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ASSEMBLEA DEI SOCI

13 APRILE 2019

CiviBank

Report and Financial Statements at 31/12/2018

Draft financial statements

Meeting of the Board of Directors of 13 March 2019

BANCA DI CIVIDALE
A cooperative joint-stock company – founded in 1886
Registered office and headquarters: Via Sen. Guglielmo Pelizzo n. 8/1;
33043 Cividale del Friuli;
Bank of Italy Register No. 5758.8.0; Italian Banking Association Code 05484.1;
Taxpayer ID, VAT reg. no. and Udine Companies Register no. 00249360306;
Share capital at 31/12/2018: € 50,913,255, fully paid-in
A member of the Interbank Deposit Protection Fund

Contents

Boards and senior management of Banca di Cividale at the date of approval of the financial statements at and for the year ended 31/12/2018

Board of Directors

Chairperson	Michela Del Piero
Deputy Chairpersons	Andrea Stedile Guglielmo Pelizzo
Directors	Massimo Fuccaro Alessia Fugaro Riccardo Illy Mario Leonardi Franco Sala Livio Semolič

Board of Statutory Auditors

Chairperson	Pompeo Boscolo
Standing members	Gianluca Pico Gianni Solinas
Substitute Members	Pietro Cicuttini Chiara Repetti

Board of Arbitrators

Chairperson	Renzo Zanon
Standing members	Lorenzo Cozzarolo Giampaolo Piccoli Alessandro Rizza Eugenio Scarbolo
Substitute members	Giuseppe Bertolo Valentino Custrin

Senior management

General Manager	Federico Fabbro
Acting Assistant General Manager	Gianluca Picotti
Assistant General Manager	Gabriele Rosin

Independent Auditors	EY S.p.A.

Convocation of ordinary and extraordinary meeting of the shareholders

The Bank's shareholders are hereby notified of the ordinary and extraordinary meeting of the shareholders to be held at the Centro San Francesco in Cividale (Piazza San Francesco), with first call at 9:00 AM on 12 April 2019 and second call, if necessary, ***at 9:00 AM on Saturday 13 April 2019****.*

Agenda

Extraordinary business
1. *Proposed amendments to the Articles of Association of Banca di Cividale S.c.p.A. (Art. 5)*

Ordinary business
1. *Financial statements for the year ended 31.12.2018 and any related business;*
2. *Proposal to set the share premium pursuant to Article 2528 of the Italian Civil Code;*
3. *Appointment of corporate officers and determination of their compensation;*
4. *Provision for the purchase of treasury shares pursuant to Art. 2357 of the Italian Civil Code;*
5. *Authorisation to purchase and dispose of treasury shares pursuant to Articles 2357 and 2357-ter through the use of the provision for the purchase of treasury shares;*
6. *Proposal to award the statutory auditing assignment for the years 2019-2027 pursuant to Legislative Decree No. 39/2010 and set the relevant consideration: any related business;*
7. *Remuneration policies*

Cividale, 13 March 2019

The Chairperson
Michela Del Piero

Letter from the Chairperson

Dear shareholders,
The Bank's performance in 2018 – its 132nd year – continued to bear out the crucial role it plays in the local economy, while also representing considerable progress in terms of the return to profitability.
In 2018 the Bank also continued to provide strong support to the real economy by disbursing new loans of over €531 million.
The “economic value” generated exceeded €83 million, in addition to the “social and economic value” generated, benefiting all stakeholders, directly or through the positive consequences of the many activities in the local community and region.
However, it is essential to look beyond this current phase in the Bank's history, which is why we have drafted a Strategic Plan focused on balanced growth and ongoing independence – still a fundamental pillar of the Bank's strategy. Being a successful, independent regional bank is currently a strength to be taken advantage of in a timely fashion, in addition to representing a competitive factor, cause for pride and a responsibility for all shareholders, customers and employees.
The planned recapitalisation is essential to meeting this growth objective and will allow us to support the families and businesses of Friuli Venezia Giulia and Veneto – focusing our expansion in geographical terms in this region, where there is a strong need for a regional bank – as well as to improve our operating efficiency and the overall customer experience by investing in human resources and digitalisation.

The Chairperson
Michela Del Piero

Financial highlights and balance sheet ratios

With effect from 1 January 2018 the classification, measurement, impairment and hedge accounting treatment of financial instruments are governed by the accounting standard IFRS 9, which has replaced the accounting standard IAS 39. As expressly permitted (IFRS 9, par. 7.2.2015), Civibank opted not to restate the comparative figures in its financial statements of first-time adoption of IFRS 9. The comparative figures from 2017 have therefore been reclassified to the line items included in the new official presentation schemes set out in Circular 262, without any changes to the relevant values.

BALANCE SHEET DATA (thousands of euro)	31/12/2018	31/12/2017	Change %
Financial assets	912,344	1,001,573	-8.9%
Loans to customers	2,673,027	2,624,229	1.9%
Total assets	3,879,397	3,903,929	-0.6%
Direct funding	2,578,939	2,562,417	0.6%
Indirect funding	1,029,095	1,023,149	0.6%
- of wich: Assets under management	812,278	809,949	0.3%
Total funding	3,608,035	3,585,566	0.6%
Shareholders' equity	274,018	301,553	-9.1%

Reclassified balance sheet

ASSETS	31/12/2018	31/12/2017	Change %
Cash and cash equivalents	29,747	23,944	24.2%
Financial assets measured at fair value through profit or loss	29,710	36,577	-18.8%
Loans to customers	*14,156*	*14,269*	*-0.8%*
Other financial assets	*15,554*	*22,308*	*-30.3%*
Financial assets measured at fair value through other comprehensive income	318,469	353,549	-9.9%
Other financial assets	*318,469*	*353,549*	*-9.9%*
Financial assets measured at amortised cost	3,290,966	3,269,003	0.7%
Due from banks	*53,774*	*33,327*	*61.4%*
Loans to customers	*2,658,871*	*2,609,960*	*1.9%*
Other financial assets	*578,320*	*625,716*	*-7.6%*
Investments in associates and companies subject to joint	3,769	3,780	-0.3%
Property, plant and equipment and intangible assets	76,612	81,531	-6.0%
- of which goodwill	-	*2,190*	*-100.0%*
Tax assets	74,706	73,564	1.6%
Other assets	55,416	61,981	-10.6%
Total assets	**3,879,397**	**3,903,929**	**-0.6%**

LIABILITIES	31/12/2018	31/12/2017	Change %
Financial liabilities measured at amortised cost	3,507,783	3,528,117	-0.6%
Due to banks	*928,844*	*965,700*	*-3.8%*
Due to customers	*2,509,157*	*2,417,422*	*3.8%*
Securities issued	*69,782*	*144,996*	*-51.9%*
Financial liabilities held for trading	168	765	-78.1%
Tax liabilities	3,544	5,148	-31.2%
Other liabilities	81,292	60,950	33.4%
Specific provisions (1)	12,591	7,395	70.3%
Shareholders' equity (2)	274,018	301,553	-9.1%
Total liabilities	**3,879,397**	**3,903,929**	**-0.6%**

(1) The aggregates include captions "90. Employee termination benefits" and "100. Provisions for risks and charges";
(2) The aggregate includes captions "110. Valuation reserves," "130. Equity instruments," "140. Reserves," "150. Share premium," "160. Share capital", "170. Treasury shares" and "180. Net income (loss) for the year".
Amounts payable to institutional counterparties (Cassa Compensazione e Garanzia) have been reclassified from "Due to customers" to "Due to banks".

Reclassified income statement

RECLASSIFIED INCOME STATEMENT	31/12/2018	31/12/2017	Change %
Net interest income	60,430	62,839	-3.8%
Net commissions	30,022	29,016	3.5%
Dividends	10,538	733	1336.9%
Net trading income	(739)	10,262	-107.2%
Other operating income (expenses) [3]	657	1,043	-37.0%
Operating income	**100,907**	**103,894**	**-2.9%**
Personnel expenses	(41,157)	(41,194)	-0.1%
Other administrative expenses [1]	(20,060)	(26,119)	-23.2%
Net impairment/write backs on property, plant and equipment and intangible assets [2]	(2,705)	(2,370)	14.1%
Operating cost	**(63,922)**	**(69,683)**	**-8.3%**
Income (loss) from operating	**36,985**	**34,211**	**8.1%**
Charges/write-backs on impairment of loans	(24,036)	(23,521)	2.2%
Charges/write-backs on impairment of other financial assets	(1,030)	(2,572)	-60.0%
Goodwill impairment	(2,190)	(1,606)	36.4%
Profit (loss) on disposal of investments	67	-	-
Net provisions for risks and charges	(5,653)	141	-4116.9%
Income (loss) before tax from continuing operations	**4,144**	**6,653**	**-37.7%**
Tax on income from continuing operations	367	(2,709)	-113.6%
Levies and other charges concerning the banking industry after tax	(2,468)	(3,191)	-22.7%
Net income	**2,043**	**753**	**171.2%**

(1) Other administrative expenses include recoveries of taxes and duties and other recoveries recognised under "200. Other operating income/expenses" (€7,383 thousand in 2018 and €7,426 thousand in 2017);
(2) Net adjustments to property, plant and equipment and intangible assets include items "180. Charges/write-backs on impairment of property, plant and equipment" and "190. Charges/write-backs on impairment of intangible assets."
(3) Other income and expenses correspond to operating income/expenses net of the reclassifications presented above.

BALANCE SHEET RATIOS	31/12/2018	31/12/2017
Indirect funding from customers / Total funding	28.5%	28.5%
Assets under management / Indirect funding from customers	78.9%	79.2%
Direct funding from customers / Total liabilities	66.5%	65.6%
Loans to customers / Direct funding from customers	103.6%	102.4%
Loans to customers / Total assets	68.9%	67.2%

CREDIT RISK INDICATORS	31/12/2018	31/12/2017
Bad Loans / Loans to customers	10.8%	14.9%
Net bad loans / Loans to customers	4.2%	6.2%
Cost of risk / Income (loss) from operating	80.3%	73.6%
Net bad loans / Regulatory capital	38.1%	54.4%
Bad loans hedging*	17.4%	22.5%
Net Bad loans hedging	9.5%	12.9%
Other impaired loans hedging	50.8%	49.2%
Cost of credit (*)	-0.90%	-0.79%

Profitability ratios	31/12/2018	31/12/2017
Net interest income/Operating Income	59.9%	60.48%
Net commision income/Operating Income	29.8%	27.93%
Cost/income	63.3%	67.07%
Net income for the period/Total Assets	0.05%	0.02%
Net income for the period/RWA	0.36%	0.37%

Productivity ratios	31/12/2018	31/12/2017
Operating cost / N° of employees	108	119
Operating income / N° of employees	170	177
Loans to customers / N° of employees	4,508	4,471
Direct funding / N° of employees	4,349	4,365

Structure ratios	31/12/2018	31/12/2017
Loans to customers / Total net assets	68.9%	67.22%
Direct funding / Total net assets	66.5%	65.64%
Assets under management / Indirect funding from customers	78.9%	78.93%
Loans to customers / Direct funding from customers	103.1%	101.86%
Total assets / Shareholders' equity	1415.7%	1294.61%

OPERATING STRUCTURE	31/12/2018	31/12/2017
N° of employees	593	587
Branches	64	67

Basic Earning per share	31/12/2018	31/12/2017
Adjusted attributable profit	2,043	753
Weighted average number of shares	16,971,085	16,971,085
Basic Earning per share	**0.12**	**0.04**

COEFFICIENTI DI SOLVIBILITA'	31/12/2018	31/12/2017
Attività di rischio ponderate (Rwa)	2,152,267	2,189,164
Capitale primario di classe 1 - regolamentare	287,730	286,793
Totale fondi propri - regolamentare	292,050	296,709
CET1 capital ratio - regolamentare	13.37%	13.10%
Total capital ratio - regolamentare	13.57%	13.55%
Capitale primario di classe 1 - fully phased	*265,204*	
Totale fondi propri - fully phased	*269,525*	
CET1 capital ratio - fully phased	*12.52%*	
Total capital ratio - fully phased	*12.73%*	

OTHER ECONOMIC INFORMATION*	31/12/2018	31/12/2017
Operating cost / Operating income (cost income ratio)*	63.3%	67.1%

** Normalised to exclude BRRD/Interbank Deposit Protection Fund contribution costs.*

Directors' report on operations

The macroeconomic scenario[1]

The international economy

Global economic growth continued, although the first signs of weakening were seen in many developed and emerging economies. The most recent surveys indicate that the growth rate was essentially solid in the United States and the United Kingdom and returned to positive territory in Japan. Among the main emerging economies, the slowdown continued in China, despite the fiscal stimulus measures enacted by the government. The macroeconomic scenario also remained fragile in Brazil, whereas the expansionary phase of the economic cycle in India continued at a robust pace.
The latest estimates published by the OECD indicate an increase in global GDP of 3.7% in 2018 and of 3.5% in 2019. These projections, which have been revised downwards, are weighed down by a number of risk factors, including the possible repercussions of a negative outcome to the trade negotiations between the United States and China, a flare-up of financial tensions in emerging countries and uncertainty regarding future economic relations between the United Kingdom and the European Union following the failure to ratify the Brexit agreement reached by the government in November.

Euro Area

Growth slowed in the Euro Area. In the third quarter of 2018, GDP increased by 0.2% in real terms on the previous period, following an increase of 0.4% in the two previous quarters (Figure 1). In detail, activity decreased in Germany and Italy, where the weight of the automotive industry and upstream industries suffered as a result of the entry into force of the global standard test procedure for light vehicle emissions (the Worldwide Harmonized Light Vehicles Test Procedure or WLTP).
The more moderate performance of energy prices and, to a lesser extent, food products, contributed to a decline in inflation, which stood at 1.6% in December 2018, down from the 1.9% recorded in November. The expectations of the analysts surveyed by Consensus Economics foreshadow a slight decline in inflation (1.6% in 2019), followed by a gradual recovery over the next two years. The ECB's monetary policy remains accommodative: according to expectations, the reference rates will remain at current levels until at least summer 2019 and, in any event, for as long as necessary.

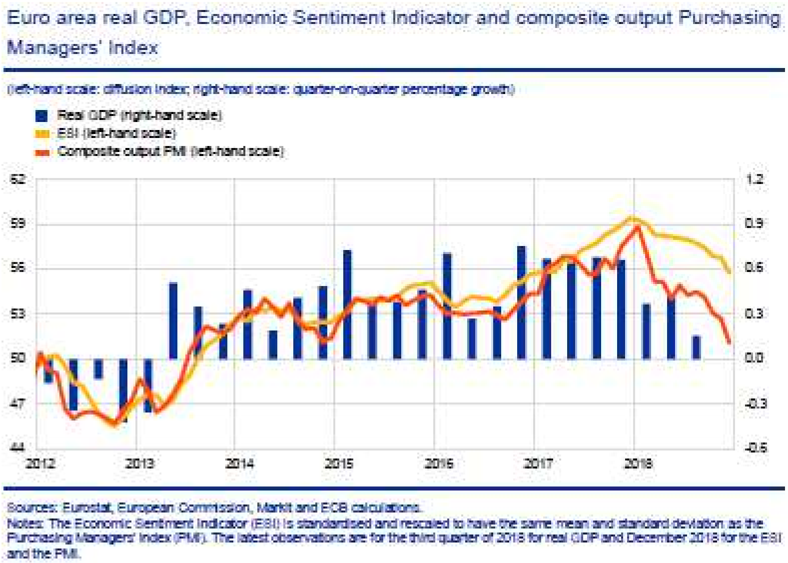


Figure 1

The Italian economy

According to the most recent estimates, following the slight decline witnessed in the third quarter, Italy's GDP may have continued to decline in the final months of 2018. The decrease is believed to be attributable to the decline in industrial production – as also seen in other countries in the Euro Area – and to be driven by the difficulties in the automotive sector. In the construction sector, there was a recovery in home purchases, albeit accompanied by a decline in prices. Business confidence indices also declined, whereas investments were shaped by the sharp increase witnessed in the second quarter, reflecting the timing of tax incentives , which

[1] Sources: The Bank of Italy's Bollettino Economico.
ECB's Economic Bulletin.

remained in effect. The uncertainty attributable to economic and political factors – and, to a less significant extent, trade tensions – continues to restrain companies in their operations.

Household consumption, which slowed gradually over the course the year, is being penalized by the uncertainty regarding income conditions, which is also reflected in the consumer confidence climate, essentially stable over the course of the year (Fig. 2).

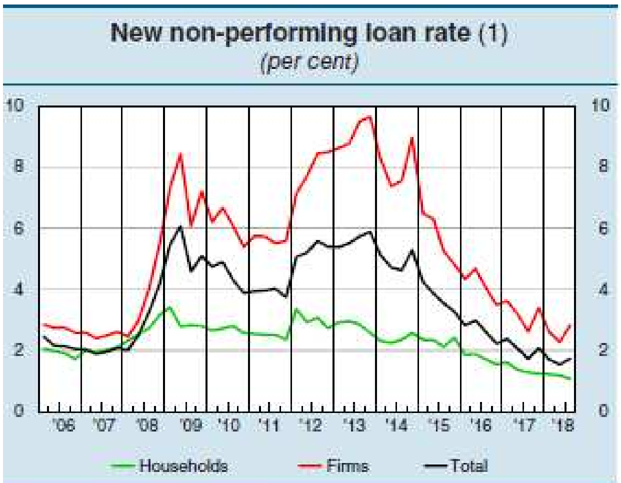
In the job market, there was an increase in the number of hours worked in the third quarter, accompanied by a decline in the number of the employed compared with the summer. This contraction was concentrated in the health and welfare services sector, whereas employment increased in the other major segments. On the basis of the preliminary data, the number of job-holders remained essentially stable, whereas wages are believed to have risen.

In Italy, consumer inflation amounted to 1.2% in December (compared with 1.6% in November), due to the slowdown in the prices of energy products. Prices are expected to rise, driven by the trend in wages, which resumed growth in the private sector starting last spring and are projected to improve gradually in the course of 2019.

Source: Based on Istat data.

Figure 2

Banking



Source: Central Credit Register.
(1) Annualized quarterly flows of adjusted NPLs in relation to the stock of loans at the end of the previous quarter net of adjusted NPLs. Data seasonally adjusted where necessary.

Figure 3

According to the most recent survey of bank credit in the Euro Area (the Bank Lending Survey), the terms offered by lenders for new loans remained loose overall. The cost of credit remained at modest levels: in November, the interest rate on new loans to businesses stood at 1.5%, whereas the rate on new loans to families was 1.9%. Credit quality continued to improve (Fig. 3).

In the third quarter of the year, new non-performing loans continued to amount to a modest percentage of total loans (1.7%), whereas the coverage rate for non-performing exposures remained at the levels of previous quarters. Non-performing loans continued to decline as a percentage of total loans granted by banking groups, owing in part to the effects of programmes aimed at disposing of non-performing positions.

On the financial markets, the sovereign risk premium (spread) began to rise at the end of September, but then stabilised after an agreement was reached between the Italian government and the European Commission, averting an excessive deficit infraction procedure. Share prices declined on the Italian Stock Exchange, while volatility remained high.

The cooperative banking system[2]

The initial preliminary figures for December 2018 indicate that the performing loans issued by cooperative banks increased by 1.5%, a slightly higher increase than seen at the industry-wide level (+1.1%). During the year, cooperative banks continued to disburse over €30 billion of new loans to SMEs, a figure essentially in line with the previous two years, confirming the constant support provided by the banks in question to the smaller companies that make up the local economy. The new loans to small and medium enterprises granted by this type of bank accounted for over 50% of their total new loans to businesses, whereas the figure is approximately five percentage points lower for other banks.

