpose as well as the powers and functions of the Corporate Bodies;
- **Code of Ethics** - illustrates the set of rights, duties and responsibilities of the Company and its representatives towards the so-called stakeholders and is an integral part of the Model 231;
- **Internal regulation** - composed of regulations, internal regulations and operational processes;
- **Powers and Delegations** - organically defines the faculties delegated to the various corporate bodies, subjects and functions;
- **Sanctioning system** - governs the application of sanctions in the event of violation of the Model with reference to individuals in senior positions, employed workers, self-employed workers and other third parties.

In order to identify the areas at risk of corruption, a Self Assessment was carried out and the macro activities exposed were identified and the adequacy of the control protocols overseeing the correct execution of the process concerned was verified, for example relating to participation in calls for tenders and competitions, the management of relations and obligations towards the Public Administration and the Supervisory Authorities and the policy on gifts and donations. A disciplinary system was also adopted aimed at ensuring compliance with the 231 Model through differentiated measures based on the role of the subjects potentially involved and suitable for sanctioning conduct not in line with the defined rules and principles.

The Supervisory Body, established at the Company and coinciding with the Board of Statutory Auditors, is the party responsible for supervising the functioning and compliance of the 231 Model and for informing the Board of Directors about the activities carried out and the violations of the 231 Model during the performance of its duties. The same Body has the task of monitoring compliance with the rules dictated by the Code of Ethics.

The Company also developed internal systems aimed at allowing Personnel to report acts and facts that could constitute a violation of the banking activity as a further mechanism for monitoring compliance with the regulations in force (Whistleblowing). The recipients of the Model 231 are required to report or refer to the Supervisory Body, even anonymously, information relating to the commission of offenses or behaviour that is not in line with Model 231 and / or the Code of Ethics through specific reserved information channels. The Company's Supervisory Body prepares and implements, through the Audit function, the annual program of supervisory activities on the subject.

The reporting parties are guaranteed against any form of retaliation, discrimination or penalisation and in any case the confidentiality of the reporting party's identity is guaranteed, without prejudice to the legal obligations and the protection of the rights of the company or of the persons accused wrongly or in bad faith.

Dedicated information channels have been set up to facilitate the flow of communications and information, for example DEPObank has provided a telephone number dedicated to notifications of alleged violation by the Whistleblower. The pro tempore manager of the Compliance & AML function has been identified as the manager of the internal system aimed at allowing the reporting by the personnel, who has the task of ensuring the correct execution of the procedure in compliance with the regulations in force. Exclusively in the event that the reporting concerns the pro-tempore manager of the Compliance & AML function, this role is assumed by the pro tempore manager of the Audit function.

On the basis of the reports received, the System Manager annually prepares a report on the correct functioning of the internal reporting system, containing the aggregate information on the results of the activities carried out during the year following the reports received. Once the report has been prepared, the System Manager submits it for approval to the Board of Directors and to the Board of Statutory Auditors for disclosure, and is made available to personnel through publication on the company intranet. In 2018, no reports were received regarding Whistleblowing and no episodes of corruption occurred.

Model 231 is brought to the attention of the recipients by means of specific communication and information activities. The documentation used and produced for the purposes of the Model 231 is filed by the Supervisory Body through the Head of the Audit Function, who ensures its immediate availability, in compliance with the regulations regarding the processing of personal data. The communication and training activity, diversified according to the recipients to which it is addressed, is, in any case, based on principles of completeness, clarity, accessibility and continuity in order to allow the various recipients to be fully aware of those corporate provisions that they are required to comply with and ethical standards that must inspire their behaviour.

Model 231, the Code of Ethics and the procedure for notifications of the alleged violation by the reporting party (Whistleblowing) are published on the company intranet. The publication is preceded by an individual communication directed to all the employees and all the new hires receive and sign the Model and the Code of Ethics.

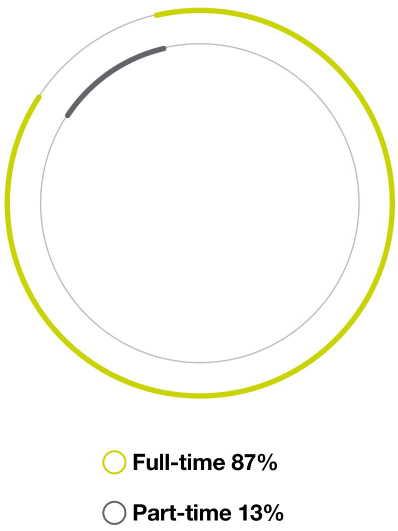
DEPObank people

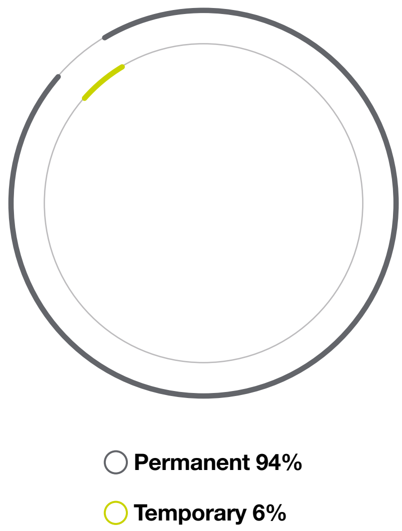
The key to DEPObank's success is the professionalism, experience and expertise of its professionals. The team is composed of dynamic people, attentive to the development of their knowledge, prepared for the challenges that the market poses every day and ready to best respond to the needs of clients. To date, DEPObank employs 385 employees (47% men and 53% women), compared to 825 employees in 2017, distributed in the Milan headquarters and in the Rome and Anzola offices. The reduction in the workforce compared to 2017 is due to the completion of the corporate reorganization process which saw the sale of a business unit of the company (about 400 employees) to Nexi Payments S.p.A. with effect from 1 July 2018.

In line with the data of 2017, employees were mostly (94%) employed on permanent and full-time contracts (87%) in 2018 too, with an average age of 47.

The Bank adopts a policy aimed at the continuous insertion of highly specialized figures in services for the banking and financial world and the placement of young graduates who want to enrich their preparation by working alongside professionals with a solid experience in the securities services and payments market.

385
employees
in 2018





Total work force by gender (n°)	2018			2017		
	Male	Female	Total	Male	Female	Total
Employees	**180**	**205**	**385**	**456**	**369**	**825**
Other collaborators	**1**	**2**	**3**	**1**	**2**	**3**
Internship	1	2	**3**	-	2	**2**
Temporary	-	-	**-**	-	-	**-**
Collaboration contracts	-	-	**-**	1	-	**1**
Total	**181**	**207**	**388**	**457**	**371**	**828**

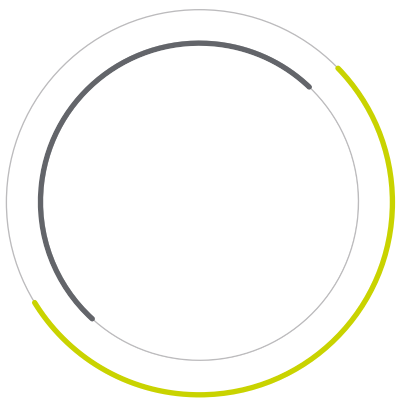
Employees by contract type (n°)	2018			2017		
	Male	Female	Total	Male	Female	Total
Full-time	178	158	**336**	455	272	**727**
Part-time	2	47	**49**	1	97	**98**
Total	**180**	**205**	**385**	**456**	**369**	**825**

Employees by contract type (n°)	2018			2017		
	Milan	Other offices[2]	Total	Milan	Other offices[2]	Total
Open-ended contract	**305**	**56**	**361**	**645**	**172**	**817**
- male	136	27	**163**	350	100	**450**
- female	169	29	**198**	295	72	**367**
Temporary contract	**22**	**2**	**24**	**8**	**-**	**8**
- male	15	2	**17**	6	-	**6**
- female	7	-	**7**	2	-	**2**
Total	**327**	**58**	**385**	**653**	**172**	**825**

[2] The data includes the employees of the Rome and Anzola offices.

DEPObank values diversity in the company as an engine of innovation and strives to provide useful tools to reduce, if not remove, the obstacles that can prevent the full participation of its resources in the corporate life. It has in fact adopted support management policies (flexible work, flexibility of hours, leave for medical examinations, priority in the allocation of internal car parks, support for employees suffering from Specific Learning Disorders, etc.) and has launched projects to support the female leadership in the company, for example as an associated company in 2018 at Valore D, the initiative dedicated to young managers. The Bank also favours the promotion of a work environment in which personal characteristics and orientations cannot give rise to discrimination to guarantee the serenity of all employees and collaborators.

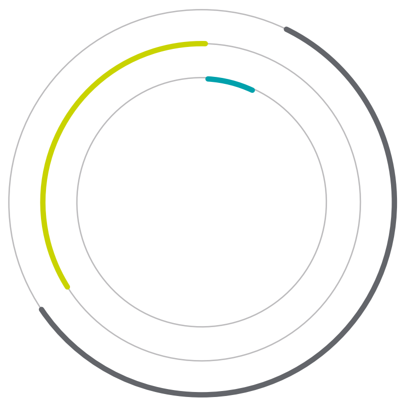
Employees by gender



Female 53%

Male 47%

Employees by age group



< 30 | 3%

30-50 | 63%

> 50 | 34%

Employees by professional category and gender (n°)	2018			2017		
	Male	Female	Total	Male	Female	Total
Senior executives	11	1	**12**	42	5	**47**
Managers	82	62	**144**	253	143	**396**
Remaining employees	87	142	**229**	161	221	**382**
Total	**180**	**205**	**385**	**456**	**369**	**825**

Employees by professional category and age (n°)	2018				2017			
	< 30	30-50	> 50	Total	< 30	30-50	> 50	Total
Senior executives	-	3	9	**12**	-	26	21	**47**
Managers	-	84	60	**144**	2	266	128	**396**
Remaining employees	11	157	61	**229**	10	285	87	**382**
Total	**11**	**244**	**130**	**385**	**12**	**577**	**236**	**825**

As at 31 December 2018, there were 14 differently abled employees in the Group, while those belonging to other protected categories were 6[3].

This chapter describes the policies adopted by DEPObank for the management of its people in the areas selection and internal mobility, training, performance management policies, labour relations and health and safety in the workplace. The approach to these issues is inspired by the principles of the Code of Ethics and is in line with the “Human Resources Management” policy, in order to guarantee employees opportunities for development and growth and to promote a work environment based on respect for rights and diversity. During 2018, no complaints were received relating to personnel management and no reports of incidences of discrimination were received in 2017 and 2018 by the Human Resources, Compliance & AML and Internal Audit Offices.

Selection and internal mobility

In the search for and selection of personnel, DEPObank adopts criteria of objectivity, competence and professionalism, applying the principle of equal opportunities, with the aim of ensuring the best skills existing on the labour market.
The process of selection and management of internal staff mobility in fact aims to achieve the best placement of resources and the optimal coverage of available positions, in accordance with the Bank’s mission, the Business Plan and the annual Budget.

The HR Department collaborates with the Organization & Processes Department for the selection and internal mobility process, in compliance with the “Human Resources Management” policy, the “Selection and internal mobility” organizational procedure and the Code of Ethics.

[3] In 2017 there were 34 disabled employees and 8 employees belonging to protected categories.

The selection of candidates starts with a clear definition of the required profiles (activities, skills, experience, positioning), a first phase of evaluation of internal candidacies followed by market research, and then continues with the involvement of the Bank's managers in the evaluation of the candidates and in the final choice. During this process DEPObank scrupulously adheres to objective evaluation criteria and does not allow any discrimination based on age, health status, sex, religion, origin, political or cultural opinions.

Personnel hiring for management positions is instead authorized directly by the Board of Directors of DEPObank.

DEPObank is careful to enhance internal candidates whenever possible, thanks to the introduction of job posting and ad hoc training. If internal research is not feasible or does not have a positive outcome, the HR Department proceeds with the selection in the external labour market through the available channels and to this end has undertaken Employer Branding activities. In 2018, the selection activity in line with the Bank's needs mainly involved business units.

Almost 80% of new recruits belong to the Millennials generation, DEPObank has in fact started a specific activity of relations with Universities and has activated specific personnel research campaigns on social networks to approach talented young people and favour the placement of recent graduates.

The following tables show the data relating to IN and OUT from DEPObank, whose data for the first half of 2018 consider the personnel movements that occurred in Nexi S.p.A. from January 2018 and in DEPObank from July 2018, considering the personnel actually merged into DEPObank in July 2018.

Employees IN / OUT by gender (n°)	**2018**			**2017**		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Employees IN	16	7	**23**	64	13	**77**
Employees OUT[4]	7	2	**9**	81	41	**122**

[4] The data for exiting employees does not include exits from the Company as a result of restructuring initiatives such as the sale of the business unit from Nexi S.p.A. to Nexi Payments S.p.A. on 1 July 2018.

Employees IN / OUT by age (n°)	2018				2017			
	< 30	30-50	> 50	Total	< 30	30-50	> 50	Total
Employees IN	7	11	5	**23**	6	66	5	**77**
Employees OUT[3]	2	2	5	**9**	1	28	93	**122**

Employees IN by geographical area (n°)	2018		2017	
	Employees IN	Employees OUT[4]	Employees IN	Employees OUT[4]
Milan	21	7	73	81
Other offices (Rome and Anzola)	2	2	4	41
Total	**23**	**9**	**77**	**122**

Turnover rate by gender (%)	2018			2017		
	Male	Female	Total	Male	Female	Total
IN turnover rate	9	3	**6**	14	4	**9**
OUT turnover rate	4	1	**2**	18	11	**15**

Turnover rate by age (%)	2018				2017			
	< 30	30-50	> 50	Total	< 30	30-50	> 50	Total
IN turnover rate	64	5	4	**6**	50	11	2	**9**
OUT turnover rate	18	1	4	**2**	8	5	39	**15**

Turnover rate by geographical area (%)	2018			2017		
	Milan	Other offices[5]	Total	Milan	Other offices[5]	Total
IN turnover rate	6	3	**6**	11	2	**9**
OUT turnover rate	2	3	**2**	12	24	**15**

[5] The data includes the employees of the Rome and Anzola offices.

Staff training and development

In a dynamic sector such as finance and banking, training is a strategic factor for the development of employees' skills and competences, fostering their professional growth and improving performance. Furthermore, the training activity favours the continuous updating with respect to the current and arising legislation and contributes to the dissemination and understanding of company strategies and organizational changes.

In this regard, in 2018, training contributed to supporting the organizational changes taking place and to spreading the understanding of corporate strategies, in particular through the projects "Payments, today and tomorrow", "Live the Customer" and "Digital World".

DEPObank, aware of the importance of the process of professional growth of the resources employed, has adopted a policy on "Staff Training".

Training in DEPObank involves three types:

- compulsory training: for the acquisition of knowledge suitable for complying with legal and sector regulations (for example: privacy, security, etc.);
- technical-specialist training: for the acquisition, maintenance and development of techniques, tools and methodologies for operational improvement or relating to transversal and cross-functional corporate initiatives, as well as information on the Group's products, services and operating processes (know-how);
- managerial training: for the development and improvement of personal skills (interpersonal skills).

Furthermore, the training process includes different learning methods such as participation in master's courses, classroom and online courses, seminars, workshops, on-the-job training and self-learning activities.

The main activities carried out in 2018 included refresher courses on collection and payment techniques, Qualified Intermediaries, cyber security and the European PSD2 (Payment Services Directive 2) relating to authentication requirements for online payments. In addition, activities to redevelop the resources that have changed organizational position following the company changes have been launched.

Every year the Employee Training Plan is drawn up, through which the contents and the recipients of the training process are defined according to the "Staff Training" policy. This Plan is made in line with the training needs highlighted in the performance assessment process and with the corporate policies and objectives. It also defines the areas and objectives of the individual interventions (with the exception of specialized technical training whose contents can also be specified during the year), the guidelines and the training methodology.

DEPObank is also careful to ensure that the Training Plan meets the obligations envisaged by current regulations, especially with regard to training on anti-money laundering, MiFID, privacy, Legislative Decree 231/2001, Legislative Decree 81/2008. For this reason, the Compliance & AML function contributes to its preparation. The training relating to legislations is approved by the competent Departments and Bodies, as required by the law: anti-money laundering training is approved by the Board of Directors, while training on Legislative Decree 231/2001 is approved by the Compliance & AML function.

Following the significant changes at the strategic and organizational level in 2018, the Plan was reshaped in the course of the year to respond to DEPObank's own needs and to allow for an adjustment with respect to the changed business needs following the separation of the banking activities. In particular, the Plan has set the following objectives:

- timely redevelopment of resources that have changed role following organizational changes;
- improvement and consolidation of the distinctive and specific competences of DEPObank;
- compliance with the legal regulations typical of the activities of the bank and the intermediary and the related actions validated by the Compliance & AML function;
- implementation of a customized platform dedicated to the provision of mandatory online training;
- training of key roles required by Legislative Decree 81/2008, newly identified following organizational and logistical changes.

The redevelopment actions regarded approximately 40 resources, mainly belonging to the Securities Services Operations and Depositary Bank & Controls Business Units and were carried out by combining the "on-the-job training" approach with classroom specialization focus held by internal teachers.