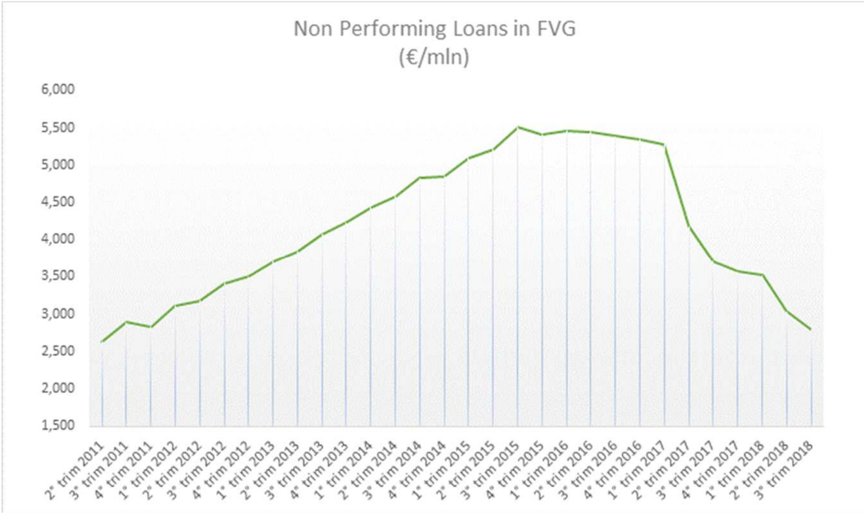


Figure 4

A general decline in outstanding gross non-performing positions gained momentum during the period, marking a decline of approximately €50 billion, bringing the total to just over €117 billion in November 2018. There was a similar trend at the level of the region of Friuli Venezia Giulia (Fig. 4), where total non-performing loans returned to 2011 levels.
In 2018 the number of cooperative and local bank branches declined to 590, in keeping with the general trend at the level of the Italian bank industry nationally, within the framework of general cost-cutting efforts. The market share of cooperative banks contracted slightly to just over 15%.

Outlook2[3]

The outlook for Italian economic growth in recent studies is less optimistic than projected in the previous year. Italian GDP growth is expected to amount to 0.6% and then to be consolidated over the following two years (0.9% in 2020 and 1.0% in 2021). Despite benefiting from the support measures included in the Italian budget, household consumption is expected to increase in proportion to GDP and disposable income. A less favourable international trade outlook and a deterioration in business confidence conditions are expected to give rise to a decline in investments, due in part to the remodulation of tax incentives.
Within this scenario, which could become complex and uncertain from an economic standpoint as the Italian banking industry undergoes a transformation, forecasts generally call for consolidating growth of the main items of assets and liabilities. In particular, in 2019 funding is expected to increase by 1.6%, due above all to the deposit component (+2.4%), whereas the bond component is expected to continue to decline, falling by 10.5%. Performing loans are expected to recover by 2.1%, as are securities held (+2.4%).
At the level of the income statement, net interest income is expected to improve further, rising by 1.2% for the banking industry and by 1.5% for cooperative banks, as are operating revenues, forecast to rise by 2.4% and 2.6%, respectively. The modest increase in operating expenses compared to previous years, along with the recovery of margins, is expected to result in an increase in gross operating profit of 10.0% for the Italian banking industry and of 9.2% for Italian cooperative banks.

[2] Source: Italian National Association of Cooperative Banks: Overview and Outlook for the Italian Economy
[3] The Bank of Italy's Bollettino Economico.

The Banca di Cividale branch network

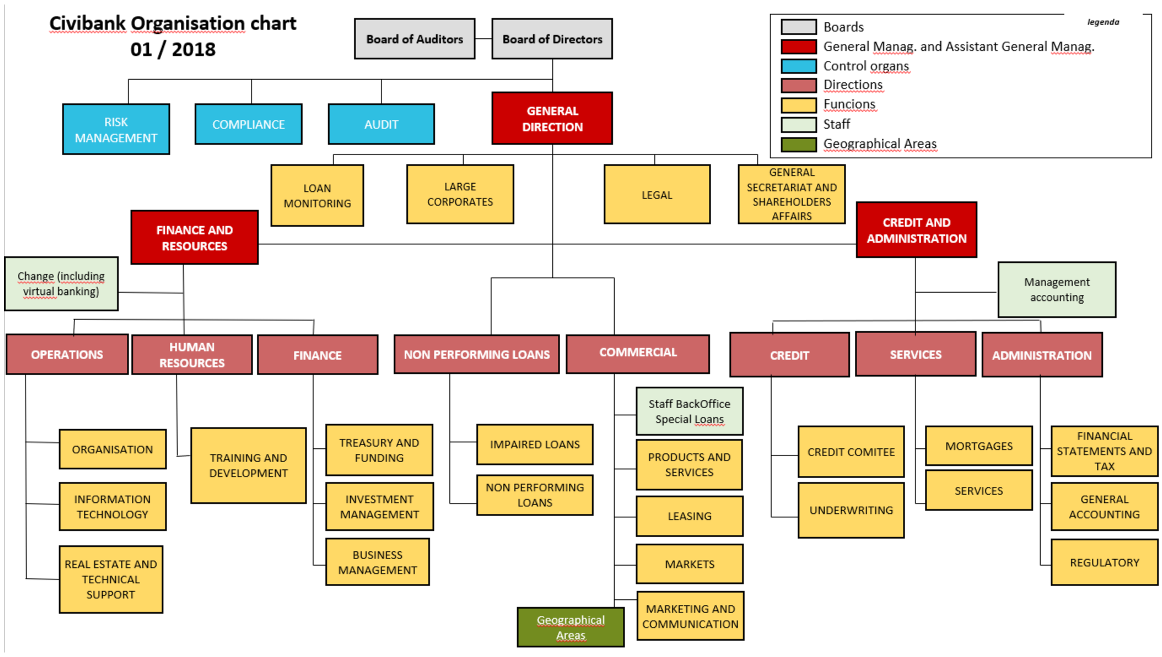
The Bank's branch network consisted of 64 operational branches at 31 December 2018.

The Bank has a presence in seven provinces in the regions of Friuli Venezia Giulia and Veneto, distributed as follows:

- 34 in the province of Udine;
- nine in the province of Pordenone;
- six in the province of Gorizia;
- six in the province of Treviso;
- five in the province of Venice;
- three in the province of Trieste; and
- one in the province of Belluno.

Organisational structure

The following chart shows the basic organisational structure of Banca di Cividale S.c.p.A.:



Human resources

At 31 December 2018 the human resources of Banca di Cividale S.c.p.A. numbered 593, compared to 587 at 31 December 2017.

During the year, 25 employees were hired and 18 left service. The sales network (branches) employs a staff of 406, representing 68.5% of the total headcount.

Human resources statistics

Classification of staff by professional category:

	31.12.2018			31.12.2017		
	Men	Women	Total	Men	Women	Total
Senior managers	9	1	**10**	9	1	**10**
Middle managers	186	47	**233**	184	45	**229**
Middle managers – part time	-	9	**9**	-	8	**8**
3rd professional area	150	134	**284**	150	136	**286**
3rd professional area – part time	3	47	**50**	3	46	**49**
2nd professional area	1	6	**7**	1	4	**5**
Total	**349**	**244**	**593**	**347**	**240**	**587**

Incoming and outgoing personnel:

	Changes 2018			Changes 2017		
	Men	Women	Total	Men	Women	Total
Hirings	13	13	**26**	19	14	**33**
Seconded employees	2	-	**2**	-	-	-
Terminations	9	9	**18**	15	12	**27**

Breakdown of workforce by age, gender and education:

	31.12.2018			31.12.2017		
	Men	Women	Total	Men	Women	Total
No. of employees by gender	349	244	**593**	347	240	**587**
Percentage of employees by gender	58.9%	41.1%	**100.0%**	59.1%	40.9%	**100.0%**
Average age (years)	47.72	43.64	**45.68**	43.19	42.96	**43.07**
Level of education						
University degree	162	118	**280**	158	113	**271**
Secondary school diploma	180	124	**304**	182	125	**307**
Other	7	2	**9**	7	2	**9**

Breakdown of workforce between headquarters and branch network:

	Number of employees			
	31/12/2018	%	31/12/2017	%
Headquarters	187	31.5%	197	33.6%
Branch network	406	68.5%	390	66.4%
Total	**593**	**100.0%**	**587**	**100.0%**

Training

As in previous years, the 2018 Training Plan was drafted based on the guidelines set out in the three-year Strategic Plan. In further detail, training programmes were implemented with the aim of: bringing current skills into line with the strategic skills identified in the plan and requested by the market; disseminating the knowledge present within the company to achieve uniform behaviour; and disseminating company values and objectives.

Following the entry into force of important legislation governing both investment services and insurance products, training focused in particular on technical and legislative initiatives.

In 2018 the Bank's structured training process resulted in the provision of 21,130 hours of training, equivalent to 2,718 man-days, with an average training commitment per person of 34.74 hours. For statistical purposes, it should be noted that the figures cited have been calculated on the basis of the headcount as at 31 December 2018.

Document on compensation policies
The general principles of the governance provisions issued by the Bank of Italy place especial emphasis on the mechanisms for providing compensation and incentives to bank strategic supervision and control body members, management, employees and contractors, and state that those mechanisms are among the key factors to fostering the competitiveness and governance of banks, in addition to being a means of attracting and retaining employees with professional skills and expertise suited to the company's needs.
Such compensation mechanisms are to be inspired by the principles of sound, prudent risk management policies and are to be consistent with long-term company strategies and objectives. Supervisory regulations thus envisage that personnel compensation policies, including any plans based on financial instruments (e.g., stock options), be subject to approval by the shareholders' meeting.
The shareholders' meeting is thus called upon to approve the Compensation Policies for 2018. This document provides a detailed account of the compensation and incentive policies of Banca di Cividale and the principles of propriety, fairness and transparency upon which those polices are founded, in accordance with the Bank's business philosophy, which aims to create sustainable economic, but also social, value in the medium term.
In response to the supervisory provisions, this document envisages that a part of the variable compensation of key staff is to be paid in financial instruments, specifically the Bank's shares. Detailed information about compensation policies will be provided during the shareholders' meeting.

Bonus and incentive system
Within the framework of human resource management policies, bonuses (of a fixed and variable nature) were awarded during the year as recognition for the professionalism and the qualitative and quantitative performance of personnel.

Non-financial reporting (NFR)
In accordance with Article 5 (3) (b) of Legislative Decree No. 254/2016, the Bank has prepared a separate non-financial report, to which the reader is referred. The 2018 non-financial report, drafted in accordance with the GRI reporting standard (Sustainability Reporting Guidelines), 'in accordance - core' option, is available from the "Sustainability" section of the Bank's website.

Corporate management and the pursuit of a common objective

The shareholders
There were 14,727 shareholders in total as at 31 December 2018.

Annual report on the mutual nature of the cooperative and corporate social responsibility
The above report, in addition to discharging the obligation imposed by the reformed text of Article 2545 of the Italian Civil Code, represents an important opportunity to provide shareholders with objective, measurable data that certify that the Bank's operations are consistent with the mutual spirit of the Company as envisaged in Article 3 of the Articles of Association. In other words, the report allows the Bank to provide further evidence that the cooperative model is well suited, even in the current competitive scenario, to meeting the needs of economic, moral and cultural promotion expressed by the society and communities in which the Bank operates.
Banca di Cividale combines an entrepreneurial approach with a socially responsible way of doing business, as outlined in its Articles of Association, which establish the spirit of mutual aid that inspires the Bank in responding to the need for economic, moral and commercial promotion expressed by the community and social context in which the Bank operates. In its endeavours, the Bank is inspired by the principles of lawfulness, loyalty, propriety and transparency as it pursues its primary goal of creating value for its shareholders, customers, employees and local communities at large.
In 2018 the Board of Directors continued to steer the institution's operations towards a primary focus on shareholders. Shareholders are of central importance since they are also customers of the Bank. The twofold role of shareholder and customer is an advantage that emphasises the bond of trust and strengthens the mutual orientation of commercial initiatives.
Article 3, paragraph 3, of the Articles of Association expressly states that "in accordance with its institutional goals, the Company shall provide its shareholder-customers with access to specific services under privileged conditions, just as it shall give preference to its shareholders in issuing loans, all other conditions being equal."

Putting the concept of the mutual nature of a cooperative bank into practice is just one of the goals of the initiatives designed to benefit shareholders. The other aims pursued by these initiatives are:

- ✓ putting a more concrete value on being a shareholder as well as a customer of Banca di Cividale, through tangible benefits;
- ✓ improving the sense of being a part of the shareholder structure;
- ✓ expanding the social foundation in the Bank's local community, in view of increased loyalty.

During 2018, the Bank continued to pursue the principles and objectives enunciated above by offering shareholders financial and banking products at better economic conditions than standard terms. The advantages offered to shareholders include:

- ✓ special conditions for fees for registration in the shareholder register;
- ✓ special conditions for the custody and administration of the Bank's shares;
- ✓ special conditions for loans to consumer shareholders;
- ✓ special conditions for the CiviPrestito Scuola & Sport children's educational programmes;
- ✓ special conditions for home mortgage loans for consumer shareholders.

In 2018, two additional initiatives were added to these benefits, updated annually:

- ✓ ECOprestito Bike: the consumer credit programme in which Banca di Cividale contributes to the implementation of initiatives aimed at energy-savings and overall improvement in the quality of the environment and local community by promoting bicycle purchase and use among its customers. ECOprestito Bike 2018 provided the Bank's shareholders with access to more favourable economic conditions than offered to ordinary customers. In addition, for the duration of the 2018 Giro d'Italia, the Bank's shareholders were also eligible for financing without the application of interest or fees.
- ✓ Pension Fund Scholarships: in 2018 the Bank set aside a maximum of €30,000 for the award of 40 scholarships to particularly meritorious student shareholders and children of shareholders, to be allocated to the creation of a position with the Arca Previdenza Pension Fund with the aim of promoting investment education and contributing to the development of a culture of retirement saving among young people and their families, in addition to rewarding deserving students. During the year, 19 pension fund scholarship applications were received and 17 scholarships were awarded, according to the rules of the scholarship programme, for total scholarship funds provided of €17,500.
- ✓ Student loans: with the aim of investing in the education and training of young shareholders and children of shareholders, in 2018 the Bank approved loans of up to €15 thousand subject to special terms to cover the costs of participating in undergraduate or postgraduate master's degree courses.

In addition to existing initiatives and offers tied to the Bank's products and services, shareholders are able to obtain a large number of products and services offered by members of the local community under special conditions: shopping, dining, travel, well-being, health, cars, leisure time and much more. In order to qualify for such discounts, shareholders merely need to display their personal BPC Club cards to participating merchants (a full list of participating merchants is available from the dedicated website, soci.civibank.it.).

Yet it is not only initiatives aimed at shareholders that bear witness to the Bank’s pursuit of the mutual objectives envisaged in its Articles of Association. The focus on the local community’s needs is borne out by a number of initiatives aimed at providing social, cultural, athletic, solidarity and environmental support. Most such initiatives contribute to the lives of hundreds of entities and associations spread throughout the territory, giving rise to intense activity with an important effect on local communities.

Main aspects of commercial activity

Commercial and marketing policy

In 2018 the Bank continued to implement its commercial policy, involving initiatives aimed at helping bank branches reach their targets within the framework of direct, transparent relations with their customers.

The Bank also restyled its products and services portfolio effectively, while also launching new products, frequently updating their terms over the year in line with market developments.

The initiatives carried to completion during the year allowed the Bank to strengthen its customer relations, through intense cross-selling and customer loyalty programmes, while also increasing the number of the Bank's customers through promotional activities geared to specific customer targets.

Products and services for individuals and families
The Bank’s line of products and services for individuals and families can be divided into four general areas: payment and services, credit, personal and wealth protection and savings and investment.

Payment and service products
The Bank’s diversified range of current account solutions, aimed at satisfying customers’ specific needs, continued to contribute to increasing the number of new customers who decided to choose our Bank. The number of active bank accounts rose by over 2,500, giving rise to a 3% increase in the Bank's customers.
Customers also continued to make increasing use of the Bank's online information and transaction services, securely, 24 hours a day, from home or various mobile devices (PCs, tablets and smartphones). At the end of the year, there were over 43,000 active users of the various services (single-bank Internet banking and multi-bank CBI active and passive services), an increase of 8% on the previous year. In 2018 the security safeguards implemented continued to prove effective, as witnessed by the very modest level of fraudulent activity, due to non-compliance with basic security measures by certain users. The payment card segment continued to perform well in 2018. There are over 40,000 Bancomat® Maestro debit cards in issue (+5%), of which over 5,000 are already equipped with contactless technology, also available on the PagoBancomat® circuit with effect from 2018.
Total active Nexi credit and prepaid cards reached 28,000 (up by 9.4%), with growth driven by the CiviPay prepaid cards, distributed starting in the fourth quarter of 2017 and up by 33%.
Mobile payment services were launched in 2018, allowing all customers of the Bank who are holders of Nexi cards to make payments via their smartphones using the dedicated Google Pay and Samsung Pay apps for Android devices. Apple Pay is expected to be activated for iOS devices in early 2019, thereby bringing the Bank to fully operational status by covering the full range of the personal device market (for smartphones and smartwatches), to allow its customers to make payments without physically use of their cards. The number of POS terminals installed on merchants' premises reached 3,236, up by 4% on the previous year, with transaction volumes rising to €164.8 million (+19.6%).

Consumer credit
In 2018 the Bank continued to focus on maintaining credit offerings appropriate to the needs of households, primarily in order to ensure access to home ownership.
To support and facilitate access to home mortgage credit, customers meeting the requirements continued to make use of the Primary Residence Mortgage Guarantee Fund (Law No. 147/2013), which provides families with free government guarantees for home mortgage loans.
This programme, which is available nationwide, is in addition to the aid available in Friuli Venezia Giulia: subsidies for first home purchases, applications for which may also be submitted directly to the Bank's branches, and the Regional Residential Construction Guarantee Fund, which offers a guarantee for a portion of first home mortgage loans, also at no cost to the families benefiting from the measure.
Thanks to these guarantee schemes, the Bank continued to grant loans, frequently increasing the eligible credit limit up to 100% of the price of purchase or value of the property, thereby considerably facilitating access to homes for many families.
In order to aid families struggling to make their mortgage payments, the Bank also continued with policies aimed at facilitating mortgage renegotiation, including through the suspension of repayment of the principal portion of instalments for up to twelve months, and/or extension of loan terms, with reduction of the repayment commitment.
This policy is implemented both within the framework of nationwide banking industry initiatives and through measures designed in response to specific, justified individual situations.
In the personal loan segment, commercial offerings were characterised by the launch of a new line of products, Civiprestito, and a revamping of credit products intended for energy saving initiatives and improving the energy efficiency of buildings, under the name Ecoprestito.
In 2018 the volume of mortgage loans issued for home purchases or renovations to consumer households stood at €142.6 million. The total personal loans issued in 2018 amounted to approximately €19.4 million, in addition to the volumes of new loans to households disbursed in collaboration with Deutsche Bank and Agos of €14.7 million, bringing the total consumer credit granted to local families to €34.1 million.

Individual and wealth protection products
In 2018 a productive collaborative relationship was formed with the Swiss insurance group Helvetia in the non-life bancassurance business, alongside the distribution of the products of the Trento-based ITAS Group.

The new products strengthened the focus on individual and wealth protection, primarily involving protection for borrowers against serious external events (death, disability or loss of employment) that could jeopardise their ability to meet their obligations to repay mortgage and other loans. The total premiums collected in 2018 amounted to €3.7 million.

Loans to businesses

In 2018 initiatives aimed at facilitating access to credit by small and medium enterprises continued in order to mitigate the negative effects of the economic cycle and support the economic recovery.

The Department’s offices continued to provide technical advice and support to the distribution network in order to facilitate and encourage the completion of the various lending procedures.

Mention should be made of the commencement of direct operations with the SME Guarantee Fund (Law No. 662/1996), which facilitates access to credit for SMEs through public guarantees, with costs borne by the Bank, resulting in the granting of new loans to businesses of €12 million. Further support for credit was provided by collaboration with the guarantee consortia system. New loans disbursed thanks to guarantees provided by the guarantee consortia for Friuli Venezia Giulia and Veneto came to approximately €68 million.

The agreement with the European Investment Bank (EIB) allowed additional resources a total of €20 million to be obtained, used to provide financing to SMEs at competitive interest rates, thanks to the financial advantage conferred by the EIB.

The Bank's enhanced efforts to promote the various subsidised credit instruments made available by the region of Friuli Venezia Giulia yielded significant results, bringing additional public resources directly into various sectors of the economy.

The primary sector benefited from a total of €10 million disbursed drawing on the revolving funds for agriculture pursuant to Regional Law No. 80/1982. The new agreement that also allows subsidised loans to be granted drawing on FEASR Community funds became operational during the year, thereby expanding the resources available to businesses to undertake new investments.

Subsidised lending to industry, artisans, commerce and services showed a significant rise in the flow of new loans. In management of the resources of the Revolving Fund for Economic Initiatives (FRIE) and the Fund for the Development of SMEs and Services, the Bank submitted a total applications for new loans of €113 million, representing a significant share of the total at the regional level.