The update of skills, at the request of the various managers (so-called "on demand"), involved both participation in inter-company courses and the organization of internal training in the classroom and involved in particular the areas concerning administrative and tax issues, Cyber Security and updating of systems and applications in use.

During 2018, an increase compared to 2017, approximately 53 hours of training were provided to each employee following the activities of redeveloping the resources and training the managers with the reorganization activities. The number of average hours of training provided during 2017 is lower than that relative to 2018 as the actions relating to training for managerial development were temporarily suspended until the conclusion of the corporate reorganization activities. The mandatory training activities and on demand specialists also continued in 2017, however the number of hours provided varies over the years due to the different deadlines and needs to retrain employees.

20.565
total training hours

53
average training hours

Hours of training by professional category and gender[6]	2018			2017		
	Male	Female	Total	Male	Female	Total
Senior executives	122	3	**125**	556	82	**638**
Managers	5,499	2,048	**7,546**	5,785	2,627	**8,412**
Remaining employees	2,333	10,562	**12,895**	8,168	6,540	**14,708**
Total	**7,953**	**12,612**	**20,565**	**14,509**	**9,249**	**23,758**

Average hours of training by professional category and gender[6]	2018			2017		
	Male	Female	Total	Male	Female	Total
Senior executives	11	3	**10**	13	16	**14**
Managers	67	33	**52**	23	18	**21**
Remaining employees	27	74	**56**	51	30	**39**
Total	**44**	**62**	**53**	**32**	**25**	**29**

[6] The training hours include the entire DEPObank workforce and include the employees on secondment at DEPObank and excluding employees on secondment at other companies.

Training activities on policies and procedures to prevent and combat corruption

In 2018, all the mandatory training actions included in the Training Plan validated by the Compliance & AML function were provided. Where possible, and in compliance with the regulations, the compulsory courses were delivered in e-learning mode thanks to the "DEPObank Academy" platform.

During the year, particular attention was paid to the training of the collaborators in charge of covering the key roles required by Legislative Decree 81/2008 (supervisors, ASPPs, appointed to manage newly assigned emergencies) and the online training on Legislative Decree 231/2001 was completed for all employees.
The course on Whistleblowing for new employees was not delivered until June and is currently being updated.

In order to effectively implement the Model, the Company ensures correct communication of its contents and principles to all recipients, including individuals who, although not employees, also operate occasionally to achieve the Company's objectives by virtue of contractual relations.

In regard to the communication on the Code of Ethics and the Organizational Model and its annexes, this occurs through their publication on the company intranet preceded by an individual communication. Furthermore, new hires receive an information set containing all the documentation necessary to ensure that they have the knowledge of primary importance, for example on the Code of Ethics and 231 Model.

The communication is followed by the staff training activity for the implementation of the 231 Model, which is structured according to the mandatory training plan and involves all the Bank's personnel, including the managerial staff, senior managers and the Supervisory Board. In 2018, in continuity with 2017, training was provided on the Model to all employees not previously trained, for a total of 591 hours, of which 507 hours for employees of the Milan office.

Employees trained on issues related to anti-corruption	2018	
	n°	%
Senior executives	1	8%
Managers	116	80%
Remaining employees	176	77%
Total	**293**	**76%**

Employees trained on issues related to anti-corruption	2018	
	n°	%
Milan	251	76%
Other offices (Rome and Anzola)	42	72%
Total	**293**	**76%**

Evaluation of personnel and remuneration policies

In continuity with what was done in previous years and in compliance with the provisions of the contractual agreements, DEPObank promotes the evaluation of performance as a driving force for development and recognition of talent in the company. The company assessment is carried out in a transparent manner, is based on explicit criteria and is aimed at increasing the accountability and personal contribution of employees to company results.

The Performance Management system therefore represents a fundamental element of the remuneration policies adopted by the company, which aim to enhance talents and results, and is based on four fundamental moments:

- assignment of objectives and priorities to ensure alignment with strategic and organizational priorities;
- self-assessment;
- assessment of the Manager;
- comparison between the Manager and the Collaborator focused on the performance achieved in the year, on the objectives and future aspirations and on the creation of the development and training plan.

In 2018, Performance Management involved all permanent employees and the Chief Executive Officer.

Percentage of employees involved in the Performance Management system, by professional category and gender (%)	**2018**			**2017**		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Senior executives	100%	100%	**100%**	88%	100%	**89%**
Managers	99%	98%	**99%**	90%	90%	**90%**
Remaining employees	83%	96%	**91%**	93%	97%	**96%**
Total	**91%**	**97%**	**94%**	**91%**	**95%**	**93%**

It should be noted that, in 2018, 6 complaints were received from employees, of which 2 received on the evaluation system.

The remuneration policy is also a fundamental element for the management of human resources, since it is strategic in aligning the management of individual behaviours with corporate objectives. DEPObank has defined this policy in a manner consistent with the current provisions issued by the Bank of Italy, in particular, the Board of Directors submits the remuneration and incentive policies of the Bank to the approval of the Shareholders' Meeting, which must not be in contrast with the policies of prudent risk management with long-term strategies.

To this end, the ratio between the total remuneration and the variable component is duly determined and evaluated. Normally there are no incentive mechanisms for non-executive directors and no variable remuneration is provided for the members of the Board of Statutory Auditors. The incentive mechanisms are consistent with the tasks assigned and, unless there are valid and proven reasons, bonuses linked to the economic results are avoided and the forms of incentive compensation are based on the risk taken by the Bank and structured so as to avoid the creation of conflicting incentives with the interest of the company in a long-term perspective. The remuneration policy is proposed by the Board of Directors and approved by the Shareholders' Meeting.

	2018		2017	
	Ratio between average levels of pay of women and men	**Ratio between average levels of remuneration of women and men**	**Ratio between average levels of pay of women and men**	**Ratio between average levels of remuneration of women and men**
Senior executives[7]	-	-	-	-
Managers	93%	90%	87%	85%
Remaining employees	95%	94%	90%	90%

The table above indicates the ratio between the basic salary levels, or the Gross Annual Income (RAL - Reddito Annuale Lordo) of women and men, as well as the ratio between the average remuneration levels, which in this case include the RAL, the incentive system (MBO) and the company bonus (VAP). In regard to the minimum remuneration of DEPObank for the newly hired, those provided for by the national collective labour agreement for the various categories of personnel are always applied.

Labour relations

In the first half of 2018, the Company and the Trade Unions collaborated in the creation of a system of trade union relations that would make it possible to meet, with innovative tools and methods, a particularly challenging company environment characterized by the need to start a process of strategic diversification of its business by developing activities related to the e-money and digital payments sector.

It is in this collaborative context that, at the end of the contractually agreed trade union consultation procedure, the Agreement relating to the reorganization of the Nexi Group and the consequent sale of a business unit from Nexi to Nexi Payments was signed in May 2018, with effect from 1 July 2018.

[7] For staff numbers less than three individuals, the figure for average salary and remuneration levels was not provided as it was considered to be sensitive.

As of 1 July 2018, following the new corporate structure, a trade union path was launched at DEPObank inspired by the recognition and enhancement of a constructive and responsible labour relations system as an objective to aim for through a systematic comparison to support the establishment of the new corporate identity.

A number of initiatives were shared with the trade unions for these reasons, in the first half of the new DEPObank to encourage the involvement of staff and to develop a sense of belonging and identification with the new reality. Consistently with this path, flexible work was introduced through an agreement signed on 24 October 2018, a novelty launched in an experimental form and compatibly with the technical-organizational needs.

In 2017 and 2018, all employees were covered by the national collective labour contract (CCNL). With regard to the minimum notice period for operational changes, it should be noted that the organizational changes that are necessary for the best management of the activities are implemented after informing the union representatives and in compliance with the consultation procedures provided for by the CCNL or by the Law, which define the timing to be respected.

Corporate welfare

Over the years, the Bank has developed a careful and rewarding corporate welfare policy, through a set of activities and projects aimed at constantly improving the conditions and working methods, increasing professionalism and spreading behaviour and practices of excellence.

Considering this, in addition to guaranteeing its employees a series of benefits, a union agreement was signed in May which granted employees the opportunity to allocate, on a voluntary basis, the value of the company bonus to purchase welfare services, increased by a corporate contribution.

This agreement represents a significant step towards the adoption of a welfare policy that aims to promote the well-being of its employees, also providing them with useful tools to maximize their purchasing power.

In continuity with the above, in addition to maintaining the benefits already guaranteed to its employees and in order to further favour the balance among professional, personal and family commitments, DEPObank introduced, with an agreement signed on 24 October 2018, flexible work in experimental form and to be adopted compatibly with the technical-organizational requirements.

DEPObank, in continuity with what already Nexi did in the first half of 2018, offers its benefit package[8] to all employees without distinction according to the professional category and regardless of the type of contract (full time or part time).

[8] Luncheon vouchers are a type of benefit that is re-proportioned to working hours.

Among the main benefits offered to its employees, DEPObank guarantees: supplementary pensions, or health care for all members of the employee's family status; leave for medical examinations for 18 paid hours per year, plus a further 25 in case of certified family members with a handicap; annual donations for each family member with a disability, plus an additional annual expense for training and instrumentation needs (DSA); luncheon vouchers; various services offered through the company CRAL.

Lastly, DEPObank offers a shuttle service to the Rome office, and disabled parking spaces in the Milan and Rome offices.

Parental leave

DEPObank supports its employees in addressing issues of reconciliation between work and private life.
The Bank guarantees all its employees the right to take parental leave in accordance with current regulations, in particular in 2018, 21 employees used this benefit[9].

The return rate to work at the end of parental leave was 76%[10].

Total number of employees who took parental leave (n°)[11]	2018			2017		
	Male	Female	Total	Male	Female	Total
Senior executives	-	-	**-**	-	-	**-**
Managers	-	6	**6**	-	12	**12**
Remaining employees	-	15	**15**	-	27	**27**
Total	**-**	**21**	**21**	**-**	**39**	**39**

Total number of employees who returned to work at the end of parental leave (n°)	2018			2017		
	Male	Female	Total	Male	Female	Total
Senior executives	-	-	**-**	-	-	**-**
Managers	-	5	**5**	1	13	**14**
Remaining employees	-	11	**11**	1	26	**27**
Total	**-**	**16**	**16**	**2**	**39**	**41**

[9] The data includes the optional maternity. Parental leave is calculated in the year in which the event begins.

[10] The rate of return to work following the leave is calculated as employees returning during the year / employees leaving during the year, therefore it includes leave cases started in previous years and ended in the year in question. Four employees who took leave in 2018 have not yet returned from the voluntary leave.

[11] The data relates to employees who have taken parental leave also for just one day in 2017 and who, being still in force at 31 December 2018 in the scope of DEPObank, appear to be still employed 12 months after the "return".

Health & Safety

DEPObank immediately considered of particular relevance the creation and management of adequate and compliant work environments, both in terms of health and safety, for all workers, in compliance with current legislation and national and international technical standards issued on the subject and has incorporated these principles into its own Code of Ethics. The Bank has also outlined the corporate security organization, defining its roles and responsibilities, together with the delegation system.

The assessment of the risks relating to health and safety at work has taken into consideration all the risk classes identified: for safety or accident-related, for health deriving from hygienic-environmental factors, for health or safety deriving from transversal or organizational aspects, as well as the risks deriving from external factors. Particular attention was paid to the issues concerning the ergonomic and technical compliance of the workplace (also in terms of compliance with the fire requirements for the activities subject to the preventive control of the Fire Brigade), those concerning the management of interferential risks and the identification of the tasks that expose workers to specific risks, with particular reference to the risk of exposure to video terminals. In addition, the criteria for assessing work-related stress were defined, among other things.

A plan to maintain and improve the prevention and protection measures adopted has also been prepared. Therefore, DEPObank drafted the Risk Assessment Document (DVR - Documento di Valutazione dei Rischi), on 28 November 2018. Finally, the Health and Safety Management System (SGSL - Sistema di Gestione della Salute e Sicurezza) is being defined, in compliance with the UNI-INAIL Guidelines ex art. 30 of Legislative Decree 81/08, exempting the administrative responsibility of the Bank with reference to the commission of the crimes of manslaughter and injuries through negligence committed in violation of the rules dictated by health and safety issues.

DEPObank is constantly committed to ensuring the timely application of the current legislation on health and safety at the workplace and to this end adopts a preventive approach, in particular also through training on the subject of Legislative Decree 81/2008, the personalized management of any critical cases and constant monitoring.

During 2018, 3 injuries were reported, none fatal, of which 2 at work and 1 during travel. No cases of work-related illnesses were reported in 2017 or 2018.

Accidents (n°)	2018			2017		
	Male	Female	Total	Male	Female	Total
Total injuries	**2**	**1**	3	**3**	**5**	**8**
at work	1	1	**2**	-	2	**2**
Milan	-	-	**-**	-	-	**-**
Other offices (Rome and Anzola)	1	1	**2**	-	2	**2**
pending	1	-	**1**	3	3	**6**
Milan	1	-	**1**	3	3	**6**
Other offices (Rome and Anzola)	-	-	**-**	-	-	**-**

Accident indicators[12]	2018		
	Male	Female	Total
Incidence index	11	5	**8**
Severity Index	0	1	**0.5**
Frequency index	7	3	**5**

Absenteeism rate[13]	2018		
	Male	Female	Total
Total	4%	6%	**5%**

[12] Incidence index: (number of accidents at work / total number of employees) x 1,000. Severity index: (number of days lost due to accidents / total number of hours worked) x 1,000. Frequency index: (number of accidents / total number of hours worked) * 1,000,000.

[13] Absenteeism rate: number of absences of employees by type / total number of theoretical hours in the period. Employee absences by type are expressed in hours and include the following types: illnesses, injuries, medical examinations, trade union leave and assemblies, personal and family reasons (blood donation, child illness, extraordinary INPS leave, marriage leave, mourning / serious illness) , law 104/92), leave pf absence, paid and unpaid leave and trade union leave.

Listening and employee involvement

Listening to employees is important in order to continue the development path undertaken by the Bank, keeping their involvement high. At the beginning of 2018, the results of a survey carried out in 2017 were disseminated to the entire corporate workforce, including the employees of DEPObank today. In the face of the changes that have occurred since July 2018, which substantially changed the reference context, DEPObank decided not to carry out the Survey initially planned for 2018 as its results would not have allowed any useful comparison with the results of 2017.

Following the separation of the banking activities that led Nexi to assume the name of DEPObank, Human Resources provided employees with a support designed to minimize the effects of the change of office, deemed inconvenient, activating some dedicated services in the new Milan office, such as an internal Micro Market and dining rooms.

Always with the aim of mitigating the inconveniences related to the transfer of the head office, DEPObank reserved parking spaces in a car park located in the immediate vicinity of the new headquarters, so as to guarantee all interested employees the possibility of using the parking service with a discounted payment. In line with these initiatives, DEPObank also activated a Work Life Balance policy, with the introduction of flexible work, designed to combine work with family life and improve the well-being of its people.

DEPObank clients

The essential elements, for DEPObank, to establish a relationship of trust with its clients and remain a reference point and guarantee of competitiveness for all partners are reliability, practicality and time-to-market.

The Company, with the creation of DEPObank, was involved in a renewal of the corporate identity and in the development of a coordinated commercial action on the various client segments, through meetings aimed at telling the strengths of the DEPObank offer and the new corporate organization. This important rebranding activity has involved the review of all the communication elements, including the company logo, the posters and the website.

DEPObank's services are developed along three lines of business: securities services, banking payment services, treasury and capital market. These business lines are aimed at different categories of clients including Banks, Securities Brokerage Companies, Asset Management Companies, Funds, Payment Services, Corporates and Public Administration, in order to offer solutions capable of satisfying the needs of each individual segment.

- **Securities Services**: DEPObank offers a complete range of solutions in line with the most recent developments in financial markets and regulations. These services include Fund Services (Depositary, Fund Administrator and Transfer Agent) and Local & Global Custody activities, responding to the needs of more than 200 clients including Banks, Asset Management Companies, Funds and Securities Brokerage Companies.

  The high investments made in human and technological resources have strengthened the role of *Banca di Sistema* (Systemic Bank) to support the growth and consolidation of financial institutions of all sizes. DEPObank deals with all the regulatory and application developments necessary to satisfy the changes required by the new global reference scenarios. The flexibility of the solutions proposed by the Bank's structures allows an optimal integration with the information systems of the clients, offering personalized and adequate answers to their needs, with the convenience of interacting with a single Italian contact.

- **Banking payment services**: DEPObank provides Intermediary Bank services that allow banks to settle all collection and payment transactions through DEPObank. The management of a significant number of correspondent accounts, in Euro and multi-currency, allows the client banks to manage all types of collections, payments and settlements available today, including those of a competitive nature made ad hoc. As part of the intermediation services, DEPObank, thanks to a consolidated experience and know-how, offers the issue of bankers drafts, the management of the encashment of bank checks and cash letters and finally the encashment of bills.

In the area of Collection and Payments services for Corporate and Public Administration, DEPObank acts as an Institution Collector for payment of INPS pensions. It is also the sole and direct intermediary with Telepass Spa and its affiliated banks for Telepass Family and Viacard current account management. It deals with the management of collections and structured payments for Corporate and offers a wide range of personalized services for the needs of PA clients such as Treasury and Cash services.