Savings and investment products

Investment products experienced an uneven year in 2018 due to financial market volatility. After three positive quarters, the exaggerated fears of an imminent global recession undermined investors' convictions and created disorder on equity markets, resulting in significant bear markets. Not even bond markets were immune to this negativity, owing to the negative impact of the constant rate increases by the U.S. Federal Reserve. Within this adverse market scenario, the Bank's commercial activity was particularly incisive in the mutual funds segment, which saw an increase in assets of over €70 million, accompanied by a significant negative price effect, which considerably reduced the year-end performance. The bancassurance segment grew (+12.8%), as a further sign of the constant search for safety on the part of customers. The range of deposit accounts continued to meet with strong approval in terms of selection by customers, in confirmation of its conservative orientation focused on seeking liquidity and security. Overall, the funds raised through these instruments that combine security with high return levels reached €389 million, up by more than 30%.

The development of the direct channel was particularly significant: ContoGreen, a deposit account reserved solely for online banking customers, primarily concentrated in major Italian metropolitan areas, reached total deposits of €99 million, up by 50% on the previous year. Deposit-taking business with German customers, launched in 2018 with the fintech firm Raisin, yielded additional volumes of €56 million.

The fourth quarter of the year saw the creation of the CiviBanker network and expansion of the CiviPrivate network. These networks consist of specialised employees tasked with managing and developing customer relationships take full advantage of important development opportunities in the asset management and bancassurance businesses.

Changes in the organisational structure and procedures

In 2018 the entire organisation was committed to completing the implementation of the new operating processes introduced following the migration of IT services to the outsourcer Cse Consorzio Servizi Bancari Soc. Cons. a r.l. on 9 October 2017.

The procedure involved an analysis of the areas with a need for integration between the processes in place prior to the migration and the new IT applications in support of the activity of both the network and head office. This activity made it possible to identify the changes to be made at the various levels in order to ensure an overall increase in process performance efficiency. Significant attention was devoted to the new features of the European PSD2 regulations, at the level of both operations and internal policies and procedures. In addition, user-facing technological solutions continued to be revamped, a process that included the installation of several advanced ATMs and TCRs (teller cash recyclers), which permit users to perform various actions involving their accounts independently, outside of normal branch business hours.

Significant events during the year

The following is an account of the most important events that shaped the Bank's operations in 2018, in chronological and logical sequence.

Approval of the new organisational structure

In order to increase the operational efficiency and simplicity of the chain of command of the head office's organisational structure, the Bank revised its organisation chart, redistributing managerial responsibilities as part of its ongoing process of comprehensive transformation. Pending the complete migration of IT systems, operating processes continue according to the current configuration. The provisions of the set of existing internal regulations and circulars also remain in effect, along with the resulting operating powers.

Company name change

By resolution of an extraordinary session of its shareholders' meeting on 28 April 2018, Banca Popolare di Cividale S.c.p.A. changed its name to Banca di Cividale S.c.p.A. ("Civibank" in short form).

Subsequent events

2019-2022 Strategic Plan

The new 2019-2022 Strategic Plan, which allows answers to be given to the questions set out in the EBA guidelines for defining the business model, was approved in March. The Strategic Plan's mission will be to remain independent and serve as a key partner to the households and businesses of the Friuli Venezia Giulia and Veneto regions in order to promote social, economic and cultural growth in the local community. In order to achieve these goals, the Bank has developed a strategy based on ambitious, yet feasible guidelines with the following key pillars:

- ✓ robust growth of the financial support provided to the households and entrepreneurs of the Friuli Venezia Giulia and Veneto regions, with a focus on expansion in the latter region in particular, where there is a strong need for a local bank;
- ✓ continuing growth in the bancassurance sector, where the Bank already showed considerable aptitude in 2018, and faster growth in Wealth Management, bringing the Civibank and CiviBanker network launched in the fourth quarter of 2018 to its full potential;
- ✓ a thorough revamping of processes in order to improve operating efficiency and the overall experience offered to customers;
- ✓ further anticipation of the NPL strategy with respect to the timeline already included in the plan agreed with the supervisory authority;
- ✓ investment in the training of human resources and significant investments in digitalisation.

Over the plan period, the Bank aims to achieve a sharp increase in its net income, ROE and capital ratios. The planned cost-cutting will also contribute to improving the cost/income ratio.

Recapitalisation
In order to achieve the ambitious growth objectives, the new Strategic Plan calls for a recapitalisation to be carried out by amending the Articles of Association to grant the Board of Directors the authority to undertake a capital increase of up to €65 million, in addition to the award of free warrants to the current shareholders.

With the exception of the foregoing, from the end of 2018 to the date of approval of this report there were no material events of a sort that would have a significant effect on either the financial performance and financial position of the Company or the representation thereof.

Operating performance in 2018

Analysis of main balance sheet aggregates and earnings results

In order to provide a more effective presentation of earnings results, in the reclassified balance sheet and income statement certain restatements have been applied with respect to the accounting schedules (the details of which are presented at the foot of each reclassified table).

Reclassified balance sheet

For the purposes of this financial report, amounts payable to institutional counterparties (Cassa Compensazione e Garanzia) have been reclassified from "Due to customers" to "Due to banks" (a total of €254,443 thousand at 31.12.2018 and €291,580 thousand in the comparative period).

With effect from 1 January 2018 the classification, measurement, impairment and hedge accounting treatment of financial instruments are governed by the accounting standard IFRS 9, which has replaced the accounting standard IAS 39. As expressly permitted (IFRS 9, par. 07/02/2015), Civibank opted not to restate the comparative figures in its financial statements of first-time adoption of IFRS 9. The comparative figures from 2017 have therefore been reclassified to the line items included in the new official presentation schemes set out in Circular 262, without any changes to the relevant values.

ASSETS	31/12/2018	31/12/2017	Change %	01/01/2018
Cash and cash equivalents	29,747	23,944	24.2%	23,944
Financial assets measured at fair value through profit or loss	29,710	36,577	-18.8%	36,577
Due from banks	-	-	-	
Loans to customers	*14,156*	*14,269*	*-0.8%*	*14,269*
Other financial assets	*15,554*	*22,308*	*-30.3%*	*22,308*
Financial assets measured at fair value through other comprehensive income	318,469	353,549	-9.9%	353,549
Due from banks	-	-	-	-
Loans to customers	-	-	-	-
Other financial assets	*318,469*	*353,549*	*-9.9%*	*353,549*
Financial assets measured at amortised cost	3,290,966	3,269,003	0.7%	3,229,056
Due from banks	*53,774*	*33,327*	*61.4%*	*33,327*
Loans to customers	*2,658,871*	*2,609,960*	*1.9%*	*2,576,220*
Other financial assets	*578,320*	*625,716*	*-7.6%*	*619,509*
Investments in associates and companies subject to joint	3,769	3,780	-0.3%	3,780
Property, plant and equipment and intangible assets	76,612	81,531	-6.0%	81,531
- of which goodwill	-	*2,190*	*-100.0%*	*2,190*
Tax assets	74,706	73,564	1.6%	84,775
Other assets	55,416	61,981	-10.6%	61,981
Total assets	**3,879,397**	**3,903,929**	**-0.6%**	**3,875,194**

LIABILITIES	31/12/2018	31/12/2017	Change %	01/01/2018
Financial liabilities measured at amortised cost	3,507,783	3,528,117	-0.6%	3,528,117
Due to banks	*928,844*	*965,700*	*-3.8%*	*674,119*
Due to customers	*2,509,157*	*2,417,422*	*3.8%*	*2,709,002*
Securities issued	*69,782*	*144,996*	*-51.9%*	*144,996*
Financial liabilities held for trading	168	765	-78.1%	765
Tax liabilities	3,544	5,148	-31.2%	3,337
Other liabilities	81,292	60,950	33.4%	61,678
Specific provisions (1)	12,591	7,395	70.3%	7,395
Shareholders' equity (2)	274,018	301,553	-9.1%	273,901
Total liabilities	**3,879,397**	**3,903,929**	**-0.6%**	**3,875,194**

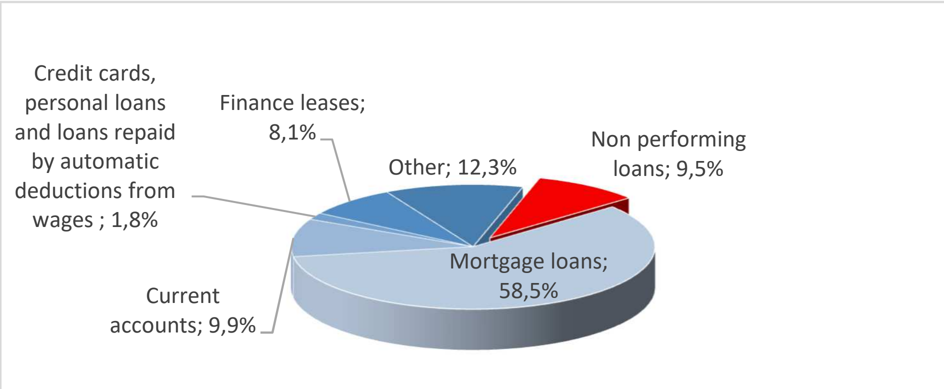
(1) The aggregates include captions "90. Employee termination benefits" and "100. Provisions for risks and charges";
(2) The aggregate includes captions "110. Valuation reserves," "130. Equity instruments," "140. Reserves," "150. Share premium," "160. Share capital", "170. Treasury shares" and "180. Net income (loss) for the year".

Loans to customers

At 31 December 2018 loans to customers amounted to €2,673,027 thousand, up by 3.2% compared with 1 January 2018 (inclusive of the reclassifications and adjustments applied during FTA of IFRS 9) of €2,590,489 thousand. Performing loans increased by 5.3%. During the year, total new disbursements exceeded €531 million. New loans to individuals and households for the year reached €162 million (+7.9% on the previous year), whereas new loans to businesses climbed to €369 million (+48.8% on 2017).

Breakdown of loans to customers measured at amortised cost - figures in thousands of euros

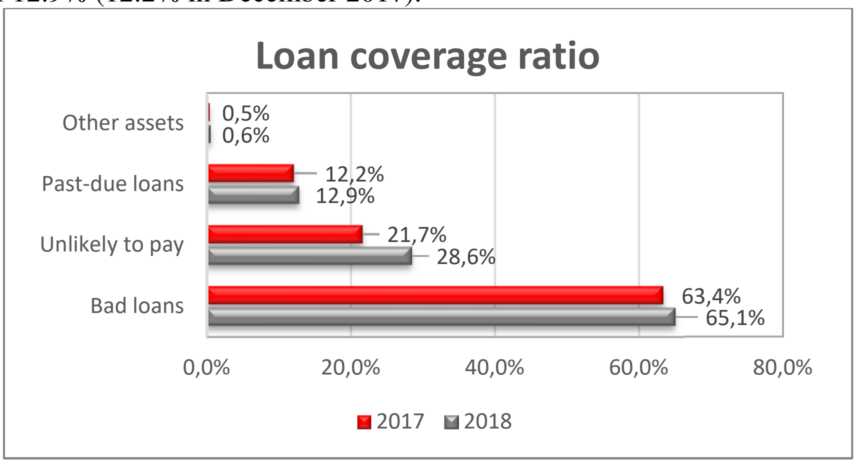
(thousands of euro)	31/12/2018	31/12/2017	Change %
Current accounts	261.946	286.888	-8,7%
Mortgage loans	1.556.421	1.480.056	5,2%
Credit cards, personal loans and loans repaid by automatic c	47.067	47.980	-1,9%
Finance leases	214.960	195.360	10,0%
Other	326.814	261.490	25,0%
Total performing loans	**2.407.208**	**2.271.774**	**6,0%**
Bad debts	111.235	161.448	-31,1%
Unlikely to pay	126.699	162.150	-21,9%
Past-due loans	13.729	14.587	-5,9%
Total non performing loans	**251.663**	**338.185**	**-25,6%**
Total loans	**2.658.871**	**2.609.960**	**1,9%**



Quality of customer loans - breakdown

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Hedging	Net exposure	Hedging
				31/12/18	31/12/18	31/12/17	31/12/17
A.1 Banca Popolare di Cividale Scpa							
Bad loans	318,585	207,350		111,235	65.1%	161,448	63.4%
Unlikely to pay	178,660	51,014		127,646	28.6%	162,150	21.7%
Past-due loans	15,760	2,031		13,729	12.9%	14,587	12.2%
Other assets	2,435,624	X	15,207	2,420,417	0.62%	2,285,990	0.5%
TOTAL A.1	**2,948,629**	**260,395**	**15,207**	**2,673,027**	**9.3%**	**2,624,176**	**11.4%**

At the end of the period, non-performing exposures (NPEs), net of adjustments, amounted to €252,610 thousand, **down by 25.3%** on December 2017, with a coverage ratio of 50.8%. In detail, net non-performing exposures were €111,235 thousand, a **decrease of 31.1%** compared to December 2017, with a coverage ratio of 65.1% (63.4% in December 2017). Unlikely to pay exposures stood at €127,646 thousand, a **reduction of 21.3%** with respect to the end of the previous year, resulting in a coverage ratio of 28.6% (21.7% in December 2017), whereas past due exposures were €13,729 million (**down by 5.9%** compared to December 2017), with a coverage ratio of 12.9% (12.2% in December 2017).



Customer funding

Direct and indirect funding reached €3,608,035 thousand at the end of 2018, up slightly (+0.6%) on the previous year.

	31/12/2018	31/12/2017	Change	Change %
Direct funding	**2,578,939**	**2,562,417**	**16,522**	**0.6%**
Due to customers	2,509,157	2,417,422	91,736	3.8%
Debt securities issued	69,782	144,996	(75,213)	-51.9%
Indirect funding:	**1,029,095**	**1,023,149**	**5,946**	**0.6%**
Assets under administration	216,817	213,200	3,617	1.7%
Assets under management	812,278	809,949	2,329	0.3%
Total funding	**3,608,035**	**3,585,566**	**22,468**	**0.6%**

Direct funding

Direct funding from the Bank's customers comprises item 10.b “Due to customers” and item 10.c “Debt securities issued” on the liabilities side. At year-end, the aggregate amounted to €2,578,939 thousand, up by 0.6% compared to 31 December 2017.

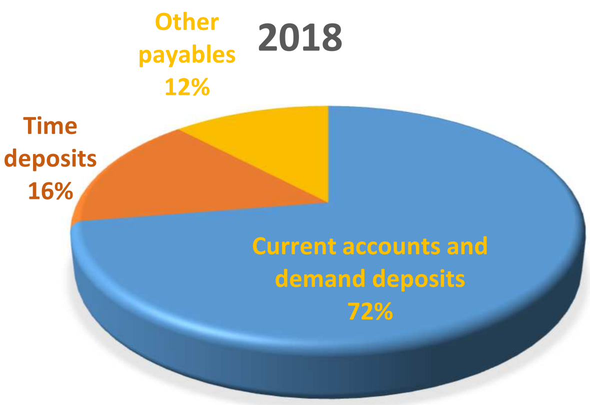
Direct funding from customers – figures at 31 December 2018 in thousands of euros

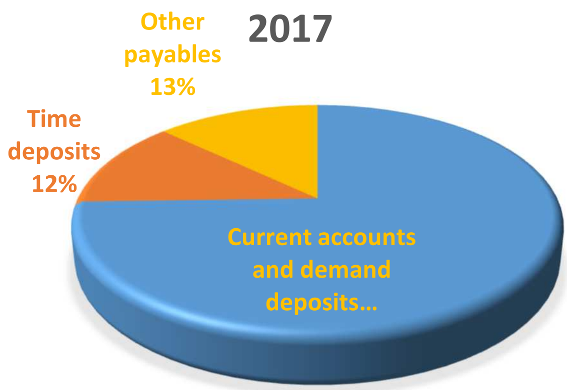
	31/12/2018	31/12/2017	Change	Change %
Direct funding	**2,578,939**	**2,562,417**	**16,522**	**0.6%**
Due to customers	2,509,157	2,417,422	91,736	3.8%
Debt securities issued	69,782	144,996	(75,213)	-51.9%

The aggregate may be broken down into “Debt securities issued” (2.7%) and “Due to customers” (the remaining 97.3%). The decline in the bond component to around half the level of the previous year was more than offset by the increase in term deposits, as shown in the following table.

Breakdown of “Due to customers” in thousands of euros

Breakdown	31/12/2018	31/12/2017	%
Current accounts and demand deposits	1,817,469	1,802,007	0.9%
Time deposits	390,126	301,816	29.3%
Other payables	301,561	313,598	-3.8%
Total	**2,509,157**	**2,417,422**	3.8%





Breakdown of “Debt securities issued” in thousands of euros

Breakdown	31/12/2018	31/12/2017	%
Bonds	69,654	131,945	-47.2%
Other	128	13,050	-99.0%
Total	**69,782**	**144,996**	-51.9%

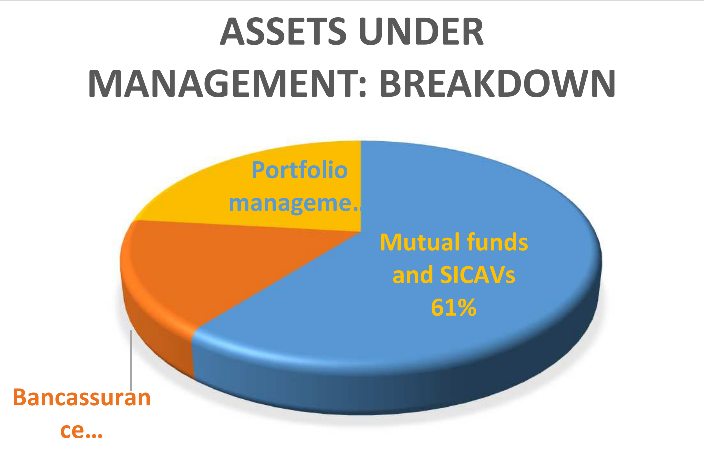
Indirect funding and asset management

Indirect funding, which comprises assets under management and administration, came to €1,029,095 thousand at the end of 2018, an increase of 0.6%.

Indirect funding from customers – figures at 31 December 2018 in thousands of euros

	31/12/2018	31/12/2017	Change	Change %
Indirect funding:	**1.029.095**	**1.023.149**	**5.946**	**0,6%**
Assets under administration	216.817	213.200	**3.617**	1,7%
Assets under management	812.278	809.949	**2.329**	0,3%

An analysis of the components of indirect funding shows that assets under management came to €812,278 thousand at 31 December 2018, essentially unchanged from the previous year. This aggregate, which consists of mutual funds and SICAVs (open-end investment companies), bancassurance products and the securities - and funds-based portfolio management schemes operated by the Bank, accounted for 78.9% of total indirect funding at the end of 2018.



The largest increase is to be attributed to the mutual funds and SICAVs (open-end investment companies) component, which rose by €23,589 thousand (+5.0%), whereas bancassurance products grew by 6.3%, reaching €131,630 thousand.

Assets under administration increased by 1.7%, or €3,617 thousand, compared to the previous year.

Interbank market activities
At 31 December 2018, the Bank's funding and lending activity on the interbank market had resulted in a net debt position of €845,322 thousand (compared to a net debt position of €908,429 thousand at 31 December 2017).

Interbank position	31/12/2018	31/12/2017	Assolute	Change %
Cash and cash equivalents	29,747	23,944	5,803	24.2%
Loans to banks	53,774	33,327	20,447	61.4%
Due to banks	(928,844)	(965,700)	36,856	-3.8%
NET INTERBANK POSITION	**(845,322)**	**(908,429)**	**63,106**	**-6.9%**

TLTRO II – Targeted Longer Term Refinancing Operations
At 31 December 2018 ECB funding operations, consisting solely of TLTRO II financing, amounted to €555 million. For each TLTRO II operation, which has a fixed maturity of four years from disbursement (on the basis of four quarterly auctions starting in June 2016), the benchmark rate is -0.4%. In the 2018 financial statements, the interest accrued on the above liabilities totalled €2.2 million. Despite referring to financial liabilities, this interest has been recognised in the income statement among "Interest income".

Finance
Management of the Bank's liquidity and proprietary securities portfolio is entrusted to the Finance Service, which follows guidelines laid down by the Assets and Liabilities Committee (ALCO). According to the ALCO’s directives, the Bank’s proprietary securities portfolios are managed in close coordination with local funding and lending trends. The ALCO’s periodic reports on the securities portfolio and liquidity, which are normally provided on a monthly basis, or whenever circumstances arise that may have a significant impact on the strategies in place, ensure that the performance, risk profile, risks and development guidelines for financial asset and liability management are constantly monitored.