- **Treasury and Capital Market**: DEPObank has a long and qualified experience in domestic and international contexts, providing a valid support to the development of core client activities. Over the years, global partnerships have been perfected with the main market players, to offer increasingly complete and competitive services to institutional clients.

  The Treasury and Capital Market activity is mainly carried out in the Fixed Income, Repurchase Agreements, Derivatives, Forex, Euro & Currency deposits sectors.

The following is DEPObank's offer diversified according to client segments.

Banks, PSP and Securities Brokerage Companies

DEPObank offers to banks, payment institutions and electronic money services aimed at guaranteeing the effectiveness and efficiency of payment transaction settlement, arranged and received on standard channels or made specifically for our clients.

Local & global custody	We offer more than 100 institutional clients the full range of Local & global custody services, which provide for the custody and administration of securities with a single point of contact for all information, the reporting of all administrative events with information via the Web of corporate events, the collection, validation and control of transactions to be settled from a multichannel perspective, the Settlement and Post trading of market transactions with securities reporting via swift or CBI and the functions of Settlement Agent and Paying Bank in T2 / T2S. We play a primary role in Target2-Securities and are specialized in banking back office activities. We follow all the client's post trade activities, we place orders for subscription / redemption of fund units, we carry out timely purchase / sale of currency transactions and we also carry out Collateral Management services.

Treasury & capital market	The capital market activity concerns fixed income, repurchase agreements, derivatives, forex and Euro & currency deposits. Over the years we have perfected our relationships with the main players in the market, succeeding in offering always competitive services to institutional clients.
Brokerage and settlement services	Offers intermediation services for interbank procedures (domestic, SETIF, Target2), international card settlement, cross-border payments and Single Euro Payments Area (SEPA), benefiting from personalized services with monetary base settlement (BiComp / Target2) and on the correspondent accounts. We also manage transfers and internal transfers in euros and currency, as an operational and accounting instrument and manage payment orders in more than 20 foreign currencies thanks to agreements with correspondent banks and bilateral agreements. The settlement activity deals directly with the settlement in monetary base and we manage the settlement of payments coming from the ATM / WEB channels for the owner banks, such as bills, fees, telephone top-ups and prepaid cards, donations to charities and international cards.
Collections and payments	Simplifies the management of collections and payments by offering Traditional Payments services, SEPA payment and collection instruments, checks, bills, encashed bills and Telepass services for banks. It acts as the sole and direct intermediary between Telepass Spa and its partner banks, as well as innovative payments and digital services (PagoPA, MyBank). It also offers the settlement service for the encashment of bills, also managing any unpaid and protested bills. It also performs the role of agent bank and carries out all the activities of accounting settlement and exchange of electronic flows necessary for participation in procedures, such as non-local checks, electronic execution and check truncation.
Bankers drafts	It is authorized by the Bank of Italy to issue bankers drafts. In this way it allows the client banks to contain operating costs and to eliminate the risks linked to the specificity of the product. It also provides an executive service that offers consultancy in the start-up, design and supply of blank check forms, management of the redemption and settlement of securities, permanent operational support and constant compliance with regulatory developments. The possibility of using personalized checks, with overprinting of logotype and company name of the client bank, allows the integration of the service within the clientele packages.

Funds and Asset Management Companies

DEPObank's securities services meet the needs of more than 200 clients. Aligned with the evolution of financial markets and the most recent regulatory policies, they include Fund services (depositary, fund administrator, transfer agent) and Local & global custody activities.

Depositary bank	We are one of the main intermediaries in the domestic market, both in the Italian registered pension and mutual funds sectors, and we offer services to support pension funds, undertakings for collective investment in transferable securities (UCITS) and Alternative Investment Funds of private equity, credit and real estate. We have a structure specialized in providing custody, administration and asset control services for funds, which carries out the instructions of clients and their delegates, ensuring compliance with the regulations, the regulation of funds and the provisions of the supervisory bodies.
Fund administration	To become a reference partner in the Fund services market, we have consolidated our expertise in Fund administration activities, such as NAV calculation (total net asset value), post-trading and pre-settlement activities, preparation of reports to supervisory bodies, reports to clients, etc. that we carry out in outsourcing for mutual funds, pension funds and closed-end funds (private equity). Over time we have built collaborative and lasting relationships, supporting the growth and development of our clients.
Mutual funds transfer agent	Since 2010, we have been providing our clients with the complete administrative management service for subscribers, from the acquisition of instructions from the placement agents of the asset management companies to loading the transactions, from the valuation and accounting to the reporting to the final client, preparing all the reports required on behalf of the asset management companies by current legislation. Today, the service is chosen by many of the main Italian asset management companies, and the number of settled transactions is constantly growing. We actively participate in the work groups of the trade associations (Assogestioni, Assosim, Abi), sharing the analysis and requirements collection phases and the solutions identified with clients and we collaborate in the development of new products and services.

Corporates and PA

DEPObank offers corporate companies operating in all types of businesses a set of services for the management of highly structured collections and payments. The offer includes the entire world of traditional payments (MAV, bills collected at the counter, SEPA Credit transfer and Direct Debit), but also various optional value-added services.

Collections and payments	The range of services dedicated to Large Corporates for the management of SEPA collections and structured payments includes, within SEPA, the management of the collection instructions conferred by the companies that takes place through the SEPA Direct Debit instrument. As a Contracting Bank, it receives the flows from the companies, takes charge of the collection instructions and sends them to the PSPs of the payers, also returning to the companies any returns or collections rejected by the debtor PSP. It manages, on behalf of the Billers, the collections related to the bills paid directly at the bank branches and offers customized collection solutions through MAV and the MyBank service.
Treasury entities	It offers a range of payment services designed specifically for the Public Administration, in addition to the management of collections and payments for various Public Bodies, with the aim of favouring the digitization of these services. It is in fact at the forefront for the development of services for the Agency for Digital Italy (AgID), for example through the PagoPA platform as a Payment Service Provider.
Payment of INPS pensions	As a Collector for Institutions, it performs the role of application and accounting intermediary on behalf of the client banks for the payment of INPS pension benefits to pensioners who use the banking channel to collect the pension. It deals with the management of information flows, instructions and accounting between INPS and credit institutions, and we provide for the settlement of payments made on behalf of the members. The service is offered in “pure Intermediary” or “Full outsourcing” mode via the Papen platform for updating the personal data of the beneficiaries.
Guarantee Fund for SMEs	The objective of the Guarantee Fund is to facilitate access to the financial sources of small and medium-sized enterprises and professionals by granting a public guarantee, which accompanies or replaces the real guarantees brought by the companies. As an Agent Bank, it carries out assistance of a regulatory and operational nature to the applicants, organizes events of an informative nature and offers assistance to the beneficiaries of the guarantee.

Privacy and data security

DEPObank has adopted an Information Security Management System (Sistema di Gestione per la Sicurezza delle Informazioni - SGSI) and a series of measures to guarantee it:

- confidentiality: the information is accessible, in the established manner, only to those who are expressly authorized;
- integrity: the information can be modified, in the established manner, only by those who are expressly authorized; the requirement is aimed at safeguarding the completeness, accuracy and compliance of the information during the acquisition, storage, processing and presentation;
- availability: the information is accessible and usable, in the established manner, only to authorized processes and users and only when the actual need is highlighted.

The DEPObank Information Security Management System is based on ISO standards and takes into account the regulations of the Bank of Italy, the provisions on privacy and the rules inherent to the business. It includes policies, organizational structures, regulatory files, operating instructions, procedures and technical documentation, which govern planning, design and implementation activities, roles and responsibilities, processes and resources, personnel behaviour and controls relating to the automated processing of information. This documentation is prepared and maintained by the organizational structures set up to oversee the various areas pertaining to the ISMS. The System is integrated with the IT risk analysis process which, carried out by the Risk Management Department, represents the method by which the effectiveness and efficiency of the controls applied to ICT resources is assessed.

DEPObank is attentive to security and data processing, and manages the topic of privacy in compliance with current legislation, primarily represented by the General Data Protection Regulation (GDPR, EU Regulation 2016/679) and by Legislative Decree 196 / 2003.

To this end, DEPObank adopted a Privacy Policy and a Regulation for the processing of personal data, within which the security measures to be adopted and the procedures for managing client requests are regulated. In compliance with the new provisions of the GDPR, DEPObank appointed a Data Protection Officer, whose references are available on the company website.

In 2017 and 2018, the Compliance & AML function did not receive any complaints from clients, nor from the Supervisory Bodies regarding the topic of privacy violation. Furthermore, no complaints have been received for identified loss or theft of data by clients and no penalties have been applied for these issues.

Continuity and quality of services

DEPObank has adopted a Business Continuity Management System, the Business Continuity Management System (BCMS) which provides for a Business Continuity Plan (BCP) that describes the organizational and technical measures implemented by the Bank to protect the continuity of the its business services.

The BCP is updated annually through a detailed analysis of the processes and risk scenarios and is brought annually to the attention of the Board of Directors which validates it and accepts the residual risk. DEPObank's BCMS is a risk management tool whose application is subject to the Prudential Supervisory Provisions of the Bank of Italy (Circ.285/13) which require explicit clarification of critical processes, crisis scenarios to be monitored, recovery times in case of disaster (RTO) and detail the contents of the Continuity Plan.

To supplement and verify the information in the Business Continuity Plan, DEPObank annually performs Business Continuity and Disaster Recovery tests, the outcomes of which integrate the assessments and risk analysis envisaged by the BCP. DEPObank personnel are trained on the technical measures to be implemented when a crisis scenario occurs as per the Plan.

Furthermore, to ensure a corporate culture oriented towards excellence, the provision of DEPObank's treasury and cash services is ISO 9001 certified and the procedures underlying their execution are in line with ISO 20022 standards (also known as XML) and with the specifics of the AgID regarding flows and controls under the responsibility of the Authorities and their Treasuries.

Service innovation

DEPObank continually undertakes to fully understand the specific needs of clients with the aim of proposing the most suitable solutions for individual needs and improving satisfaction. For this reason, DEPObank constantly monitors the evolution of the markets in which it operates with the aim of identifying the main development trends in progress, the evolution of market shares, technological innovations, behaviors and the main needs of different clients in order to be able to support a constant process of innovation and improvement of the services offered in line with market trends.

DEPObank initiates international collaborations and partnerships in order to present itself on the market with a competitive offer and to preside over new sectors and areas of activity. It participates in a series of working groups on national and European meetings on payments such as the European Payment Council, the Interbank Agreement for Automation, the ABI Payment Committee and ABI working groups on Payments, Bills, Checks. DEPObank also participated in the ABI Lab work which investigated the applicability of the blockchain to interbank processes.

In 2018, DEPObank launched the Instant Payments service for its clients, which will allow the final clients of the banks and Payment Service Providers to send money with a real-time transfer. The bank that will choose to activate Instant Payments with DEPObank will be able to rely on a service available 24/7, transferring money to the beneficiary's account within 12 seconds with a high degree of reliability and guaranteed assistance.

Furthermore, with a view to expanding its offer of Intermediary services also to the Electronic Money Institutions (IMEL), DEPObank has signed an agreement with a framework agreement with the Payment Service Providers Association (APSP).

In the area of securities services, DEPObank has committed itself to strengthening its client base in the reference market and expanding and innovating its range of offers through specific initiatives:

- fine tuning and launching new services to meet market needs (for example, depositary bank services, fund accounting and transfer agents, ancillary services for Global Custody client banks, etc.);
- creation of a set of innovative indices able to synthesize the universe of closed occupational pension funds to provide the benchmark system in order to broaden the client portfolio and confirm the role of market leader in the Pension Funds segment;
- consolidation of the collaboration with the main client in the Fund Services area through the sharing of a multi-year plan of all-round initiatives (including the improvement of operational processes and controls, the monitoring of technological evolution and cost optimization);
- signing of a partnership agreement with a leading international player, BNY Mellon, world leader in custody and investment, to enhance global custody services on the foreign component, expand the range of services available to clients and expand the scope of activities also to foreign clients operating in Italy.

Listening and client satisfaction

Continuous dialogue and attention to the needs of its clients are two important aspects to guarantee excellence and client satisfaction.

DEPObank, for this reason, set up an internal Business Development unit dedicated to the management and development of the client base and to the business planning of business expansion activities and projects. Working closely with the other Organizational Units, it provides each client with a unique interface, thanks to a dedicated Account Manager, and guarantees constant support of specialized and competent dedicated resources. In addition, the Bank constantly assesses the development of new products and services by preparing specific feasibility analyses to identify new potential clients.

DEPObank develops the relationship with its clients through periodic meetings on the progress of project initiatives and specific actions, and periodically reviews the Service Level Agreements also through the production of customized reports. In this regard, it promotes in-house Client Relationship Management actions to increase the culture of listening and satisfaction of client needs.

The management of Key Performance Indicators (KPIs) allows the Bank to pay constant attention to client needs, promptly noticing the critical areas on which to intervene to make the relationship of trust more solid. KPIs are predefined indicators with clients that are useful for monitoring the level of service offered by the Bank for the various activities performed and allow constant verification of compliance with the timelines, accuracy and completeness of the service provided. The indicators provide a quantitative measure of any inefficiencies and promptly activate the escalation process for the resolution in order to incentivize DEPObank to prepare adequate remedial actions, as well as preventive actions to prevent disruptions from occurring again.

Among the client listening initiatives, the Bank participates in business and commercial events. In November 2018, DEPObank took part in “The Payments Exhibition - Payvolution”, an event organized by ABIServizi to explore topics related to the future of payments, disseminate new solutions and promote the culture of innovation. For DEPObank, it was an opportunity to promote the new corporate identity and to meet clients and stakeholders.

Between November and December 2018, DEPObank had the opportunity to promote the new brand and the securities services offering as part of the Previdendo event, aimed at Pension Funds, and on the occasion of the Funding & Capital Markets Forum organized by ABIServizi to explore topics of the corporate finance, bank funding and capital markets, with reference to banks and businesses.

In 2019, the Bank will be present in the main sector events to present its solutions to its clients in Securities Services and banking payment services.

MANAGEMENT OF COMPLAINTS

DEPObank pays constant attention to the needs of clients, therefore the management of complaints is an important element of detection of critical areas on which to intervene and represents an opportunity to make the relationship of trust more effective and re-establish a satisfactory relationship with the client.

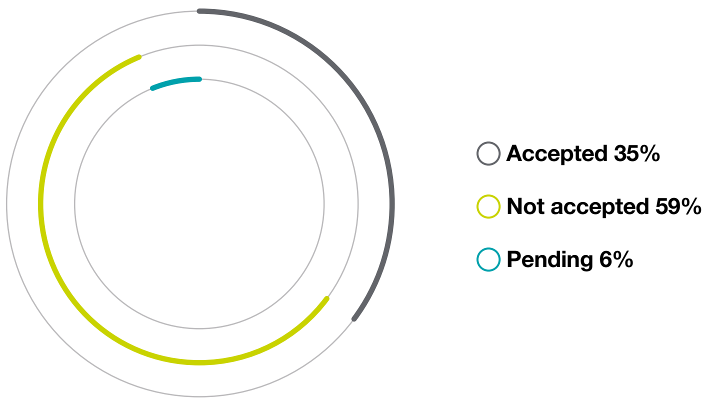
In particular, the Company inspires relationships with clients on the principles of transparency and clarity, assistance and quality. To this end, it adopted an internal procedure which sets out the activities, responsibilities and operating methods with which complaints from clients must be managed and monitored, in compliance with the rules established by the self-regulatory initiatives and by the law and supervision.

A complaint is understood to be any act with which a clearly identifiable client disputes its behaviour, even omission in writing to the intermediary. A complaint containing the details of the person proposing it, the reasons for the complaint, the signature or similar element that allows to identify the client with certainty is considered valid. DEPObank will reply to the complaint within 30 days of receipt, indicating, in the event of acceptance, the time required to resolve the problem. In the case of complaints concerning payment services, the Bank must respond within 15 working days of receiving the complaint, it being understood that in exceptional cases DEPObank may send an open reply stating the reasons for the delay and the deadline within which it will provide definitive feedback (in any case the Bank will have to reply to the client no later than 35 working days).

The Complaints Office, located within the Compliance & AML department and reporting directly to the Head of this function, also deals with processing any requests for clarification formulated by the Supervisory Bodies regarding banking and financial transactions and services, as well as to periodically provide the expected information flows to these Bodies as well as to the senior management bodies. In some cases, second-level assistance activities are also carried out with banks and PSPs and Clients can address their requests via the respective service mailboxes.

During 2018, 17 complaints were received from clients. The outcome of the complaints for 2017 and 2018 is shown below, almost all of which refers to the Banking Payments area with the exception of a complaint in 2018 for the Depositary Bank services.

2018 Claims



Complaints Outcome[14]	Complaints 2018	% on total	Complaints 2017	% on total
Complaints accepted	6	35%	3	14%
Complaints not accepted	10	59%	13	62%
Partially accepted	0	0%	5	24%
Complaints pending	1	6%	0	0%
Total complaints	17	100%	21	100%

[14] Complaints relating to prepaid cards received in the first half were excluded from the scope as they are no longer within the competence of DEPObank as of July 1 following the corporate reorganization, in order to favor comparability of data with respect to the new scope.