Held-to-collect (HTC) portfolio
At year-end the HTC portfolio amounted to €578 million and consisted primarily of government bonds, with a residual share of corporate bonds measured at amortised cost.

Held-to-collect-and-sell (HTCS) portfolio
At year-end the HTCS portfolio amounted to €286 million and consisted of government bonds, with a residual share of corporate bonds measured at amortised cost.

Held-to-sell (HTS) portfolio
At year-end the HTS portfolio amounted to €146 thousand measured at fair value.

Other comprehensive income (OCI) portfolio
At year-end the OCI portfolio amounted to €15 million measured at fair value and consisted primarily of shares of CIUs. This portfolio is in addition to the portfolio of equity interests that do not constitute control, joint control or significant interests of €33 million.

Exposure to sovereign credit risk
Following the growing interest by the market in exposures held by companies in sovereign debt securities, and as recommended by the European Securities and Markets Authority (ESMA) in document no. 2011/226, below is a breakdown of exposures of this nature held by Banca di Cividale as at 31 December 2018. As indicated in the ESMA document, “sovereign debt” is understood to mean bonds issued by central and local governments and governmental entities, as well as loans disbursed to such entities.
The following tables present the Bank's exposure to sovereign credit risk by carrying amount, broken down by type of instrument.

Exposure to sovereign debt - book value	Italy	US	UK
Financial assets measured at fair value through profit or loss	-	-	-
a) financial assets held for trading	-	-	-
Financial assets measured at fair value through other comprehensive income	265,231	6,642	566
Financial assets measured at amortised cost	551,827	-	-
b) loans to customers	551,827	-	-
Total	817,058	6,642	566

Liquidity and the proprietary securities portfolio

In late 2018 the global economy showed the first signs of the slowing of the economic cycle, followed by downwards revisions of the estimates for 2019. This was the backdrop for a phase of renewed weakness for Italian government bonds, which were subject to particular pressure as a result of the approval procedure for the 2019 budget law.

Despite this scenario, the proprietary portfolio reached the targets planned for the year, providing an important contribution to both net interest income and operating revenues. The exposure to interest rate risk was further reduced; the portfolio had an average duration of 1.95 years.

A further increase in the CIVITAS 3 – RMBS securitisation programme was completed in April through the sale to the vehicle of an additional portfolio of performing loans for repackaging as RMBSs. This permitted an increase in the level of senior ECB-eligible bonds, and thus an improvement of the Bank's liquidity profile.

At 31 December 2018 liquidity reserves eligible for refinancing operations with the European Central Bank amounted to €830 million, with one-month net liquidity reserves of €336 million and a liquidity coverage ratio significantly above the regulatory limits. Refinancing with the European Central Bank is represented solely by participation in the TLTRO II auctions.

Property, plant and equipment and intangible assets

Property, plant and equipment amounted to €76,459 thousand, down by 3.5% compared with 31 December 2017. The details are set out below.

Used in operations	31/12/2018	31/12/2017	Change %
Land	4,933	4,933	0.0%
Buildings	60,163	61,876	-2.8%
Movables	3,661	3,919	-6.6%
Electrical plant	538	510	5.5%
Other	-	1	-100.0%
Totale Property and equipment used in operations	**69,295**	**71,239**	**-2.7%**
Investment property	-	-	-
Land	2,770	2,770	0.0%
Total investment property	**2,770**	**2,770**	**0.0%**
Total	**72,065**	**74,009**	**-2.6%**

The intangible assets on the books as at 31 December 2018 amounted to €153 thousand, compared with €2,314 thousand as at 31 December 2017. The change was primarily due to goodwill.
The impairment test conducted on the goodwill carried in the balance sheet showed a need to write down goodwill in full by €2,190 thousand. The grounds for the aforementioned impairment loss have to do with more conservative assumptions regarding the projected macroeconomic and industry scenario.

Provisions for risks

Other provisions for risks and charges are accrued to account for current obligations resulting from past events that are considered likely to require an outlay of economic resources in order to discharge the obligation. For a detailed examination of the changes during the year, refer to the specific paragraph of the notes.

Shareholders' equity and capital adequacy

As at year-end, shareholders' equity, including the net income for the year, amounted to €274,018 thousand.
Own funds – a breakdown of which is provided in Chapter F of the notes to the financial statements, along with additional information on capital – came to €292,050 thousand as at 31 December 2018.
The level of own funds ensures compliance with capital requirements under applicable regulations. Risk-weighted assets stood at €2,152,267 thousand.
Capital ratios were as follows:

- ✓ the phased-in **Common Equity Tier 1 ratio** was 13.37% (13.10% at 31/12/2017);
- ✓ the phased-in **Tier 1 ratio** was 13.37% (13.10% at 31/12/2017);
- ✓ the phased-in **Total Capital ratio** was 13.57% (13.55% at 31/12/2017).

The above ratios exceed the minimum levels set by the supervisory authority for Banca di Cividale during the SREP process. The process for 2018 was launched by notice dated 19 February 2018 and has yet to be concluded. Accordingly, the previous communication was taken into account.

Financial performance

The results for the period are illustrated below in condensed, reclassified form, according to the presentation criteria deemed best suited to representing the Bank's operating performance. The aggregations and reclassifications applied with respect to the items of the tables envisaged in Bank of Italy Circular No. 262/05 are detailed in the notes to the tables.

RECLASSIFIED INCOME STATEMENT	31/12/2018	31/12/2017	Change %
Net interest income	60,430	62,839	-3.8%
Net commissions	30,022	29,016	3.5%
Dividends	10,538	733	1336.9%
Net trading income	(739)	10,262	-107.2%
Other operating income (expenses) (3)	657	1,043	-37.0%
Operating income	**100,907**	**103,894**	**-2.9%**
Personnel expenses	(41,157)	(41,194)	-0.1%
Other administrative expenses (1)	(20,060)	(26,119)	-23.2%
Net impairment/write backs on property, plant and equipment and intangible assets (2)	(2,705)	(2,370)	14.1%
Operating cost	**(63,922)**	**(69,683)**	**-8.3%**
Income (loss) from operating	**36,985**	**34,211**	**8.1%**
Charges/write-backs on impairment of loans	(24,036)	(23,521)	2.2%
Charges/write-backs on impairment of other financial assets	(1,030)	(2,572)	-60.0%
Goodwill impairment	(2,190)	(1,606)	36.4%
Profit (loss) on disposal of investments	67	-	-
Net provisions for risks and charges	(5,653)	141	-4116.9%
Income (loss) before tax from continuing operations	**4,144**	**6,653**	**-37.7%**
Tax on income from continuing operations	367	(2,709)	-113.6%
Levies and other charges concerning the banking industry after tax	(2,468)	(3,191)	-22.7%
Net income	**2,043**	**753**	**171.2%**

(1) Other administrative expenses include recoveries of taxes and duties and other recoveries recognised under "200. Other operating income/expenses" (€7,383 thousand in 2018 and €7,426 thousand in 2017);

(2) Net adjustments to property, plant and equipment and intangible assets include items "180. Charges/write-backs on impairment of property, plant and equipment" and "190. Charges/write-backs on impairment of intangible assets."

(3) Other income and expenses correspond to operating income/expenses net of the reclassifications presented above.

Net interest income came to €60,430 thousand, down by 3.8% on 2017. The figure was affected by the classification to interest income of the positive reversal effect of the recoveries due to discounting of non-performing positions, which previously had been recorded among net impairment on loans. Net of such reclassifications, which amounted to net recoveries of €2,583 thousand, net interest income would have come to €57,847 thousand, compared with €59,959 thousand in 2017.

Net commission income amounted to €30,022 thousand, up by 3.5% compared to December 2017. The increase was mainly due to the component relating to the distribution of insurance products and payment services. There was a decline in the credit brokerage component and securities trading and brokerage services.

Dividends and similar income amounted to €10,538 thousand, up from €733 thousand in 2017, due to an extraordinary dividend of €10,062 thousand collected in the fourth quarter of 2018.

The net trading loss was €739 thousand. In particular, trading performance includes a profit of €564 thousand, net realised gains on assets designated at fair value through other comprehensive income of €569 thousand, down from €5,799 thousand in 2017, a net loss of €823 thousand on the sale of assets measured at amortised cost and a net loss of €1,160 thousand on financial assets mandatorily designated at fair value.

Operating expenses came to €63,922 thousand, down by 8.3% compared to 2017. Personnel expenses were essentially unchanged at €41,157 thousand, whereas other administrative expenses amounted to €20,060 thousand, down by 23.2% on December 2017. Net adjustments to property, plant and equipment and intangible assets came to €2,705 thousand.

Net adjustments for credit risk (also affected by the introduction of the accounting standard IFRS 9 and therefore not comparable with the 2017 figure) amounted to €24,036 thousand, with estimated credit risk at year-end of 90 basis points and a total coverage ratio for non-performing loans of 51%. **Net impairment losses on financial assets** amounted to €1,030 thousand and referred to impairment losses on HTC securities and other financial assets.

Net provisions for risks and charges of €5,653 thousand include €4,800 thousand intended to facilitate voluntary redundancies.

The results of impairment testing based on more conservative assumptions regarding the future course of the macroeconomic and industry scenario gave rise to the full impairment of all goodwill carried of €2,190 thousand.

Income before tax from continuing operations thus amounted to €4,144 thousand. Income taxes for the period amounted to a positive €367 thousand and include impacts of an extraordinary nature relating to the changes in the amounts of deferred tax assets (DTAs) relating to the full impairment of goodwill.

Net taxes and levies relating to the banking system (SRF-NRF) amounted to €2,468 thousand (€3,635 thousand gross of taxes).

The net income for the period thus amounted to €2,043 thousand.

Statement of cash flows

Performance of main items of the statement of cash flows

a) Financial assets held for trading (+€4,680 thousand); the change was due to the sale of government bonds and other securities;
b) Financial assets mandatorily designated at fair value (+€2,768 thousand); the change was chiefly due to updates to the fair values of CIUs.
c) Financial assets designated at fair value through other comprehensive income (+€35,070 thousand); the change was primarily due to the sale of bank securities;
d) Financial assets measured at amortised cost (-€45,404 thousand); the change was primarily due to the increase in loans to customers;
e) Financial liabilities measured at amortised cost (-€20,333 thousand); the change was due to the increase in current accounts and sight and term deposits, together with the redemption of bonds in issue;

Strategic management of the Bank's equity investments

Help Line S.p.A.
The company is part of the NEXI Group and functions as a contact centre. Help Line S.p.A. is the NEXI Group's contact centre and was created in 2010 as part of the larger project of integrating the members of the NEXI Group, from the merger of Società Help Phone S.r.l. and Si Call S.p.A. and the subsequent absorption of the Help Desk unit of CartaSi S.p.A. The company provides third parties with services based on the use of telephone and remote channels in the fields of customer support, debt recovery and telemarketing. Help Line S.p.A. manages inbound services (incoming telephone calls), outbound services (outgoing telephone calls), Web interactions (help via the Internet) and high value-added services (datawarehousing, back office, and fraud prevention).
The company's shareholders are NEXI, with a 70% interest, and Banca di Cividale, with a 30% interest.

ACILEASING Friuli Venezia Giulia S.p.A.

Following changes in the law, on 19 December 2012 Acileasing Friuli Venezia Giulia S.p.A., which had operated in the vehicle lease sector, resolved to dissolve and liquidate the company, which will carry the lease agreements in its portfolio to their natural maturities.

ACIRENT S.p.A.
The company operates in the short-term rental sector and holds the Herz L.t.d. licence for Friuli Venezia Giulia and part of eastern Veneto. Airport rental stations (Treviso and Ronchi dei Legionari) were both operated under an agency scheme, whereas city offices are operated under franchise arrangements (Udine, Trieste, Pordenone and Feltre). The company has 20 years of experience in managing fleets of vehicles intended for rental without drivers and also operates in the long-term lease sector for companies and individuals, in synergy with the operations of the ACU Group, from which it receives the technical and organisational support of the latter's facilities for managing fleets of vehicles intended for operational lease (garages, roadside assistance, logistical support, etc.).

CiviESCO SRL

CiviEsco is a non-capital intensive partnership launched in 2016 to support energy efficiency in the private and regional public sector through the formation of business networks. The company is wholly owned by Banca di Cividale.

Risk management and monitoring

Risk management
Banca di Cividale takes a particularly conservative approach to risk management, implemented within a specific organisational framework consisting of internal rules, operating procedures and control units, structured according to a model that integrates monitoring methods at various levels, all converging with the goals of ensuring the efficiency and effectiveness of operating processes, preserving the company's assets, protecting it from losses, ensuring the reliability and integrity of information and verifying the proper conduct of operations in accordance with internal and external regulations.
In accordance with supervisory regulations, the Bank has developed and standardised specific risk management processes broken down into various logical phases: determination of the risk appetite, assumption of risk, drafting of risk management and control policies, definition of limits, measurement of risk, monitoring and reporting, stress tests and critical situation management.
Risks are primarily identified and their significance assessed within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), which in accordance with prudential regulations relate to what are known as "first and second pillar obligations". The significance of the risks to be assessed is determined by considering both supervisory regulations and specific company considerations such as the products and services offered to customers, the scope and characteristics of business with associated parties in respect of company operations, the volumes of financial aggregates and the corresponding capital requirements, the markets of reference and vulnerability to the economic situation.
The risk appetite, an important parameter to be referred to in drawing up the strategic plan and a logical foundation for planning, is determined for the Bank's significant risks when defining the Risk Appetite

Framework (RAF), in a manner that takes account of existing prudential rules, the business model adopted, the Bank's core funding and lending methods and the ability of control units to monitor and measure risks.
With regard to the Risk Appetite Framework (RAF), an outline has been prepared and introduced, including a definition, in keeping with the risk appetite, of the business model, strategic plan and turnaround plan, risk appetite, tolerance thresholds, risk limits, risk governance policies and the processes of reference for setting and implementing such policies. The process of defining and periodically revising the RAF is carried out in conjunction with the Risk Management Function and the Management Planning and Control Function, which supports the general management during the phases of application review and preparation of proposals to be submitted for the approval of the Board of Directors. The process requires a high level of consistency and thorough reconciliation of the RAF, business model, strategic plan, ICAAP, ILAAP, recovery plan, budgets, company organisation and internal control system. The Board of Directors reviews the system of risk targets at least annually and then updates it, when the requirements for so doing have been met.
With effect from 2017, the Bank began to draft a condensed recovery plan, normally to be prepared every other year, according to the template provided by the supervisory authorities. A Recovery Plan (governed by the Bank Recovery and Resolution Directive, transposed into Italian law by Legislative Decree No. 180 of 16 November 2015) must be drafted by each intermediary. The Plan provides a detailed description of the procedures to be followed and tools created by the bank to prevent and resolve a possible crisis situation, whether systemic or idiosyncratic in nature, i.e. whether the crisis has internal origins and it is presumed its effects may remain limited to the bank and its most direct counterparties.
A clear identification of the risks to which Banca di Cividale is potentially exposed (the "risk map") represents the essential foundation for an informed assumption and effective management of such risks.

Considering the Bank's mission and operations, together with the market scenario in which it operates, the risks assessed as part of the ICAAP (Annex A, Part One, Title III, of Circular 285, “Supervisory Provisions for Banks”) have been identified as material, with the exception of several specific types deemed immaterial (country risk, transfer risk, basis risk and securitisation risk), in addition to compliance, real-estate and money-laundering risks and the risk associated with the share of restricted assets, which is included in the assessment of liquidity risk. Given the legislative changes brought on by Regulation (EU) No 679/2016 (the “GDPR”) in 2018, it was decided to explicitly state privacy risk, to be regarded as a subset of operational risk, like legal risk and IT risk – with both of which it is closely connected.

At 31 December 2018, the exposure to the various risks was consistent with the risk appetite defined by the Board of Directors and with risk assumption and management policies and compliant with management and regulatory limits.

Credit risk
In accordance with its mission and business model, the Bank is primarily exposed to credit risk. In January 2018, the Bank of Italy published its “Guidelines on NPL management for Italian less significant institutions”. These Guidelines are aimed at encouraging active management of NPLs by less-significant institutions (LSIs), in accordance with the policies adopted by the ECB for significant institutions, and in continuity with the supervisory activity conducted by the Bank of Italy to this point. The Guidelines stress the need for banks to implement a formal strategy designed to optimise NPL management and maximise the present value of recoveries. As part of this process, banks are asked to prepare – and update annually – an operational management plan for NPLs over the short term (indicatively one year) and the medium/long term (indicatively, three to five years), laying down the objectives for closing out positions and the measures to be taken to achieve those objectives.
Banca di Cividale presented its long-term plan for reducing its non-performing loans to the supervisory authority in March 2018 (followed by an update in September 2018), focusing primarily on internally managed recovery action. The goals set for 2018 were achieved, in keeping with the strategy formulated, resulting in a decline in the gross NPL ratio of five percentage points compared with the end of 2017, together with an increase in the coverage ratio for performing and non-performing loans, due in part to the first-time adoption of IFRS 9. The improvement in credit quality was also manifest at the level of a reduced rate of reclassification from performing to default status (annual default rates at their lowest levels of the past five years, also down on the figure for the previous year), as well as of a lesser incidence of performing loans classified to stage 2.

Concentration risk
Exposure to concentration risk, at the level of both individual counterparties and groups of customers related by business segment or geographical area, is consistent with the Bank's current targets for sustainable growth of its lending business.

Market risk (including sovereign risk)
The portfolios relating to the regulatory trading book and the associated market risk profile are modest in extent. The current composition of assets entails an exposure to sovereign risk related to the scope of the portfolio invested in Italian government securities and, to a lesser extent, in securities issued by banks, with approximately 63% of the proprietary portfolio's total exposure classified as hold-to-collect. The exposure to the Italian Republic at the annual level changed as a function of the size of the portfolio, declining compared with the previous year. Italian government securities remain exposed to the elements of volatility typical of the market. With respect to the interest rate risk and price risk associated with the securities in portfolio, the greatest risk is represented by a possible increase in short-term rates, which would entail a decline in net interest income. By contrast, a rise in medium-to-long term interest rates would result in a depreciation of the values of the portfolios and a decline in the unrealised component. This risk is mitigated by the relatively short duration of the Bank's proprietary portfolio (less than two years).

Operational risks (including IT risk)
Operational risk is inherent in banking business and is associated with all organisational and production processes. Consequently, all processes carried out by the Bank generate such risk. Operational risk may be defined as the risk of sustaining losses due to the inadequacy or improper functioning of procedures, human resources, internal systems, or to external events. Within the risk map adopted by the Bank, operational risk also includes legal operational risk, IT risk and privacy risk.
Exposure to operational risks remained essentially constant over the course of the year, in terms of both the number and type of events and the amount of the operating losses sustained. Exposure to IT risk is consistent with the Bank's strategic orientation.

Interest-rate risk
This is the risk associated with assets not held for trading, deriving from the possibility that a change in the rates on which the bank's assets and liabilities are indexed may result in an adverse effect on net interest income or the present value of assets and liabilities, and thus a decrease in the Bank's economic value.
Considering the interest rate levels witnessed during the year and the continuation of the European Central Bank's monetary policy, the Bank's exposure to instantaneous rate shocks remained at medium-low levels throughout the year.

Liquidity risk
The pursuit of a structural balance between loans to customers and the various forms of funding (known as the "funding gap") through the diversification of funding sources by maturity, form, counterparty and market remained a strategic objective of the Bank's funding policies in 2018. The Bank's liquidity remains at adequate levels: as at 31 December 2018, the Basel 3 regulatory ratios (LCR and NSFR), adopted as internal metrics for measuring liquidity risk, exceeded the supervisory requirements.
The process of assessing the adequacy of the Bank's liquidity profile also includes the risk associated with the level of encumbered assets ("asset encumbrance"), i.e. the risk that such assets may increase due to situations of significant tension, such as plausible, while improbable, shocks, including as regards the downgrading of the Bank's credit rating (where present), the write-down of collateral and increased margin requirements. The main transactions outstanding as at 31 December 2018 that entail the encumbrance of proprietary assets are funding operations with the ECB, in which the Bank also makes use of securities created through self-retained securitisation operations, repurchase agreements and funding transactions with the European Investment Bank (EIB).

Residual risk
Residual risk is the risk that the recognised techniques for mitigating credit risk used by the bank prove less effective than expected and is primarily generated by the credit process. Exposure to such risk in terms of "unexpected loss" stands at medium-low levels.

Reputational risk
During the year there were not found to be any elements that modified – or that might significantly modify in the near term – the positive perception of the Bank by the various groups of its stakeholders (customers, counterparties, shareholders, investors and supervisory authorities). The overall assessment of this type of risk is tied to the specific activity performed by the banking industry at large and the many potential processes capable of generating reputational risks, in the complex current general scenario, considering, inter alia, factors of uncertainty tied to the system and supervisory regulation.

Strategic risk
The Bank's exposure to strategic risk is moderate to high. This assessment is based in particular on factors external to the Bank (persistent low interest rates, a change in the business models adopted by the banking industry in pursuit of profitability; strong competition on virtual banking platforms; stringent capital and liquidity constraints imposed by regulators on the basis of banking risks, including in severe stress conditions; and constant regulatory changes that affect the bank's medium-to-long term strategies).

Associated party risk
Exposure to associated parties remained constant during the year and is fully consistent with the limits established by prudential regulations and company policies.

Securitisation risk
In reference to the risk associated with securitisation, the Bank has not undertaken any transfer of credit risk. Consequently, it is not exposed to the risk that "the economic substance of a transaction is not fully reflected in risk assessment and management decisions."

Property risk
The current or prospective risk of potential losses due to fluctuations in the value of the Bank’s proprietary real-estate portfolio, or to the reduction of the income generated by that portfolio, remains at stable levels compared with the previous year.

Excessive leverage risk
The leverage indicator falls within the range of values deemed normal at the company level and far exceeds the minimum level according to supervisory regulations.

Compliance risk
Exposure to compliance risk, in light of the increasing complexity of the regulatory framework and resulting obligations, is modest overall and consistent with the orientations expressed by company bodies.

Money-laundering risk

Given the objective significance of money-laundering risk and the increasing complexity of the legislative framework of reference and resulting obligations, the Bank has gradually enhanced its safeguards in terms of rules, organisational measures, procedures, applications and training. The risk management process is deemed adequate to the Bank's operational complexity and structure.

Appropriate risk policies have been adopted for the governance of the risks described above. The methods of supervision and organisational oversight of risks are established in the context of these policies through the definition of operating limits and/or management and control processes.

For a complete description of the organisational structure and operating procedures covering the various areas of risk and methods used to measure and prevent those risks, refer to Chapter E of the notes, Risks and hedging policies.

With regard to the third pillar public disclosure, the prudential supervisory provisions applicable to banks have been consolidated into Bank of Italy Circular 285 of 17 December 2013, the issuance of which is functional to application of Community regulations (the CRR, Regulation EU 575/2013, and the CRD IV, Directive 2013/36/EU) containing the reforms of the Basel Accord ("Basel 3"). The subject matter, as specifically mentioned in Part II, Chapter 13 of the above Circular, is governed directly by the CRR (Part Eight, Disclosure by Institutions, and Part Ten, Title I, Chapter 3) and by the regulations of the European Commission containing regulatory or implementing technical standards. In particular, as established in the CRR, banks must publish the required disclosures on at least an annual basis. The public disclosure documents, which essentially reflect the contents of the annual ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) are available from the Bank's website, www.civibank.it.

The internal control system
According to supervisory regulations, the internal control system is "the fundamental element of a bank's overall governance system. It ensures that company activity is in line with company strategies and policies and is guided by principles of sound and prudent management."
The Bank's Board of Directors plays a fundamental role in risk management, establishing strategic guidelines, approving risk management policies and assessing the degree of efficiency and adequacy of the internal control system, with particular regard to risk control.

For the preliminary and advisory phases of internal control and monitoring of company risk management, the Board of Directors relies on the internal Risk Committee, composed of a majority of independent directors. The Committee interfaces with the Bank's three control functions, whose work it analyses and whose adequacy it assesses.
The Board of Statutory Auditors also plays a central role, attending meetings of the Risk Committee and performing supervisory duties relating to the efficacy and adequacy of the risk management and control system, in addition to internal auditing of the functioning and adequacy of the overall internal control system.
As required by prudential supervisory regulations, the internal control system of a banking intermediary includes, in addition to line controls performed by operating units and incorporated into procedures (level-one controls), specific organisational units dedicated to level-two controls (Risk Management and Compliance) and level-three controls (Audit). These functions must be autonomous and independent of business units, instead reporting to the body charged with strategic supervision (the Board of Directors).
In particular, the three levels of control are as follows:

- ✓ line controls (level one): these are aimed at ensuring that transactions are executed properly; they are performed by production units themselves (for example, hierarchical type controls) and are incorporated into IT procedures and systems or are conducted in the context of back-office activity;
- ✓ level-two controls: these include risk management, compliance and anti-money laundering activity. They are aimed at ensuring, among other objectives:
  - ✓ the proper implementation of the risk management process;
  - ✓ the observance of the operating limits assigned to the various functions;
  - ✓ the compliance of company operations with laws and regulations, including self-imposed regulations.

  Level-two control functions are independent of assumption and management functions (production and management units). They contribute to defining risk governance policies and the risk management process;
- ✓ Level-three controls: this is internal auditing activity aimed at identifying anomalous performances and breaches of rules and procedures, as well as at assessing the functionality of the overall internal control system; it is conducted on an ongoing basis, with periodic frequency, or in exceptional cases, by units independent of production units, including through onsite inspections. This activity is performed by the Auditing function.

Disclosure required by joint Bank of Italy, ISVAP and CONSOB documents
In documents no. 4 of 3 March 2010 and no. 2 of 6 February 2009, national regulators called attention to the need to provide clear disclosure in the financial statements on some areas where a high degree of transparency is of the essence: the measurement of goodwill (impairment testing), other intangible assets with indefinite useful lives and equity investments; the measurement of available-for-sale equities; the contractual clauses of financial payables; information concerning the going-concern assumption; financial risks to which the enterprise is exposed; audits conducted of any indications that assets have become impaired; and uncertainty in the use of estimates.
The foregoing notices, which do not have independent regulatory force, but rather are limited to urging the proper application of current statutes and applicable accounting standards, then provide a detailed account of the disclosures to be furnished on debt restructurings and recall disclosure requirements concerning the fair value hierarchy.
In these financial statements, the disclosures relevant to Banca di Cividale are set out below in this report and in the notes, as part of the illustration of the various specific items.
With respect to the “going-concern” principle, which was the subject of a specific disclosure request in the 2008 financial statements (document no. 2 of February 2009), regulators have once again drawn the attention of all the parties involved in preparation of financial statements to the need to devote especial effort to the assessments relating to such assumption. In regard to the above, the Board of Directors reiterates that it is reasonably certain that the Bank will continue to operate profitably in the foreseeable future, and the 2018 financial statements have thus been prepared on a going-concern basis. It should further be noted that there is no basis for doubt on the specific issue of the going-concern principle in the Bank’s financial position or operating performance.
With respect to the disclosure concerning financial risks, such risks are analysed in the report on operations and in Chapter E of the notes, Risks and hedging policies.

In the course of preparing the year-end financial statements, the Bank punctually conducted reviews aimed at determining whether any of its assets had become impaired, with a specific focus on goodwill and other intangible assets, equity investments carried among assets and available-for-sale equity investments. A description of the methods used to carry out such tests and the results thereof is specifically illustrated in the notes, in which the discussion is divided by asset type.
A specific section has been prepared concerning uncertainty in the use of estimates in preparing the financial statements as part of the drafting process, namely Chapter A of the notes, Accounting policies, A.1 – General information.

Legal risks

Money-laundering (Legislative Decree No. 231/2007)

Responsibility for overseeing compliance with anti-money laundering legislation, in accordance with Bank of Italy rules governing the anti-money laundering organisation, procedures and internal controls, falls to the Anti-Money Laundering Office within the Compliance Service, the head of which has been placed in charge of the function in accordance with those rules.
The Anti-Money Laundering Function has the mission of preventing and combating transactions involving the laundering of money and financing for terrorism. To this end, it ensures that IT and organisational procedures are consistent with the objective of preventing and combating the breach of applicable laws and internal rules governing money-laundering. It also performs specific monitoring activity aimed at identifying any potentially suspect transactions.
The Anti-Money Laundering office sends Italy's Ministry of the Economy and Finance notices of breaches of rules governing the use of cash and bearer securities. It also responds to requests from the authorities concerning the reporting of suspect transactions to the Financial Information Office.
The head of the function, as the party delegated to report suspect transactions, conducts analysis, carries out preliminary investigation and sends reports of suspect transactions pursuant to Art. 35 of Legislative Decree No. 231/07.

Information concerning disputes

For detailed information concerning disputes, including disputes of a tax nature, and the main pending judicial actions, refer to Chapter E of the notes, Risks and hedging policies (Section 5 - Operational risks).

Administrative liability (Legislative Decree No. 231/2001)

In consideration of the provisions of Legislative Decree No. 231/01, the Bank adopted a specific Organisational Model, which was updated in 2015 to comply with the changes to the law.
That Model pursues the primary goal of setting up a well-organised, organic system of organisational and control principles and procedures suited to preventing or reducing the risk of the commission of the offences set forth in the Decree.
The Founding and Operational Rules govern the Supervisory Board's activity.
The Supervisory Board is entrusted with the task of supervising:

- ✓ the efficacy and adequacy of the Model in relation to the company's structure and its effective ability to prevent the commission of the Offences;
- ✓ compliance with the Model's prescriptions by corporate bodies, employees and other addressees, in the latter case also through the competent company units;
- ✓ the appropriateness of updating the Model, where it is found necessary to adjust it in connection with changes in company conditions and/or legislation; and
- ✓ the company's fulfilment of its obligations under applicable anti-money laundering legislation.

The supervision and control function identified in Legislative Decree No. 231/2001 has been assigned to the Board of Statutory Auditors, as indicated by the Bank of Italy.

Related-party transactions

The subject is governed by Article 2391-bis of the Italian Civil Code, according to which the administrative bodies of companies that have recourse to the risk capital market are required, in accordance with the general principles indicated by Consob, to adopt rules that ensure the "transparency and substantive and procedural propriety of related-party transactions" undertaken directly or through subsidiaries. The control body is required to supervise compliance with the rules adopted and review the matter in its report to the shareholders' meeting.

By resolution 17221 of 12 March 2010, exercising the authority delegated to it under Article 2391-bis of the Italian Civil Code, Consob approved the Regulations for Transactions with Related Parties (also referred to hereinafter as the "Consob Regulations"), subsequently amended by resolution 17389 of 23 June 2010, which lays down the general principles to be observed by companies that obtain funding from the risk-capital market when setting rules aimed at ensuring the transparency and substantive and procedural propriety of transactions with related parties.

In relation to its specific activity, the Bank is also subject to the provisions of Article 136 of the Consolidated Banking Act, as recently amended by Law 221/2012, governing the obligations of bank officers.

On 12 December 2011, the Bank of Italy published new supervisory rules governing risk assets and conflicts of interests within banks and banking groups in regard to "Associated Parties" (ninth update of Circular 263 of 27 December 2006, hereinafter the "Bank of Italy Rules"), in supplementation of the provisions of the Consob Regulation. The definition of Associated Parties includes not only related parties, as defined in the Consob Regulation, but also parties associated with such related parties, as identified in supervisory provisions. The new rules aim to prevent the risk that the proximity of certain parties to the Bank's decision-making centres may compromise the objectivity and impartiality of decisions relating to the granting of loans and other transactions with such parties, with possible distortions of the resource-allocation process, and are in addition to, and only partly overlap with, the other applicable provisions on the subject (Article 2391 of the Italian Civil Code, Article 136 of the Italian Consolidated Banking Act, the Consob Regulation and IAS 24).

In 2018 Banca di Cividale, in accordance with the combined provisions of the regulations cited above, adopted its Procedures for Transactions with Related Parties and Associated Parties (the "BPC RPT Procedures").

On 3 December 2014 the Board of Directors approved the document Dealings with Related Parties and Parties Identified Pursuant to Article 136 of the Consolidated Banking Act and Article 2391 of the Italian Civil Code with the aim of grouping together internal conflict of interest rules into a single document. This document brings together the pre-existing rules and procedures issued in application of the supervisory provisions concerning activities at risk with associated parties (ninth update to Circular 263/06), the Consob Regulation on Transactions with Related Parties (Resolution 17221 of 12 March 2010), Article 136 of the Consolidated Banking Act, Obligations of Bank Officers and the related supervisory instructions and, finally, Article 2391 of the Italian Civil Code, Interests of Directors. In accordance with applicable regulations, the document has been published on the website at the address http://www.civibank.it/investor-relations/corporate-governance/procedura-parti-correlate.

Major transactions

No transactions with related parties considered major transactions pursuant to the Procedures for Related-Party Transactions cited above were undertaken during the reporting period. In 2018 there were no additional atypical and/or unusual transactions to be disclosed pursuant to Consob bulletin no. DEM/6064293 of 28 July 2006.

Transactions of an ordinary or recurring nature

The transactions of an ordinary or recurring nature undertaken in 2018 with related parties are part of the Bank's ordinary operations, are normally subject to market conditions and meet the requirement of mutual economic expedience in accordance with the internal procedures cited above.

Detailed information regarding related-party transactions, including information on the impact of outstanding transactions and positions with related parties on the Bank's financial performance and financial position, accompanied by tables summarising those effects, are set forth in Chapter H of the Notes.

Business outlook

Global economic growth will continue in 2019, but will slow further. The outlook is highly uncertain, in the light of slowing demand across all major economies, trade tensions between the United States and China and the other phenomena that have been rendering economic data more volatile since the beginning of the year. Furthermore, a possible no-deal departure from the European Union by the United Kingdom could also have negative repercussions in the short-term for the Eurozone and Italy through the trade channel.

Very short-term rates will remain stable and in negative territory for the euro, given that the European Central Bank has already indicated that official rates will go unchanged, at least until the end of the summer. Average annual growth across the Eurozone is expected to slow further, although it is believed that the slowdown will cease during the year. GDP growth is also expected to slow in Italy, with consensus estimates now fluctuating around half a percentage point. Uncertainty regarding Italian budgetary policies could give rise to further financial market turbulence, particularly within Italy, and possible sovereign rating downgrades. This slowing growth makes it more difficult to reduce the debt/GDP ratio in 2019.

The Italian banking industry's performance in 2019 will be conditioned by the weakness of the country's economy and the persistent environment of uncertainty – factors that tend to restrain demand. Moreover, lending by Italian banks continues to be driven by the still favourable rates applied by credit institutions and the lesser appeal of bond issues to businesses, given the increased yields demanded by the market as a result of the high level of the sovereign risk premium. For households, the credit scenario will remain positive in 2019, although slightly less so than in the past. Residential mortgage lending will continue to be buoyed by very low rates for much of 2019, together with expectations of a stable real-estate market. On the funding side, net bond redemptions will continue on the retail market, alongside an increase in deposits. During the year, management of the Bank will be focused on achieving the objectives set out in the 2019-2022 Business Plan, consistent with the guidelines indicated above, with the aim of ensuring sustainable profitability in the medium term.

Proposed allocation of the net income for the year

Shareholders,

The financial statements submitted for your review have been drafted in accordance with IASs/IFRSs as required by Legislative Decree No. 38 of 28 February 2005 and order of the Bank of Italy no. 262 of 22 December 2005, as amended, and have been audited by the independent auditors EY S.p.A., a copy of whose report is included in the financial statement package. The financial statements we ask you to approve show the following results, in concise form:

Balance sheet

Total Assets	**3,879,396,610**	
Liabilities		97,594,875
Share capital		50,913,255
Share premiums		167,021,562
Reserves		45,805,310
Valuation reserves		9,495,588
Treasury stock		(1,260,357)
Total liabilities and shareholders' equity (excluding Income for the period)		**3,877,353,610**
Net income (loss) for the period		**2,043,000**

It should be noted that during its deliberations on the allocation of net income, the Board of Directors, in the light of the European Central Bank's recommendation of 7 January 2019 on dividend distribution policies, in which the supervisory authority asks that intermediaries, inter alia, "establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements and the outcomes of the supervisory review and evaluation process (SREP)", decided to allocate the 2018 net income fully to reserves.

We therefore propose the following allocation of net income for the year to the shareholders' meeting:

Allocation of net income	**31/12/2018**	**31/12/2017**
To Legal reserve	204,300	75,300
To Statutory reserve	1,838,700	677,700
Net income for the period	**2,043,000**	**753,000**

If you approve the foregoing proposal for allocation of the net income, share capital and reserves will be as follows:

	Amounts to 31/12/2018	Allocation of net income	Amounts after allocation of net income
Share capital	50,913,255		50,913,255
Share premiums	167,021,562		167,021,562
Reserves	45,805,310	2,043,000	47,848,310
Valuation reserves	9,495,588		9,495,588
Treasury shares	(1,260,357)		(1,260,357)

Proposal to set the share premium pursuant to Article 2528 of the Italian Civil Code Shareholders,

After having consulted with the Board of Statutory Auditors on the subject, this Shareholders' Meeting has also been called upon to approve the Directors' proposal for setting the share premium to be paid in addition to the value of shares (par value).

In view of the financial performance and financial position figures, as well as the most recent price quoted on the multilateral trading facility Hi-MTF, the Board of Directors has decided to propose that you set the share premium for 2019 at €4.20. That share premium, in addition to the par value, would bring the price of one share to a total of €7.20.

Cividale del Friuli, 13 March 2019
The Board of Directors

Board of Statutory Auditors' report on the financial statements of Banca di Cividale S.c.p.A. at and for the year ended 31 December 2018

Shareholders,
The Board of Statutory Auditors presents to you its report on its activity during the year ended 31 December 2018, the financial statements for which have been submitted for your approval, and which the Board of Directors has made available, along with the report on operations and the other prescribed documents, within the terms established in applicable legislation.
The Board of Statutory Auditors in office at the date of this report is composed of its chairman, Pompeo Boscolo and standing auditors Gianluca Pico and Gianni Solinas

* * *

The Bank's performance has been appropriately illustrated in the documents submitted to the Shareholders' Meeting, with an account of financial performance and financial position and the operating result achieved in 2018. The key events for the year have also been reported.

* * *

In performing its supervisory and control activity, the Board of Statutory Auditors complied with the law, supervisory regulations for banks, the circulars and communiques from the Bank of Italy, applicable legislation and the principles of conduct recommended by Italy's National Council of Accountants and Accounting Experts.
The Board of Statutory Auditors would like to emphasise that the frequency and methods with which the meetings of the Board of Directors were held permitted thorough fulfilment of the disclosure obligations imposed by the law and Articles of Association. By participating in all meetings of the Board of Directors, the Board of Statutory Auditors was able to monitor the course of decisions and the ongoing evolution of the Bank, while also consistently reporting on its own activity.
Meetings with heads and/or liaisons at the Bank's various functions allowed the information necessary to the performance of the supervisory and control duties performed by the Board of Statutory Auditors to be obtained.
There was significant interaction with the heads of control functions (Internal Auditing, Risk Management, Compliance and Anti-Money Laundering), who provided the Board with access to the results of their activities and the reports prepared by their functions.
The Board of Statutory Auditors' participation in the Risk Committee allowed for the exchange, in accordance with supervisory regulations, of all information of mutual interest and the ensuing coordination for the performance of their respective duties.
During meetings with the external auditors, the statutory auditors also reviewed proper application of accounting and administrative principles and the best allocation and representation in the financial statements of elements with a material impact at the level of financial performance and financial position. The external auditors did not report any aspects deserving of mention and/or facts to be censured.
The Board of Statutory Auditors supervised the financial reporting process, the efficacy of the internal control systems, the statutory auditing of the annual accounts and the independence of the independent auditors.
With respect to the pursuit of the common objective, as established in art. 2545 of the Italian Civil Code and art. 3 of the Articles of Association, please refer to the description and details provided in the report on operations.

* * *

Significant events during the year
For further information about the significant events during the year cited below, refer to the Directors' report on operations:

Approval of the new organisational structure
In order to increase the operational efficiency and simplicity of the chain of command of the head office's organisational structure, the Bank revised its organisation chart, redistributing managerial responsibilities as part of its ongoing process of comprehensive transformation. Pending the complete migration of IT systems, operating processes continue according to the current configuration. The provisions of the set of existing internal regulations and circulars also remain in effect, along with the resulting operating powers.