The supply chain

DEPObank carefully chooses its suppliers and relies on professionals who are inspired by the principles of competence, cost-effectiveness, transparency and fairness, as well as moral and professional integrity.

The selection process follows the internal regulations governing the purchasing process, aimed at guaranteeing the integrity and independence of the Bank in relations with suppliers. DEPObank in fact undertakes to respect the principles established by the Code of Ethics; to this end, it adopts the utmost transparency and efficiency of the purchasing process, guarantees impartiality at every stage of the procedure, undertakes to maintain the confidentiality of information that cannot be disclosed and is careful to promptly report any potential or potential conflict of interest. The Bank intends to guarantee, to all suppliers, a level playing field for the participation in the selection process, which is based on objective assessments, according to principles of fairness, cost, quality, innovation, continuity and ethics.

All suppliers are required to comply with the DEPObank Code of Ethics and to sign the relevant certificate. To facilitate access to the Code of Ethics, the DEPObank General Supply Terms and Conditions, signed by the suppliers during the mandatory accreditation phase to the Supplier Portal, explicitly indicate that this document is available on the Company's website.

The registration on the Supplier Portal and the selection criteria for the assignment of the orders are subject to objective and transparent assessments of the quality, price, methods of performing the service and delivery, as well as the availability of means and organizational structures, in accordance with to current company procedures. The qualification achieved on the Supplier Portal does not in any case determine the automatic right for the supplier to participate in tenders or individual procedures for the awarding of goods or services within the category of its competence.

The Supplier Portal is used by the Procurement department to guide the entire procurement management process: from the initial qualification phase up to the performance assessment. The Portal allows the management of foreign suppliers and the submission of a questionnaire to facilitate the correct registration in the Supplier Register for all product categories. The initial registration phase on the Portal requires candidates to view the Code of Ethics and carry out a verification phase, which concerns both the documentation certifying the technical suitability (registration in the Chamber of Commerce, presentation of the Chamber of Commerce company registration certificate and certificate of social security compliance), and the economic and financial solidity of companies. Furthermore, in order to guarantee the quality of its services, each supplier, regardless of the merchandise category, is invited to include its ISO 9001 certification in the Supplier Portal.

In this initial assessment phase, further checks and assessments are added during the procurement report. DEPObank's procurement managers in fact monitor all the services adequately and regularly in order to be able to assess the quality of the service or product, compliance with contractual commitments, and other relevant aspects. This activity contributes to the annual evaluation, which provides for the registration of the degree of satisfaction of the existing relationship and allows identifying any improvement actions and rethinking the relationship with the supplier at a strategic level.

During 2019, DEPObank intends to launch some initiatives to reduce its environmental impact, such as updating the list of available company cars with the inclusion of a greater number of hybrid and electric models.

The environment

DEPObank recognizes the importance of the responsible use of resources and is committed to promoting sustainability development, respecting the environment and the rights of future generations. To ensure observance to these principles, the Bank has included them in its Code of Ethics and provides for the integration of crimes against the environment in the process of updating the 231 Model which took place during 2018.

The main areas in which DEPObank's commitment is focused on reducing its environmental impact concern: waste management and disposal, energy and water consumption, material consumption and mobility. In particular, DEPObank undertakes to use energy rationally and to use renewable or low-carbon sources in order to reduce its GHG emissions.

In 2018, as part of the creation of the new Milan Head Quarter in via Anna Maria Mozzoni, DEPObank developed a project to reduce energy and water consumption, ensure greater comfort for employees and obtain savings on gas and electricity bills. The project included some upgrading of the systems and the provision of an intelligent lighting system, with the presence of sensors and automatic brightness regulation based on the amount of external light. Furthermore, the lighting system was replaced with LED bulbs, ensuring greater energy efficiency

In addition to the activities related to the head office, DEPObank launched initiatives aimed at reducing resources thanks to the use of new technologies in the IT world, involving for example employees who record high consumption of paper by providing dual-screen stations and optimizing processes.

In regard to waste management, the Bank respects national regulations without incurring penalties and undertakes to correctly differentiate its waste. Special waste, such as toners, is disposed of through a certified company that recycles exhausted toners giving it new life thanks to the collaboration with a non-profit organization that employs staff with disabilities. In this regard, it should be noted that, in 2018, approximately 3.8 tons of paper and cardboard packaging and about 120 kg of toners were recycled.

As described in the chapter on suppliers, even in the area of mobility, DEPObank is committed to reducing its environmental impact and for this reason decided to refine and integrate the Car Policy with the inclusion of hybrid cars and the reduction of the engine size of company cars.

The table below shows the energy consumption, as well as the emissions divided between the emissions deriving from the direct consumption of energy: (Scope 1, includes methane gas, petrol and diesel), the emissions caused by indirect energy consumption - (Scope 2, includes electricity and district heating) and emissions caused by business trips - (Scope 3) which amount to about

135,000 km (of which about 50% by train and 50% by plane). Consumption is reported for the second half of 2018 (from July to December) as consumption prior to the creation of DEPObank is not comparable since it refers to the entire former Nexi Banking Group.

Energy and emissions[15]	**2018**
Total direct consumption (Gj)	543
Total indirect consumption (Gj)	1,729
- of which from renewable sources (Gj)	316
Direct emissions Scope 1 (Tons of CO_{2e})	36
Indirect emissions Scope 2 (Tons of CO_{2e})	129
Indirect emissions Scope 3 (Tons of CO_{2e})	11

As regards water consumption, in 2018 DEPObank carried out withdrawals from the aqueduct for a consumption of 1,293 m^3.

In 2019, DEPObank wants to strengthen its commitment to reduce its negative environmental impacts to better align itself with best practices in the area of Corporate Social Responsibility.

[15] The factors used to calculate the emissions were published by the Department for Business, Energy & Industrial Strategy (BEIS) in 2018 and by ISPRA 2018. The data shown in the table refer to the location-based methodology, which considers the contribution of the factors of average emissions in Italy.

Attachment

Reconciliation table between material topics and aspects of GRI Standards

MATERIAL TOPICS IDENTIFIED BY DEPObank	TOPIC-SPECIFIC DISCLOSURES	SCOPE OF IMPACTS		
		INTERNAL IMPACT	EXTERNAL IMPACT	LIMITATIONS
Employment protection	**Employment**: 401-1, 401-2 **Labor/Management relations**: 402-1	•		
Staff training and development	**Training and Education**: 404-1, 404-3	•		
Performance evaluation and remuneration	**Diversity and Equal Opportunity**: 405-2 **Training and Education**: 404-3	•		
Talent attraction and personnel selection	**Employment**: 401-1	•		
Health and safety promotion	**Occupational Health and Safety**: 403-2	•	Contractors	The 2018 information does not include the data related to the contractors.
Diversity and equal opportunities	**Diversity and Equal Opportunity**: 405-1, 405-2, 406-1	•		
Fight against corruption	**Anti-corruption**: 205-2, 205-3	•	Suppliers	Reporting partially extended to suppliers.
Privacy and data security	**Customer Privacy**: 418-1	•	Clients	
Continuous innovation	(*)	•	Clients	
Continuity of services	(*)	•	Clients	
Management of complaints	**Customer Privacy**: 418-1	•	Clients	
Marketing communication	**Marketing and Labeling**: 417-3	•	Clients	
Ethics, integrity and compliance	(*)	•		

(*) In regard to the topic in question (not directly linked to an aspect envisaged by the GRI-Standards), DEPObank reports the adopted management approach and the relative indicators in the document.