Company name change
By resolution of an extraordinary session of its shareholders' meeting on 28 April 2018, Banca Popolare di Cividale S.c.p.A. changed its name to Banca di Cividale S.c.p.A. ("Civibank" in short form).

Subsequent events
For further information about the significant events after the balance sheet date discussed below, refer to the Directors' report on operations:

2019-2022 Strategic Plan
The new 2019-2022 Strategic Plan, which allows answers to be given to the questions set out in the EBA guidelines for defining the business model, was approved in March. The Strategic Plan's mission will be to remain independent and serve as a key partner to the households and businesses of the Friuli Venezia Giulia and Veneto regions in order to promote social, economic and cultural growth in the local community. In order to achieve these goals, the Bank has developed a strategy based on ambitious, yet feasible guidelines with the following key pillars:

- ✓ robust growth of the financial support provided to the households and entrepreneurs of the Friuli Venezia Giulia and Veneto regions, with a focus on expansion in the latter region in particular, where there is a strong need for a local bank;
- ✓ continuing growth in the bancassurance sector, where the Bank already showed considerable aptitude in 2018, and faster growth in Wealth Management, bringing the Civibank and CiviBanker network launched in the fourth quarter of 2018 to its full potential;
- ✓ a thorough revamping of processes in order to improve operating efficiency and the overall experience offered to customers;
- ✓ further anticipation of the NPL strategy with respect to the timeline already included in the plan agreed with the supervisory authority;
- ✓ investment in the training of human resources and significant investments in digitalisation.

Over the plan period, the Bank aims to achieve a sharp increase in its net income, ROE and capital ratios. The planned cost-cutting will also contribute to improving the cost/income ratio.

Recapitalisation
In order to achieve the ambitious growth objectives, the new Strategic Plan calls for a recapitalisation to be carried out by amending the Articles of Association to grant the Board of Directors the authority to undertake a capital increase of up to €65 million, in addition to the award of free warrants to the current shareholders.

* * *

Related-party transactions
The Board of Statutory Auditors notes that, in respect of related-party transactions, the Board of Directors has adopted rules, pursuant to Art. 2391-bis of the Italian Civil Code and applicable legislation, that ensure "the transparency and substantive and procedural propriety of transactions."
The transactions in question are part of normal banking business and generally are subject to arm's length conditions and concluded in accordance with Art. 136 of the Consolidated Banking Act and supervisory regulations.
Information about the transactions concluded is provided in the notes.

* * *

Information about the activity performed
Compliance with the law and Articles of Association
We supervised compliance with the law, Articles of Association and principles of sound management, and we determined that the Directors' actions were consistent with the law and Articles of Association, compliant with the principles of sound and prudent management and in accordance with the need to achieve the Bank's interests.
Having obtained adequate information about the business conducted and the most significant transactions from the standpoint of financial performance, cash flow and financial position undertaken by the Bank, we may reasonably affirm, on the basis of the information obtained, that such transactions were undertaken in accordance with the law and Articles of Association, were in the Bank's interest and did not appear manifestly imprudent or excessively risky, were not in conflict of interest, did not conflict with the resolutions passed by the shareholders' meeting and were not otherwise such as to compromise the integrity of the Bank's assets.

Atypical or unusual transactions
There were no atypical and/or unusual transactions in 2018.

Complaint pursuant to art. 2408 of the Italian Civil Code

On 5 October 2018 the Board of Statutory Auditors received a complaint lodged by Mr. Tullio Galfrè to the effect that he had not been added to the shareholder register following the merger with NordestBanca S.p.A., of which he was a shareholder. The Board of Statutory Auditors thoroughly reviewed the complaint and concluded that it was unfounded. The Board of Statutory Auditors noted that in order to be considered a shareholder-member of Civibank it was essential to apply for a favourable opinion from the Board of Directors and that the status of shareholder-member thus cannot be automatically acquired by merger, as claimed by the complainant, given that the merger itself merely gave rise to share ownership. Since the conditions set out in Art. 2408 of the Italian Civil Code had not been met, the Bank of Italy was formally notified of the receipt and review of the complaint, as well as of the outcome of this review.

Principles of sound management

We investigated and supervised compliance with the principles of proper administration, sound and prudent management, transparency of information and operating performance, obtaining information from function heads, and we do not have any observations on this subject.

Adequacy of the organisational structure

To the extent of our competence, we supervised the organisational structure, acknowledging the changes made and planned and, on the basis of the information obtained from the various company functions, considering the Bank's size and complexity, it is our opinion that the organisational structure is essentially adequate. We concur with the need, as also expressed by the Bank, to continue with the ongoing process of adapting the organisational structure to the new market scenarios.

Adequacy of the administrative and accounting system

We supervised the suitability of the administrative and accounting system and its ability to identify and properly represent operating events in the financial statements, and we may reasonable state, to the extent of our competence and on the basis of the information obtained from the independent auditors, that the administrative and accounting system is adequate and reliable.

Risk management and monitoring

The Bank takes a particularly conservative approach. Its organisational system consists of a set of internal rules, operating procedures and control units, which is organised by integrating control methods at various levels. The organisational structure is intended to ensure that operating processes are efficient and effective, so as to safeguard the integrity of the company's assets, guard against losses, guarantee that information is reliable and complete and verify that business is conducted properly, in accordance with internal and external rules.

In compliance with supervisory regulations, the Bank has developed and codified specific risk management processes and launched a series of reporting measures to manage any critical issues.

It bears recalling that risk appetite – an important parameter for defining the strategic plan and for planning – is set by the Board of Directors when defining the Risk Appetite Framework (RAF).

With regard to the significance of risks, in accordance with prudential regulations, the Board of Statutory Auditors also supervised compliance with the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

Adequacy of the internal control system

The Board of Statutory Auditors assessed and supervised the adequacy of the internal control system. Refer to the corporate governance report prepared by the Board of Directors, which shows that the internal control and risk management system is adequate to the Bank's characteristics.

The supervisory activity performed by the Board of Statutory Auditors involved constant interaction with control functions (Internal Auditing, Risk Management, Compliance and Anti-Money Laundering) to supervise compliance with company rules and procedures and the adequacy and efficacy of the overall control system.

Control functions continue with the process of implementing a homogeneous vision of risk management, adopting uniform criteria of analysis and supplementing processes, based on uniform, schematic methods.

Attention should be drawn to the autonomy and independence of control functions, which in accordance with the company's organisational structure, report directly to the Board of Directors, thus ensuring that they enjoy the necessary autonomy from the other company units.

The Risk Committee plays a significant role within the control system, permitting the exchange with the Board of Statutory Auditors of all information of mutual interest and the necessary coordination for the performance of their respective duties.

In accordance with the proportionality principle, the Board of Statutory Auditors believes that there is room for further improvement, but that the internal control system is effective on the whole, while emphasising the importance of uniform, adequate and timely internal information flows.

Evaluation of independence requirements

The Board of Statutory Auditors does not have any observations with regard to the application of the evaluative criteria adopted by the Board of Directors to assess the independence of its members.
The statutory auditors confirm that they remain independent.

Organisation, Supervision and Control Model pursuant to Legislative Decree 231/2001

The supervision and control function identified in Art. 6 of Legislative Decree No. 231/2001 has been assigned to the Board of Statutory Auditors, as indicated by the Bank of Italy.
The supervisory activity performed did not bring to light any critical issues relating to the operating and internal control activities carried out. Following the IT migration, the organisational model will need to be adapted to the new process structure.

Independent auditors

The independent auditors, EY S.p.A., issued their report on the financial statements at and for the year ended on 31 December 2018 on today's date.
In their report, they give an unqualified positive opinion.
To the extent of their competence, the auditors expressed a positive judgment of the consistency of the report on operations.
During meetings with the independent auditors, the Board of Statutory Auditors was not informed of any aspects requiring mention and/or circumstances deserving censure. The Internal Control and Audit Committee's Report (the "Additional Report") was forwarded to the Board of Statutory Auditors pursuant to Article 11 of Regulation (EU) No 537/2014. This Report does not identify any significant deficiencies in the internal control system with respect to the financial reporting process and/or in the accounting system.

Remuneration policies

The Board of Statutory Auditors has examined the document on the Bank's remuneration policies, approved by the Board of Directors on 13 March 2019. In this regard, on the basis of available information, the Board of Statutory Auditors believes that the principles set out in the document are not in conflict with the company's objectives, strategies and policies for prudent risk management.

Specific observations

Pursuant to Art. 2426 (1) (5) of the Italian Civil Code, the Board of Statutory Auditors reports that the assets recognised in the balance sheet do not include any start-up and expansion costs, research and development costs or capitalised advertising costs.

Tax dispute

On 20 December 2018 (see Chapter E), Section 4 of the notes), the Bank was served an assessment notice based on the audit conducted by the Italian Agency of Revenue – Regional Department for Friuli Venezia Giulia concerning 2013. The charges concern a series of decreases in taxable expenses, with the most serious alleged irregularity by far being that regarding the purported breach of the pertinence principle (Art. 109 of the Consolidated Income Tax Act) in connection with impairment losses on defaulted loans, which the Bank regarded as deductible when figuring its corporate taxable income in accordance with the application of the principle of "derivation" of the income statement, but which the revenue authorities conversely regard as non-tax deductible. With the support of opinions from the qualified professionals it has retained, the Bank believes that it will be able to prove that the various charges are baseless and therefore has lodged a petition with the competent tax commission. The Directors believe that the risk of an unfavourable outcome to the dispute commenced with the Italian Agency of Revenue may be designated "possible". Accordingly, in application of IAS 37, no provision for risks and charges has been recognised in the 2018 annual financial statements in respect of the amount sought by the revenue authorities, since only the accrual for the estimated legal fees was available.

The results of the impairment test

The impairment test conducted on the goodwill carried in the balance sheet indicated a need for the full write-off of goodwill of €2.2 million. The results of the analysis conducted to determine the recoverable amount of the CGU referring to the full scope of the Bank indicated a considerably lower contribution to cash flow generation – over a significant time horizon – than considered when estimating the original cash flows.

The accounting standard IFRS 9

In view of the entry into force of the new international accounting standard IFRS 9, replacing IAS 39, in 2017 Banca di Cividale had launched a project aimed at compliance with the new standard. In 2018 the Board of Statutory Auditors monitored in particular the first-time adoption process and its effects, as well as activities aimed at strengthening the safeguards applicable to the classification, measurement and impairment processes introduced by the new standard. The overall IFRS 9 framework was subject to thorough review by both the Bank's internal functions and the auditing firm – activities which the Board of Statutory Auditors constantly supervised and monitored.

As stated in the notes, the total effect (classification, measurement and impairment) of the transition to the new accounting standard at 1 January 2018, net of the tax effect, was €27.7 million. In the light of the Regulation (EU) No 2017/2395, "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", updating Regulation 575/2013 (the "CRR") to include the new Article 473a "Introduction of IFRS 9" and of the Guidelines issued on 12 January 2018, the Bank exercised the option granted to banks to mitigate the impacts on own funds of the introduction of the accounting standard IFRS 9 over a transitional period of five years (from March 2018 to December 2022), neutralising the impact on CET1, subject to application of decreasing percentages over time.

Non-financial report

As part of its duties, the Board of Statutory Auditors supervised compliance with Legislative Decree No. 254 of 30 December 2016, particularly as regards the preparation process and contents of the Non-Financial Report drafted by Banca di Cividale S.c.p.A. In this regard, having examined both the certification by the independent auditors pursuant to Article 3 (10) of Legislative Decree No. 254/2016 and the declaration rendered by the same independent auditors within the framework of their report on the financial statements pursuant to Article 4 of the Consob Regulation implementing the above Decree, the Board did not present any observations.

* * *

Shareholders,

On the basis of the information provided in this report, the Board of Statutory Auditors may reasonably assure you that the activity performed and the information obtained have not brought to light any circumstances requiring censure and/or irregularities or omissions to be reported or cited in this report.

The Board of Statutory Auditors confirms that the annual financial statements have been prepared in accordance with the IASs/IFRSs issued by the International Accounting Standards Board (IASB) and have been also drafted in compliance with the instructions issued by the Bank of Italy.

In their report, the independent auditors express an unqualified positive opinion, without objections and/or requests for information. To the extent of their competence, the independent auditors also express a positive opinion concerning the consistency of the report on operations with the financial statements.

To the extent of our competence, on the basis of the information obtained, we have determined that the annual financial statements have been prepared in accordance with general preparation principles and measurement criteria consistent with accounting standards. The notes complete the financial statements with the necessary figures and information and provide extensive, detailed information.

In consideration of the foregoing, in light of the unqualified positive opinion, without objections and/or requests for additional information, expressed by the independent auditors, we hereby grant our consent to the approval of the annual financial statements at and for the year ended on 31 December 2018, and further acknowledge that the proposed allocation of net income for the year put forth by the Board of Directors is not in contrast with the law, regulations or the Articles of Association.

In conclusion of this report, the Statutory Auditors express their gratitude to the Board of Directors, the senior management and all other company personnel for the competence, dedication and professionalism they have all shown.

Cividale del Friuli, 28 March 2019
The Board of Statutory Auditors

(Pompeo Boscolo)
(Gianluca Pico)
(Gianni Solinas)

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

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Building a better working world

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of Civibank S.c.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Civibank S.c.p.A. ("the Company"), which comprise the statement of financial position as at December 31, 2018, and the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flows statement for the year then ended, and the notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of Civibank S.c.p.A. as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015.

Basis for Opinion

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

Key Audit Matters

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

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We identified the following key audit matter:

Key Audit Matter	Audit Response
Impacts connected with the first application of International Financial Reporting Standard 9 "Financial Instruments" and Classification and Valuation of Loans to Customers	
Loans to customers amount to Euro 2,673 million and represent 69% of total assets at December 31, 2018. On January 1, 2018, the international financial reporting standard IFRS 9 came into force, which replaced IAS 39 in relation to the classification and measurement of financial instruments. As required by IAS 8, and in accordance with the transition provisions envisaged by IFRS 9, the Bank has recognised retrospectively the cumulative effects deriving from the transition to the new standard, equal to Euro 27,6 million, as a decrease to opening shareholders' equity. In this context, particularly important in the specific context of the transition to the new Standard is the identification and calibration of the parameters related to the significant increase in credit risk for the purposes of stage allocation of non-impaired exposures (Stage 1 and Stage 2) , the estimation of values to be attributed to PD (Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default) as inputs to the forward looking Expected Credit Loss model, the identification of objective evidence of increased risk for the classification of impaired exposures (Stage 3), as well as the determination of the related recoverable cash flows. The process of classifying loans to customers in the various risk categories and the calculation of the impairment provision at the transition date to IFRS 9 and at the end of the financial period are both relevant for the audit because the value of receivables is significant for the financial statements as a whole and because the value adjustments are determined through the use of estimates that present a high degree of complexity and subjectivity. The information on the evolution of the quality of the portfolio of loans to customers, the classification and valuation criteria adopted as well as the effects deriving from the first	Our audit procedures in response to the key aspect included, inter alia: • an understanding and analysis of the main choices regarding policies and processes carried out by the Company with reference to the classification and measurement of loans to customers and performing tests over key controls; • an understanding and analysis, also with the support of our risk management and information systems experts of the methods for determining the impacts of first application of IFRS 9 and performing substantive procedures on a sample basis aimed at verifying their correctness • carrying out portfolio analyses aimed at understanding, also through discussion with the company management, the main changes and the relative levels of provisioning coverage by risk category; • an understanding, also through the support of our risk management and information systems experts, of the methodology used to estimate, at the balance sheet date, the expected credit losses on exposures collectively assessed, as well as performing tests of controls and substantive procedures aimed at verifying the completeness of the databases used and the related calculations; • the verification on a sample basis of the correct application of company policies for estimating expected credit losses on exposures analytically evaluated; • specific analyses, relating to impaired exposures (Stage 3), with reference to the reasonableness of the methods for defining hypothetical alternative recovery scenarios (internal sale or recovery), the relative assigned probabilities and the resulting estimated cash flows; • an examination of the adequacy of the information provided in the notes to the financial statements.

application of the IFRS 9 accounting standard are provided in Part A - Accounting policies, in Part B - Information on the balance sheet, in Part C - Information on the income statement and in Part E - Information on risks and related hedging policies of the notes to the financial statements.

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

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing article 9 of Legislative Decree n. 38/2005 and article 43 of Legislative Decree n. 136/2015, and, within the terms provided by the 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.
In preparing the financial statements, the Directors are responsible for assessing Civibank S.c.p.A.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Civibank S.c.p.A.'s internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

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- we have concluded on the appropriateness of 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 Civibank S.c.p.A.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all 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 have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Civibank S.c.p.A., in the general meeting held on May 9, 2010, engaged us to perform the audits of the separate and consolidated financial statements for each of the years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of Civibank S.c.p.A. in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the Board of Statutory Auditors ("Collegio Sindacale") in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010

The Directors of Civibank S.c.p.A. are responsible for the preparation of the Report on Operations of Civibank S.c.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations, with the financial statements of Civibank S.c.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Civibank S.c.p.A. as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The Directors of Civibank S.c.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by the Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, March 28, 2019

EY S.p.A.
Signed by: Stefano Grumolato, Partner

This report has been translated into the English language solely for the convenience of international readers.

ANNUAL FINANCIAL STATEMENTS

Balance sheet

Balance sheet - Assets		31/12/2018		31/12/2017 *	
10	Cash and cash equivalents		29,746,990		23,944,208
20	Financial assets measured at fair value through profit or loss		29,710,420		36,576,893
	a) financial assets held for trading	300,475		4,980,392	
	b) financial assets designated at fair value	-		-	
	c) other financial assets mandatorily measured at fair value	29,409,945		31,596,501	
30	Financial assets measured at fair value through other comprehensive income		318,469,161		353,549,286
40	Financial assets measured at amortised cost		3,290,965,901		3,269,002,611
	a) due from banks	75,226,289		77,731,993	
	b) loans to customers	3,215,739,612		3,191,270,618	
70	Equity investments		3,769,491		3,780,287
80	Property and equipment		76,459,003		79,217,553
90	Intangible assets		153,220		2,313,800
	of which:				
	- goodwill	-		2,190,000	
100	Tax assets		74,706,430		73,563,525
	a) current	5,279,181		15,389,634	
	b) deferred	69,427,249		58,173,891	
120	Other assets		55,415,994		61,980,707
	Total assets		**3,879,396,610**		**3,903,928,870**

(*) Values determined in accordance with the accounting standard IAS 39, reclassified by convention in the interest of uniformity of comparison.

Balance sheet - liabilities and shareholders' equity		31/12/2018		31/12/2017 *	
10	Financial liabilities measured at amortised cost		3,507,783,377		3,528,116,804
	a) due to banks	672,401,161		674,119,359	
	b) due to customers	2,765,600,075		2,709,001,820	
	c) securities issued	69,782,141		144,995,625	
20	Financial liabilities held for trading		167,610		765,302
60	Tax liabilities		3,544,494		5,148,451
	a) current	2,285,599		1,589,847	
	b) deferred	1,258,895		3,558,604	
80	Other liabilities		81,291,925		60,950,095
90	Employee termination benefits		4,794,229		5,072,965
100	Provisions for risk and charges:		7,796,617		2,322,207
	a) commitments and guarantees given	1,381,106		632,272	
	c) other provisions for risks and charges	6,415,511		1,689,935	
110	Valuation reserves		9,495,588		15,438,011
140	Reserves		45,805,310		68,218,633
150	Share premiums		167,021,562		167,021,739
160	Share capital		50,913,255		50,913,255
170	Treasury shares (-)		(1,260,357)		(791,592)
180	Net income (loss) (+/-)		2,043,000		753,000
	Total liabilities and shareholders' equity		**3,879,396,610**		**3,903,928,870**

(*) Values determined in accordance with the accounting standard IAS 39, reclassified by convention in the interest of uniformity of comparison.