GRI Content Index

Disclosure	Indicator description	Page number / Notes	Omissions
GRI 102: GENERAL DISCLOSURES 2017			
ORGANIZATIONAL PROFILE			
102-1	Name of the organization	DEPObank – Banca Depositaria Italiana S.p.A.	
102-2	Name of the organization Activities, main brands, products and/or services	Pag. 242; 285-289	
102-3	Location of the organization's headquarters	The registered office of DEPObank S.p.A. was transferred with effect from 1 July 2018, always within the Municipality of Milan, from Corso Sempione n. 55 to via Anna Maria Mozzoni n. 1.1	
102-4	Number of countries in which the organization operates	Pag. 241; 268	
102-5	Ownership structure and legal form	"DEPObank – Banca Depositaria Italiana S.p.A." or, in abbreviated form, "DEPObank" is a bank incorporated in the form of a joint-stock company.	
102-6	Markets	DEPObank operates in the Italian market and is registered with the Register of Banks.	
102-7	Size of the organization	Pag. 241; 269	
102-8	Employees by contract type, gender, origin, age, protected categories	Pag. 268-271	
102-9	Description of the supply chain	Pag. 296-297	
102-10	Significant changes during the reporting period regarding the size of the Group, the structure, the property or the ownership of suppliers	Pag. 238-239	
102-11	Methods of application of the prudential principle or approach	Pag. 257-264	
102-12	Adoption of external codes and principles in the economic, social and environmental areas	DEPObank does not consider codes and principles external to the organization.	
102-13	Membership of national and international associations and support organizations	Pag. 245	

Disclosure	Indicator description	Page number / Notes	Omissions
STRATEGY			
102-14	Statement by the Chairman and Chief Executive Officer	Pag. 37	
ETHICS AND INTEGRITY			
102-16	Values, principles, standards and rules of conduct within the company	Pag. 243; 263-267	
GOVERNANCE			
102-18	Corporate governance structure	Pag. 248-252	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholders involved	Pag. 244-245	
102-41	Percentage of employees covered by collective labour agreements	Pag. 279-280	
102-42	Identification and selection process of stakeholders to engage	Pag. 244-245	
102-43	Approach to stakeholder engagement	Pag. 244-245; 284; 293	
102-44	Key and critical aspects emerging from stakeholder engagement and related actions	Pag. 245	
REPORTING PRACTICE			
102-45	List of companies included in the consolidated financial statements and indication of the companies not included in the report	Pag. 238-239	
102-46	Process of defining the contents of the report and the perimeter of each aspect	Pag. 238-239; 246-247	
102-47	List of aspects identified as materials	Pag. 246-247	
102-48	Explanation of the effects of any change to information entered in previous financial statements and the reasons for such changes	Pag. 238-239	
102-49	Significant changes compared to the previous reporting period	Pag. 238-239	
102-50	Reporting period	Pag. 238-239	
102-51	Date of publication of the most recent balance sheet	The consolidated non-financial statement of the former Nexi banking group was published in 2018 with reference to the financial year 2017.	

Disclosure	Indicator description	Page number / Notes	Omissions
102-52	Reporting frequency	Pag. 238-239	
102-53	Contacts and addresses to request information on the budget and its contents	Pag. 238-239	
102-54 / 102-55	GRI content index and choice of the “in accordance” option	Pag. 238-239 (Methodological note and GRI Content Index)	
102-56	External attestation	Pag. 307-311	
PERFORMANCE ECONOMICA: TOPIC SPECIFIC STANDARDS			
GRI 205: ANTI-CORRUPTION 2016			
GRI 103	Management approach 2016	Pag. 253-254; 263-267	
205-2	Communication and training activities on policies and procedures to prevent and combat corruption	Pag. 266-267; 275-277	In 2018, due to the corporate reorganization processes, the Board of Directors appointed in June 2018 did not follow specific anti-corruption training, however this training will be carried out in the coming years.
205-3	Possible episodes of corruption and remedial actions implemented	Pag. 266-267	
CORPORATE PERFORMANCE: TOPIC SPECIFIC STANDARDS			
GRI 401: EMPLOYMENT 2016			
GRI 103	Management approach 2016	Pag. 271-272; 280-281	
401-1	Total number and rate of recruitment and staff turnover	Pag. 272-273	
401-2	Benefits provided for full-time workers but not for part-time and / or contract workers	Pag. 280-281	
GRI 402: LABOR/MANAGEMENT RELATIONS			
GRI 103	Management approach 2016	Pag. 279-280	
402-1	Minimum notice period for operational changes, including if this notice period is specified in the collective labour agreements	Pag. 280	

Disclosure	Indicator description	Page number / Notes	Omissions
GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2016			
GRI 103	Management approach 2016	Pag. 282	
403-2	Type of accidents, accident rate, occupational illnesses, lost work days and absenteeism and the number of work-related fatal accidents broken down by region and gender	Pag. 283	The data relating to contractors for 2017 and 2018 are not currently available. DEPObank is carrying out assessments on this topic.
GRI 404: TRAINING AND EDUCATION 2016			
GRI 103	Management approach 2016	Pag. 274; 278	
404-1	Average annual hours of training per employee, by gender and by category	Pag. 276	
404-3	Percentage of employees receiving regular reports on results and career development, by gender and by employee category	Pag. 278-279	
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016			
GRI 103	Management approach 2016	Pag. 270	
405-1	Composition of governing bodies and division of employees by category with respect to gender, age, protected categories and other indicators of diversity	Pag. 252; 268-271	
405-2	Ratio between male and female base salaries by category and by operational qualification	Pag. 279	The data relating to the ratio between the male and female salary for the professional category “Executives” has been omitted for reasons of privacy.
406-1	Any incidents of discrimination encountered, and remedial actions implemented	Pag. 271	No reports of incidences of discrimination were received during 2017 and 2018 by the Compliance & AML function.

Disclosure	Indicator description	Page number / Notes	Omissions
GRI 417: MARKETING AND LABELING 2016			
GRI 103	Management approach 2016	Pag. 259-260	
417-3	Total number of cases of non-compliance with regulations or voluntary codes related to marketing activities including advertising, promotion and sponsorship	In 2017 and in 2018, DEPObank did not encounter any incidents of non-compliance with regulations or voluntary codes in relation to marketing activities that include advertising, promotion and sponsorship.	
GRI 418: CLIENT PRIVACY 2016			
GRI 103	Management approach 2016	Pag. 288	
418-1	Number of documented complaints related to privacy violations and loss of consumer data	Pag. 290	In 2017 and in 2018, DEPObank did not receive any complaints concerning violations of privacy and loss of consumer data.
CONTINUOUS INNOVATION			
GRI 103	Management approach 2016	Pag. 292	
CONTINUITY OF SERVICES			
GRI 103	Management approach 2016	Pag. 291	
ETHICS, INTEGRITY AND COMPLIANCE			
GRI 103	Management approach 2016	Pag. 263-267	

DEPObank
BANCA DEPOSITARIA ITALIANA

Report of the Auditing Company

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

Independent auditors' report on the non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of the Consob Regulation adopted with Resolution no. 20267 of 18 January 2018

To the board of directors of
DEPObank S.p.A.

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "decree") and article 5 of the Consob (the Italian Commission for listed companies and the stock exchange) Regulation adopted with Resolution no. 20267 of 18 January 2018, we have been engaged to perform a limited assurance engagement on the 2018 non-financial statement of DEPObank S.p.A. (the "bank") prepared in accordance with article 3 of the decree, presented in the specific section of the directors' report and approved by the board of directors on 21 March 2019 (the "NFS").

Responsibilities of the bank's directors and board of statutory auditors ("Collegio Sindacale") for the NFS

The directors are responsible for the preparation of a NFS in accordance with article 3 of the decree and the "Global Reporting Initiative Sustainability Reporting Standards" issued by GRI - Global Reporting Initiative (the "GRI Standards"), which they have identified as the reporting standards.

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for the identification of the content of the NFS, considering the aspects indicated in article 3.1 of the decree and the bank's business and characteristics, to the extent necessary to enable an understanding of the bank's business, performance, results and the impacts it generates.

The directors' responsibility also includes the design of an internal model for the management and organisation of the bank's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the bank's policies and the identification and management of the risks generated or borne.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, compliance with the decree's provisions.

Auditors' independence and quality control

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our company applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditors' responsibility

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the NFS with the requirements of the decree and the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries, primarily of the bank's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

1. Analysing the material aspects based on the bank's business and characteristics disclosed in the NFS, in order to assess the reasonableness of the identification process adopted on the basis of the provisions of article 3 of the decree and taking into account the reporting standards applied.
2. Comparing the financial disclosures presented in the NFS with those included in the bank's financial statements.
3. Gaining an understanding of the following:
   - the group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the decree;

- the entity's policies in connection with the aspects set out in article 3 of the decree, the achieved results and the related key performance indicators;
- the main risks generated or borne in connection with the aspects set out in article 3 of the decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 4.a).

4. Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

   Specifically, we held interviews and discussions with the bank's management personnel. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

   Furthermore, with respect to significant information, considering the bank's business and characteristics:

   a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence,
   b) we carried out analytical and limited procedures to check, on a sample basis, the correct aggregation of data in the quantitative information.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2018 non-financial statement of DEPObank S.p.A. has not been prepared, in all material respects, in accordance with the requirements of article 3 of the decree and the GRI Standards.

Other matters

The 2017 comparative figures presented in the NFS have not been examined. However, they are included in Nexi Group's 2017 consolidated non-financial statement, with respect to which a limited assurance report was issued on 6 April 2018.

Milan, 12 April 2019

KPMG S.p.A.

(signed on the original)

Roberto Fabbri
Director of Audit

depobank.it