Income statement

Conto economico		31/12/2018		31/12/2017 *
10 Interest income and similar revenues		78,224,311		81,626,059
of which: interest income calculated using the effective interest rate method	77,694,621		81,158,022	-
20 Interest expense and similar charges		(17,794,444)		(18,787,295)
30 Net interest income		**60,429,867**		**62,838,764**
40 Commission income		34,710,927		32,876,657
50 Commission expense		(4,689,236)		(3,860,391)
60 Net commission income		**30,021,691**		**29,016,266**
70 Dividends and similar income		10,548,805		817,661
80 Net trading income		563,931		182,263
100 Profit (loss) on disposal or repurchase of:		(143,261)		9,984,109
a) financial assets measured at amortised cost	(822,918)		4,180,303	
b) financial assets measured at fair value through other comprehensive income	569,152		5,798,601	
c) financial liabilities	110,505		5,205	
110 Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss		(1,159,731)		95,785
b) other financial assets mandatorily measured at fair value	(1,159,731)		95,785	
120 Total income		**100,261,302**		**102,934,848**
130 Charges/write-backs on impairment of:		(25,065,315)		(26,092,603)
a) financial assets measured at amortised cost	(25,054,714)		(23,520,588)	
b) financial assets measured at fair value through other comprehensive income	(10,601)		(2,572,015)	
150 Net Financial income		**75,195,987**		**76,842,245**
160 G&A expenses:		(72,237,547)		(78,405,459)
a) personnel expenses	(41,156,995)		(41,193,652)	
b) other administrative expenses	(31,080,552)		(37,211,807)	
170 Net provisions for risks and charges		(5,653,209)		140,737
a) commitments and guarantees given	(21,096)		783,013	
b) other net provisions	(5,632,113)		(642,276)	
180 Net impairment/write-backs on property, plant and equipment		(2,646,301)		(2,321,904)
190 Net impairment/write-backs on intangible assets		(58,488)		(48,310)
200 Other operating income (expenses)		8,039,872		8,468,393
210 Operating cost		**(72,555,673)**		**(72,166,543)**
220 Profit (loss) on equity investments		(10,796)		(84,291)
240 Goodwill impairment		(2,190,000)		(1,605,975)
250 Profit (loss) on disposal of investments		66,927		-
260 Income (loss) before tax from continuing operations		**506,445**		**2,985,436**
270 Tax on income from continuing operations		1,536,555		(2,232,436)
280 Income (loss) after tax from continuing operations		**2,043,000**		**753,000**
300 Net income		**2,043,000**		**753,000**

(*) Values determined in accordance with the accounting standard IAS 39, reclassified by convention in the interest of uniformity of comparison.

Statement of other comprehensive income

	31/12/2019	31/12/2018
10 Net profit for the year	**2,043,000**	**753,000**
Other comprehensive income (net of tax) that may not be reclassified to the		
70 Defined benefit plans	151,364	(8,619)
Other comprehensive income (net of tax) that may be reclassified to the income statement		
140 Financial assets (other than equities) measured at fair value through other	(1,612,934)	(1,899,900)
170 Share of valuation reserves connected with investments carried at equity	**(1,461,570)**	**(1,908,519)**
140 Total other comprehensive income (net of tax)	**581,431**	**(1,155,519)**

Statement of changes in shareholders' equity (2018)

Year 2018	Balance at 31/12/2017	Change in opening balance	Balance at 01/01/2018	Allocation of result for previous period		Changes during the year									
							Equity transactions								
				Reserves	Dividends and other uses	Changes in reserves	New share issues	Purchase of treasury stock	Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options	Total comprehensive income for the period	Shareholders' equity at 31/12/2018
Share capital	**50,913,255**		**50,913,255**	-	-	-	-	-	-	-	-	-	-	**50,913,255**
a) ordinary shares	50,913,255		50,913,255	-	-	-	-	-	-	-	-	-	-	50,913,255
b) other shares	-		-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**167,021,739**		**167,021,739**		-	-	-	**(177)**	-	-	-	-	-	**167,021,562**
Reserves	**68,218,633**	**(23,170,822)**	**45,047,812**	**753,000**	-	**4,498**	-	-	-	-	-	-	-	**45,805,310**
a) income	68,218,633	(23,170,822)	45,047,812	753,000	-	4,498	-	-	-	-	-	-	-	45,805,310
b) other	-		-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves:	**15,438,011**	**(4,480,853)**	**10,957,158**										**(1,461,570)**	**9,495,588**
Equity instruments	-		-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	**(791,592)**		**(791,592)**					**(468,765)**						**(1,260,357)**
Net income (loss) for the period	**753,000**		**753,000**	**(753,000)**		-	-	-	-	-	-	-	**2,043,000**	**2,043,000**
Shareholders' equity	**301,553,046**	**(27,651,675)**	**273,901,371**	-	-	**4,498**	-	**(468,942)**	-	-	-	-	**581,431**	**274,018,358**

Statement of changes in shareholders' equity (2017)

Year 2017	Balance at 31/12/2016	Change in opening balance	Balance at 01/01/2017	Allocation of result for previous period		Changes during the year									
							Equity transactions								
				Reserves	Dividends and other uses	Changes in reserves	New share issues	Purchase of treasury stock	Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options	Total comprehensive income for the period	Shareholders' equity at 31/12/2017
Share capital	**50,913,255**		**50,913,255**	-	-	-	-	-	-	-	-	-	-	**50,913,255**
a) ordinary shares	50,913,255		50,913,255	-	-			-	-	-	-	-	-	50,913,255
b) other shares	-		-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**167,021,739**		**167,021,739**		-			-	-	-	-	-	-	**167,021,739**
Reserves	**66,985,633**		**66,985,633**	**1,233,000**	-	-	-	-	-	-	-	-	-	**68,218,633**
a) income	66,985,633		66,985,633	1,233,000	-			-	-	-	-	-	-	68,218,633
b) other	-		-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves:	**17,346,530**		**17,346,530**										**(1,908,519)**	**15,438,011**
Equity instruments	-		-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares								**(791,592)**						**(791,592)**
Net income (loss) for the period	**1,233,000**		**1,233,000**	**(1,233,000)**		-	-	-	-	-	-	-	**753,000**	**753,000**
Shareholders' equity	**303,500,157**		**303,500,157**	-	-	-	-	**(791,592)**	-	-	-	-	**(1,155,519)**	**301,553,046**

Statement of cash flows - direct method

OPERATING ACTIVITY	31/12/18		31/12/2017 *	
1. Operations		**41,477,986**		**25,489,791**
- interest income received (+)	78,004,228		80,911,733	
- interest expense paid (-)	(17,794,444)		(18,787,295)	
- dividends and similar revenues	10,548,805		817,661	
- net commissions (+/-)	30,021,691		29,016,266	
- staff costs	(39,382,831)		(39,982,234)	
- other expenses (-)	(30,086,454)		(44,982,215)	
- other revenues (+)	8,630,436		20,728,311	
- taxes and duties (-)	-		-	
2. Liquidity generated/absorbed by financial assets: (+/-)		**(20,696,201)**		**352,734,100**
- financial assets held for trading	4,679,917		(1,788,467)	
- financial assets available for sale	2,767,951		3,273,823	
- loans to custumers	35,069,524		127,724,312	
- due from banks: repayable on demand	(45,403,657)		243,708,861	
- other assets	(17,809,936)		(20,184,429)	
3. Liquidity generated/absorbed by financial liabilities: (+/-)		**(14,521,034)**		**(369,292,222)**
- due to banks: repayable on demand	(20,333,427)		(354,843,265)	
- due to banks: other	(597,692)		(28,408)	
- other liabilities	6,410,085		(14,420,549)	
Net liquidity generated/absorbed by operating activity A (+/-)		**6,260,751**		**8,931,669**
INVESTING ACTIVITY				
1. Liquidity generated by: (+)		**10,796**		**(39,967)**
- disposal of equity investments	10,796		(39,967)	
2. Liquidity absorbed by: (-)		-		-
Net liquidity generated/absorbed by investing activity B (+/-)		**10,796**		**(39,967)**
FUNDING ACTIVITY				
- issue/purchase of own shares	(468,765)		(791,592)	
Net liquidity generated/absorbed by funding activity C (+/-)		**(468,765)**		**(791,592)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD D = A +/- B +/- C		**5,802,782**		**8,100,110**

RECONCILIATION		
Cash and cash equivalents at the start of the period E	23,944,208	15,844,098
Total net liquidity generated/absorbed during the period D	5,802,782	8,100,110
Cash and cash equivalents at the end of the period G = E +/-D+/-F	**29,746,990**	**23,944,208**

(*) Values determined in accordance with the accounting standard IAS 39, reclassified by convention in the interest of uniformity of comparison.

NOTES TO THE FINANCIAL STATEMENTS

Chapter A – ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

Section 1 Statement of compliance with international accounting standards

In application of Legislative Decree No. 38 of 28 February 2005, the financial statements of Banca di Cividale are prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, the adoption of which was compulsory at 31 December 2018, including the relative Interpretations of the International Financial Reporting Interpretation Committee (IFRIC), as established by Regulation (EC) No. 1606 of 19 July 2002.
International accounting standards have been interpreted and applied in reference to the Conceptual Framework for Preparation and Presentation of Financial Statements ("Framework"), although not endorsed by the European Commission, Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or by the IFRIC in completion of the accounting standards issued.
Account has also been taken of the notices from the supervisory authorities (Bank of Italy, Consob and ESMA) providing recommendations on the disclosures to be presented in the financial statements with regard to the most material aspects or the accounting treatment of particular transactions.

Section 2 General basis of preparation

The financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows (hereinafter, the "financial statements") and the notes to the financial statements. A report on operations, earnings results and financial position has also been included. The figures presented in the financial statements are expressed in euro, whereas the tables in the notes, as well in the report on operations, are expressed in thousands of euro, unless otherwise indicated.
The financial statements have been prepared in application of the general preparation principles set forth in IAS 1, the accounting standards illustrated in Chapter A.2 of the notes (international accounting standards endorsed by the European Union the adoption of which was compulsory at 31 December 2018) and the general requirements laid down in the Framework for the Preparation and Presentation of Financial Statements drafted by the International Accounting Standards Board (IASB).
The instructions provided by the Bank of Italy in Circular No. 262 of 22 December 2005, fifth update of 22 December 2017, were followed when preparing the financial statements. Those Instructions set out a compulsory presentation for the financial statements and the basis for the preparation thereof, as well as the contents of the notes to the financial statements.
The balance sheet and income statement consist of items, sub-items and further information (the "of which" within items and sub-items). In the income statement, revenues are indicated without sign, whereas costs are presented in parentheses.
The statement of comprehensive income consists of items that show changes in the carrying amount of assets during the year recognised through valuation reserves. Negative amounts are presented in parentheses.
The statement of changes in shareholders' equity presents the composition of and changes in shareholders' equity accounts during the reporting year and the previous year, broken down into share capital, equity reserves, reserves from retained earnings, reserves from the valuation of assets or liabilities and net income or loss. Treasury shares are deducted from shareholders' equity.
The statement of cash flows has been prepared according to the direct method, which shows the main categories of gross receipts and payments. Cash flows have been presented by distinguishing between operating, investing and financing activity.
The financial statements for the year ended 31 December 2018 have been prepared in a clear manner and provide a fair and true representation of the Bank's financial position and earnings results for the year. No exceptions to the application of IASs/IFRSs were made in these financial statements. The directors' report on operations and notes contain the disclosures required by international accounting standards, Italian law, the Bank of Italy and Consob, in addition to voluntary disclosures deemed necessary to a truthful, accurate account of the Bank's situation.
The publication of the financial statements for the year ended 31 December 2018 was authorised by the Board of Directors on 13 March 2019. Banca di Cividale is a cooperative company limited by shares, registered and domiciled in Italy.

The policies governing the recognition, measurement and derecognition of assets and liabilities and the approach to the recognition of revenues and costs adopted by the Bank in the financial statements at and for the year ended 31 December 2018 have been updated with respect to those adopted in preparing the financial statements at and for the year ended 31 December 2017 following the entry into force with effect from 1 January 2018 of the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.
See the more detailed account provided below in the sections "Effects of the first-time adoption of IFRS 9" and "Effects of the first-time adoption of IFRS 15".

Business outlook and the going-concern assumption
The Board of Directors confirm that they may reasonably expect that the Company will continue to operate as a going concern for the foreseeable future, and that the 2018 financial statements have therefore been prepared on a going-concern basis. The Board of Directors further certify that there are no factors or signs at the level of financial position or operating performance that might represent causes for uncertainty on the subject of the going-concern principle. For information on the impairment testing of assets and uncertainty in the use of estimates, refer to the pertinent sections of the notes (Chapter A - Accounting policies and Chapter B - Notes to the balance sheet).

Section 3 Subsequent events
Please refer to the corresponding section of the report on operations.

Section 4 Other aspects
Risks and uncertainties relating to the use of estimates
In some cases the application of accounting standards entails the use of estimates and assumptions affecting the values of line items and disclosures provided regarding contingent assets and liabilities. For the purposes of the assumptions underlying the estimates adopted, all information available at the date of the accounting statements and all other factors considered reasonable to this end are taken into account.

In particular, estimation processes were adopted in support of the carrying amounts of certain items of the financial statements at 31 December 2018, as provided for in the accounting standards. Such processes are essentially based on estimates of the future recoverability of the amounts recognised and have been carried out on a going-concern basis. These processes underlie the carrying amounts as at 31 December 2018.

Estimates are revised at least annually, when preparing the financial statements.

The risk of uncertainty in estimation, from the standpoint of the significance of the items of the financial statements and the aspect of measurement requested by the management, is essentially present in determining:

- ✓ the fair value of financial instruments not quoted in active markets;
- ✓ adjustments due to credit risk;
- ✓ provisions for risks and charges;
- ✓ employee termination benefits;
- ✓ goodwill and other intangible assets.

Entry into force of new accounting standards
Standards issued, entered into force and applicable to these financial statements
The financial statements as at and for the year ended 31 December 2018 have been prepared in accordance with the IASs/IFRSs in effect on the reporting date. See the section "Statement of compliance with international accounting standards".
The accounting standards adopted in preparing these financial statements at and for the year ended 31 December 2018, with regard to the phases of classification, recognition, measurement and derecognition of financial assets and liabilities, and to the approach to recognition of revenue and costs, have been modified with respect to those adopted in preparing the 2017 financial statements. The modifications in question essentially relate to the mandatory application, with effect from 1 January 2018, of the following international accounting standards:

- ✓ IFRS 9 Financial Instruments, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation No. 2067/2016, which replaced IAS 39 with regard to the rules

governing the classification and measurement of financial instruments and the relevant impairment process; see the description provided in the section "Effects of the first-time adoption of IFRS 9";
- ✓ IFRS 15 Revenue from Contracts with Customers, endorsed by the European Commission through Regulation No. 1905/2016, which entailed the cancellation and replacement of IAS 18 Revenue and IAS 11 Construction Contracts; see the description provided in the section "Effects of the first-time adoption of IFRS 15".

The Bank also adopted some accounting standards and amendments that are in effect for years starting on or after 1 January 2018 for the first time. The following is an account of the new accounting standards and amendments to existing accounting standards endorsed by the EU, stressing that they did not have material impacts on the figures presented in the financial statements at and for the year ended 31 December 2018:
- ✓ Amendments to IFRS 2: Classification and measurement of share based payment transactions;
- ✓ Amendments to IAS 40 Investment Property: Clarification on transfers of property to, or from, investment property;
- ✓ Annual Improvements to International Reporting Standards 2014-2016 Cycle: IAS 28 Investments in Associates and Joint Ventures, IFRS 1 Additional Exemptions for First-Time Adopters and IFRS 12 Disclosure of Interests in Other Entities;
- ✓ Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration: The Interpretation clarifies the accounting treatment of transactions that include the receipt or payment of advances in foreign currencies.

Standards issued but not yet in effect

Some new international accounting standards are applicable for years beginning after 1 January 2018, for which early application is permitted. However, the Bank has not adopted in advance any standard, interpretation or amendment that has been published but not endorsed by the European Union.

Among these standards not yet in force, IFRS 16 is that which will entail changes to the representation provided in the Bank's financial statements, although its impact at the time of initial application is not believed to be significant.

In detail, the standard IFRS 16 introduces new rules for the accounting treatment of leasing contracts for both lessor and lessees, replacing the previous standards and interpretations (IAS 17, IFRIC 4, SIC 15 and SIC 27). A "lease" is defined as a contract that is based on the use of an identified asset and that conveys the right to use the asset for a period of time in exchange for consideration.

IFRS 16 lays down the principles for the recognition, measurement, presentation in the financial statements and additional disclosures on leases. Its purpose is to ensure that lessees and lessors provide appropriate information in a manner that faithfully represents the transactions. The information provides the users of the financial statements with the elements for assessing the effect of the lease on the entity's financial situation, operating results and cash flows.

The Standard applies to all contracts that include a right to use an asset for a certain period of time in exchange for given consideration. IFRS 16 applies to all transactions that provide for a right to use an asset, regardless of the contractual form, i.e. financial or operating leases or rentals.

The main new feature relates to the representation in the lessee's financial situation of the right of use and the commitment adopted with regard to operating leases, through the recognition of an asset and a liability. In particular, lessees must recognise liabilities on the basis of the present value of future rent, with a contra entry recognising the right to use the leased property.

After initial recognition:
- ✓ the right of use is amortised over the term of the contract or the useful life of the asset (on the basis of IAS 16) or measured according to an alternative criterion – revaluation or fair value model (IAS 16 or IAS 40, respectively);
- ✓ the liability will gradually be reduced due to the lease payments and will bear interest to be recognised to the income statement.

Contracts that have terms of less than twelve months or that refer to low value leased assets may be excluded from IFRS 16.

The accounting rules for leases laid down in IAS 17, which differ according to whether the leases in question are operating leases or finance leases, remain essentially unchanged. When accounting for a finance lease, the lessor will continue to carry an account receivable for future lease payments in its balance sheet.

IFRS 16 is applicable from 1 January 2019, and although early application is possible, the Bank has decided not to proceed with early adoption.

In 2018 the Bank began a process of identifying outstanding lease agreements for which accounting rules different from those currently in force will need to be applied in order to assess the impact thereof on the income statement and balance sheet. The Bank will exercise the option provided by IFRS 16 of not uniformly restating the comparative figures in the year of first-time adoption of IFRS 16, adopting "modified retrospective approach B" (paragraphs C5, letter b, C7 and C8, letter b.ii of Appendix C to IFRS 16), which makes it possible to recognise the right-of-use asset at the date of first-time adoption in an amount equal to the lease liability. According to this approach, no differences in the Bank's equity come to light at the date of first-time adoption.
IFRS 16 did not make significant changes to the accounting treatment of leases for lessors. Accordingly, the Bank does not envisage any impacts of this kind.
Finally, the Bank believes that the impacts of the adoption of the following interpretations and amendments to existing international accounting standards to be immaterial:

- ✓ IFRIC 23 Uncertainty over Tax Treatments;
- ✓ Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- ✓ Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- ✓ Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- ✓ Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards;
- ✓ Amendments to References to Conceptual Framework in IFRS Standards;
- ✓ Definition of a Business (Amendment to IFRS 3 Business Combinations);
- ✓ Definition of Material (Amendment to IAS 1 and IAS 8);
- ✓ IFRS 17 Insurance Contracts.

No further aspects to be disclosed pursuant to IAS 8, paragraphs 28, 29, 30, 31, 39, 40 and 49 have come to light.

IFRS 9: the new accounting standard on financial instruments

The Standard

The new accounting standard IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission in Regulation No 2067/2016, replaced, with effect from 1 January 2018, IAS 39, which until 31 December 2017 governed the classification and measurement of financial instruments.
IFRS 9 is divided into the three areas of classification and measurement of financial instruments, impairment and hedge accounting.
With regard to the first area, IFRS 9 provides that the classification of financial assets is to be guided, on the one hand, by the characteristics of their contractual cash flows and, on the other, by the management intent (business model) for which such assets are held. In lieu of the previous four accounting categories, under IFRS 9 financial assets may be classified into three categories based on the two drivers indicated above: financial assets measured at amortised cost; financial assets designated at fair value through other comprehensive income and, finally, financial assets designated at fair value through profit or loss.
Financial liabilities may be initially classified to the first two categories and then measured at amortised cost or at fair value through other comprehensive income only if it is proved that they give rise to cash flows that are solely payment of principal and interest (the "SPPI test").
Equities are always classified to the third category and designated at fair value through profit or loss, unless the entity elects (irrevocably, upon initial recognition), for equities not held for trading, to present changes in value in an equity reserve, which will never be transferred to profit or loss, even if the financial instrument is sold (financial assets designated at fair value through other comprehensive income without recycling).
With regard to impairment, for instruments measured at amortised cost and designated at fair value through other comprehensive income (other than equity instruments), a model based on expected loss is introduced in lieu of the current incurred loss provided for in IAS 39, so as to recognise losses more promptly.
IFRS 9 requires that entities recognise expected losses in the following twelve months (stage 1) with effect from the initial recognition of the financial instrument. The time horizon for calculating expected loss instead becomes the entire residual maturity of the asset concerned where the credit quality of the financial instrument has deteriorated "significantly" with respect to initial measurement (stage 2) or is found to be "impaired" (stage 3). In further detail, the introduction of the new impairment rules entails:

- ✓ the allocation of performing financial assets to the various stages of credit risk ("staging"), corresponding to impairment losses based on the expected losses during the following 12 months ("stage 1"), or on a

lifetime basis, i.e. over the instrument's entire residual maturity ("stage 2"), in the presence of a significant increase in credit risk (SICR) between the date of initial recognition and the reporting date;
- ✓ the allocation of non-performing financial assets to "stage 3", with impairment losses based on lifetime expected losses;
- ✓ the inclusion in the calculation of expected losses ("expected credit losses" or "ECLs") of forward-looking information relating to, among other subjects, the development of the macroeconomic scenario.

5

The approach chosen by Banca di Cividale

Proper application of the international accounting standard IFRS 9 requires that the Bank adopt certain application choices, as described hereunder. In addition to the foregoing, in order to provide as thorough an account of the environment of reference as possible, it bears emphasising that:

- ✓ on 12 December 2017 the European Parliament and the Council enacted Regulation (EU) No 2017/2395, "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", updating Regulation 575/2013 (the "CRR") to include the new Article 473a "Introduction of IFRS 9", which allows banks to mitigate the impacts on own funds of the introduction of the accounting standard IFRS 9 over a transitional period of five years (from March 2018 to December 2022), neutralising the impact on CET1, subject to application of decreasing percentages over time. Civibank opted for the transitional treatment, as permitted under the Guidelines issued on 12 January 2018, but information on fully-loaded available capital, RWAs, capital ratios and leverage ratios will nonetheless be provided to the market.
- ✓ with regard to the approach to representing the effects of the first-time adoption of the Standard, the Bank exercised the option provided for in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and ER2 of IFRS 1, First-Time Adoption of International Financial Reporting Standards, according to which – without prejudice to retrospective application of the new measurement and presentation rules established in the Standard – it is not mandatory to provide a uniform restatement of the comparative figures in the financial statements of first-time adoption of the new Standard. According to the instructions set out in the implementing act of the fifth update to Circular 262, "Banks' financial statements: layouts and preparation", banks that make use of the exemption from the obligation to restate comparative figures must in any event include in their first financial statements prepared according to the new Circular 262 a statement of reconciliation that indicates the method used and provides a reconciliation between the figures from the most recent approved financial statements and the first financial statements approved according to the new provisions. The form and content of such disclosure are left to the discretion of the competent company bodies.

The following is a brief account of the main areas of impact of the new accounting standard, as previously identified, and the main approaches selected in this regard by Civibank.

Classification and measurement

In order to comply with the provisions of IFRS 9, according to which the classification of financial assets is guided, on the one hand, by the contractual characteristics of instruments' cash flows and, on the other, by the business model according to which the instruments are held – the methods for performing the test on the contractual characteristics of cash flows (known as the "SPPI Test") were determined and the business model adopted by the Bank was formally described.

According to the method selected, the SPPI test was performed on financial assets by analysing the composition of the current securities and loan portfolio in existence at 31 December 2017, in order to identify the proper classification of the portfolio upon the first-time adoption (FTA) of the new Standard.

In the case of debt instruments in particular, a detailed analysis was conducted in respect of the characteristics of the cash flows of the instruments classified at amortised cost and the category of available-for-sale financial assets in accordance with IAS 39, identifying those assets that, since they do not pass the SPPI test, have been classified as mandatorily designated at fair value through profit or loss under IFRS 9. An insignificant share of debt securities – with respect to the Bank's total portfolio – does not pass the SPPI test. It should also be noted that, on the basis of the inquiries conducted and the clarification provided by the IFRS Interpretation Committee, units of CIUs (open-ended and closed-ended funds) have been classified among assets mandatorily designated at fair value through profit or loss.

With regard to loans, only marginal cases resulting in failure of the SPPI test by virtue of specific contractual clauses or the nature of the loan were identified. Accordingly, significant FTA impacts were also not identified for the loans segment.

The business models adopted by the Bank were identified with regard to the second driver of the classification of financial assets.
For hold-to-collect portfolios, thresholds for admissibility of sales that do not affect classification (frequent but not significant sales, individually and collectively, or significant but infrequent sales) were identified. Concurrently, parameters were established for identifying sales consistent with this business model as attributable to an increase in credit risk.
The business model within which loans are held is essentially a hold-to-collect model.
Finally, in more general terms, with regard to the business models according to which financial assets are held, it should be noted that a specific business model rules document – approved by the competent levels of the governance structure – has been finalised with the aim of defining and identifying the elements constituting the business model, by specifying their role with regard to the classification model governed by the Standard IFRS 9.
With regard to equity instruments, securities (classified as available-for-sale financial assets under IAS 39) for which to exercise the option for classification at fair value through other comprehensive income (without recycling to profit or loss) were identified. In addition, the general criteria that are to guide the fully-loaded selection process were also determined and the related organisational process was formally implemented.

Impairment
Pursuant to IFRS 9, at each reporting date, financial assets other than those designated at fair value through profit or loss are tested to determine whether there is evidence that their carrying amounts may not be fully recoverable. A similar analysis is also conducted for commitments to grant finance and guarantees granted, which fall within the scope of impairment testing pursuant to IFRS 9.
Where such evidence ("evidence of impairment") is found to exist, the financial assets concerned – in a manner consistent with all remaining assets attributable to that same counterparty – are considered impaired and reclassified to Stage 3. With regard to such assets, alignment of the accounting and regulatory definitions of default – already achieved – means that the current criteria for classifying exposures as "non-performing" / "impaired" may be considered identical to the criteria for classifying exposures to stage 3;
In cases of such exposures, represented by financial assets classified, pursuant to Bank of Italy Circular No. 262/2005, to the categories of non-performing positions, unlikely-to-pay positions and positions past due by more than 90 days, adjustments equal to the expected losses over their entire residual lives must be recognised.
For financial assets for which there is no evidence of impairment (performing financial instruments), it must be verified whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. The consequences of this verification, from the standpoint of classification (or, more properly, staging) and measurement, are as follows:
- where such indicators exist, the financial asset is classified to stage 2. In this case, in accordance with international accounting standards, despite the absence of a manifest impairment loss, measurement is based on recognising adjustments equal to the credit losses expected over the entire residual life of the financial instrument (known as the "lifetime expected credit loss");
- where such indicators do not exist, the financial asset is classified to stage 1. In this case, in accordance with international accounting standards, despite the absence of a manifest impairment loss, measurement is based on recognising the expected credit losses on the specific financial instrument over the following twelve months (the "12 month expected credit loss"). Such adjustments are reviewed at each subsequent reporting date both to periodically determine whether they are consistent with the constantly updated loss estimates and to take account of the changed time horizon for calculating the expected credit loss where there are indicators of "significantly increased" credit risk.
Forward-looking information relating to, among other subjects, the development of the macroeconomic scenario is included when calculating expected credit losses ("ECLs").
The elements that according to the Standard, as implemented by Banca di Cividale, are the main drivers to be considered when measuring financial assets, and in particular when identifying a "significant increase" in credit risk (a necessary and sufficient condition for the asset being measured to be classified to stage 2) are as follows:

- ✓ the counterparty's rating (considered as a proxy for the lifetime risk of default), where available, quantifies credit risk; the difference in terms of 'notches' between the rating class when the relationship is formed and the rating class assigned on the reporting date is used as a proxy for measuring the change in credit risk (e.g., as the relative threshold for significant deterioration of credit risk);

- ✓ the presence of any, of amounts past due by at least 30 days; in other words, in such cases the exposure's credit risk is presumed to have "increased significantly", resulting in "transfer" to stage 2 (where the exposure was previously classified to stage 1);
- ✓ any forbearance measures, where applicable, which are also presumed to entail the classification of the exposures in question among those for which credit risk has "increased significantly" since initial recognition;
- ✓ the assignment to the individual relationship or counterparty, where applicable, of qualitative factors relating to non-performance as at the reporting date, defined by the Bank within the framework of the process of identifying particularly risky positions, as part of credit monitoring, the occurrence of which is presumed to indicate that there has been a significant increase in credit risk, unless there is evidence to the contrary.

Once the definitive allocation of the exposures to the various credit risk stages has been determined, expected credit losses (ECLs) are calculated at the level of each transaction or tranche of a security, based on the internal models developed at the consortium level by the IT provider (to which the Bank has fully outsourced ITO activities and services), through the parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD), which are subject to appropriate calibration measures inclusive of each bank's historical series.

In accordance with the prudential regulations implementing the European Banking Authority's Guidelines dated 20 September 2017 on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06), the rating system and expected credit loss models implemented in accordance with the accounting standard IFRS 9 are periodically reviewed by the Risk Management Function within the framework of IFRS 9 validation activities (of a structural and operational nature), through a dedicated process in which specific activities are also performed by the CSE Consortium (the fully outsourced IT provider). In addition, the Bank's Risk Management performed periodic level-two controls on the process of calculating expected credit losses, together with dedicated analyses monitoring the staging criteria applied and the level of impairment of credit exposures on the basis of the various drivers of analysis (technical form, type of customer, rating class, etc.), in accordance with the policies and procedures applied, accounting framework and proportionality principle.

Some special criteria apply to the staging of securities. In contrast to loans, purchase transactions involving this type of exposure after initial purchase may customarily fall within the scope of ordinary management of the positions (with the resulting need to select a method to be adopted to identify sales and redemptions in order to determine the residual quantities of the individual transactions with which to associate a credit quality/rating upon origination to be compared with that at the reporting date). Within this framework, it was decided that the use of the "first-in, first-out" or "FIFO" method (for the recycling to the income statement of the ECL recognised, in the event of sales or redemptions) contributes to more transparent management of the portfolio, including from the standpoint of front-office personnel, while also permitting assessments of creditworthiness to be constantly updated on the basis of new purchases.

External providers have been consulted as part of the process of calculating expected credit losses on securities. It bears emphasising that the "first-in, first-out" or "FIFO" method has been used to calculate the recycling to the income statement of the expected credit loss recognised in the event of sales.

It should be noted that Banca di Cividale does not apply the "Low Credit Risk Exemption," which would allow it not to perform the significant deterioration of credit risk test for transactions that as at the measurement date present low credit risk, with the exception of the portfolio of debt securities with an investment grade rating.

The Bank performs a specific assessment on positions classified as unlikely to pay above a certain exposure threshold and on all positions classified as bad debts, based on prudent criteria that take account of all factors capable of giving rise to a lesser or greater degree of recovery (inclusive of the financial effect estimated as necessary for recovery). In particular, the main debtor's ability to repay, the presence of collateral, personal guarantees or consortium guarantees and the contingent market value of collateral are all taken into account in this process. When conducting specific assessments, the Bank differentiates its accounting treatment of non-performing loans according to whether recovery depends on future operating cash flows (the "going-concern" scenario) or solely on the enforcement of guarantees (the "gone-concern" scenario).

Non-performing exposures classified as past-due and unlikely-to-pay beneath a certain gross exposure threshold (<€200 thousand) are measured collectively, by applying a stage 3 impairment calculation model, consistent with the criteria laid down in the accounting standard IFRS 9 for determining the expected credit loss, calculated over a lifetime horizon, as envisaged for positions classified to Stage 2 and also inclusive of forward-looking parameters.

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

The statements of reconciliation between the 2017 financial statements and the financial statements pursuant to the new Bank of Italy Circular 262, which adopts the basis of presentation laid down in IFRS 9, are set out below. In these financial statements, the balances at 31.12.2017 (calculated according to IAS 39) are reclassified to the new accounting items, as necessary on the basis of the new classification rules set out in IFRS 9, and according to the analyses conducted (as described above), but without applying the new measurement criteria, and thus without any changes to total assets and liabilities.

	IFRS 9 \ IAS 39	Cash and cash equivalents	Financial assets held for trading	Financial assets available for sale	Due from banks	Loans to customers	Equity investments	Property and equipment	Intangible assets	Tax assets	Other assets		Total assets
10	Cash and cash equivalents	23,944											**23,944**
20	Financial assets measured at fair value through profit or loss												**36,577**
	a) financial assets held for trading		4,980										**4,980**
	c) other financial assets mandatorily measured at fair value			17,329		14,215					53		**31,597**
30	Financial assets measured at fair value through other comprehensive income			353,549									**353,549**
40	Financial assets measured at amortised cost												**3,269,003**
	a) due from banks			44,405	33,327								**77,732**
	b) loans to customers			581,311		2,609,960							**3,191,271**
70	Equity investments						3,780						**3,780**
80	Property and equipment							79,218					**79,218**
90	Intangible assets								2,314				**2,314**
100	Tax assets									73,564			**73,564**
120	Other assets										61,981		**61,981**
	Total assets	**23,944**	**4,980**	**996,594**	**33,327**	**2,624,175**	**3,780**	**79,218**	**2,314**	**73,564**	**62,034**		**3,903,929**

	IFRS 9 \ IAS 39	Due to banks	Due to customers	Debt securities issued	Financial liabilities held for trading	Tax liabilities	Other liabilities	Employee termination benefits	Provisions for risk and charges	Valuation reserves	Reserves	Share premiums	Share capital	Treasury shares (-)	Net income (loss) for the period (+/-)		Total liabilities
10	Financial liabilities measured at amortised cost																**3,528,117**
	a) due to banks	674,119															**674,119**
	b) due to customers		2,709,002														**2,709,002**
	c) securities issued			144,996													**144,996**
20	Financial liabilities held for trading				765												**765**
60	Tax liabilities					5,148											**5,148**
80	Other liabilities						61,582		-632								**60,950**
90	Employee termination benefits							5,073									**5,073**
100	Provisions for risk and charges								2,322								**2,322**
110	Valuation reserves									15,438							**15,438**
140	Reserves										68,219						**68,219**
150	Share premiums											167,022					**167,022**
160	Share capital												50,913				**50,913**
170	Treasury shares (-)													(792)			**(792)**
180	Net income (loss) (+/-)														753		**753**
	Total liabilities and shareholders' equity	**674,119**	**2,709,002**	**144,996**	**765**	**5,148**	**61,582**	**5,073**	**1,690**	**15,438**	**68,219**	**167,022**	**50,913**	**(792)**	**753**		**3,903,929**

INCOME STATEMENT IFRS 9 / IAS 39	Interest income and similar revenues	Interest expense and similar charges	Commission income	Commission expense	Dividends and similar income	Net trading income	Profit (loss) on disposal or repurchase of: a) loans	Profit (loss) on disposal or repurchase of: b) financial assets available for sale	Profit (loss) on disposal or repurchase of: d) financial liabilities	Rettifiche di valore nette per deterioramento di: a) crediti	Charges/write-backs on impairment of: a) loans	Charges/write-backs on impairment of: d) other financial transactions	G&A expenses: a) personnel expenses	G&A expenses: b) other administrative expenses	Net provisions for risks and charges	Net impairment/write-backs on property, plant and equipment	Net impairment/write-backs on intangible assets	Other operating income (expenses)	Profit (loss) on equity investments	Goodwill impairment	Tax on income from continuing operations	Net income for the period	RECLASSIFICATION ACTUARIAL INTERESTS	RECLASSIFICATION GUARANTEES AND COMMITMENTS	RECLASSIFICATION NET IMPAIRMENT OF FINANCIAL ASSETS AFS	RECLASSIFICATION NET TRADING INCOME	TOTAL INCOME STATEMENT
Interest income and similar revenues	78.746																						2.880				81.626
Interest expense and similar charges		(18.787)																									(18.787)
Net interest income	**78.746**	**(18.787)**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**2.880**	-	-	-	**62.838**
Commission income			32.877																								32.877
Commission expense				(3.860)																					-		(3.860)
Net commission income	-	-	**32.877**	**(3.860)**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**29.016**
Dividends and similar income					818																						818
Net trading income						182																					182
Profit (loss) on disposal or repurchase of:	-	-	-	-	-	-	**(240)**	**11.564**	**5**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(1.345)**	9.984
a) financial assets measured at amortised cost							(240)																			4.420	4.180
b) financial assets measured at fair value through other comprehensive income								11.564																		(5.765)	5.799
c) financial liabilities									5																		5
Profits (Losses) on other financial assets and liabilities measured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(1.249)**	**1.345**	96
b) other financial assets mandatorily measured at fair value																									(1.249)	1.345	96
Total income	**78.746**	**(18.787)**	**32.877**	**(3.860)**	**818**	**182**	**(240)**	**11.564**	**5**	-	-	-	-	-	-	-	-	-	-	-	-	-	**2.880**	-	**(1.249)**	-	**102.935**
Charges/write-backs on impairment of:	-	-	-	-	-	-	-	-	-	**(20.640)**	**(3.821)**	**783**	-	-	-	-	-	-	-	-	-	-	**(2.880)**	**(783)**	**1.249**	-	**(26.092)**
a) financial assets measured at amortised cost										(20.640)													(2.880)				(23.520)
b) financial assets measured at fair value through other comprehensive income											(3.821)	783												(783)	1.249		(2.572)
Net Financial income	**78.746**	**(18.787)**	**32.877**	**(3.860)**	**818**	**182**	**(240)**	**11.564**	**5**	**(20.640)**	**(3.821)**	**783**	-	-	-	-	-	-	-	-	-	-	-	**(783)**	-	-	**76.842**
G&A expenses:	-	-	-	-	-	-	-	-	-	-	-	-	**(41.194)**	**(37.212)**	-	-	-	-	-	-	-	-	-	-	-	-	(78.405)
a) personnel expenses													(41.194)														(41.194)
b) other administrative expenses														(37.212)													(37.212)
Net provisions for risks and charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**(642)**	-	-	-	-	-	-	-	-	**783**	-	-	141
a) commitments and guarantees given																								783			783
b) other net provisions															(642)												(642)
Net impairment/write-backs on property, plant and equipment																(2.322)											(2.322)
Net impairment/write-backs on intangible assets																	(48)										(48)
Other operating income (expenses)																		8.468									8.468
Operating cost	-	-	-	-	-	-	-	-	-	-	-	-	**(41.194)**	**(37.212)**	**(642)**	**(2.322)**	**(48)**	**8.468**	-	-	-	-	-	**783**	-	-	**(72.167)**
Profit (loss) on equity investments																			(84)								(84)
Goodwill impairment																				(1.606)							(1.606)
Income (loss) before tax from continuing operations	**78.746**	**(18.787)**	**32.877**	**(3.860)**	**818**	**182**	**(240)**	**11.564**	**5**	**(20.640)**	**(3.821)**	**783**	**(41.194)**	**(37.212)**	**(642)**	**(2.322)**	**(48)**	**8.468**	**(84)**	**(1.606)**	-	-	-	-	-	-	**2.985**
Tax on income from continuing operations																					(2.232)						(2.232)
Income (loss) after tax from continuing operations	**78.746**	**(18.787)**	**32.877**	**(3.860)**	**818**	**182**	**(240)**	**11.564**	**5**	**(20.640)**	**(3.821)**	**783**	**(41.194)**	**(37.212)**	**(642)**	**(2.322)**	**(48)**	**8.468**	**(84)**	**(1.606)**	**(2.232)**	-	-	-	-	-	**753**
Income (loss) after tax from discontinued operations																						753					753
Net income	**78.746**	**(18.787)**	**32.877**	**(3.860)**	**818**	**182**	**(240)**	**11.564**	**5**	**(20.640)**	**(3.821)**	**783**	**(41.194)**	**(37.212)**	**(642)**	**(2.322)**	**(48)**	**8.468**	**(84)**	**(1.606)**	**(2.232)**	**753**	-	-	-	-	**753**

Focusing attention on the most significant reclassifications, the application of the new classification and measurement rules on financial assets resulted, in particular, in the following:

- the reclassification of part of debt securities available for sale under IAS 39, with €625,716 thousand allocated to financial assets measured at amortised cost, due to the change in business model;
- the reclassification of units of CIUs classified among financial instruments available for sale under IAS 39, with €17,329 thousand reclassified to assets mandatorily measured at fair value through profit or loss under IFRS 9;
- the classification of equity instruments classified as available for sale under IAS 39, with €32,937 thousand included among financial assets for which the option for designation at fair value through other comprehensive income (without recycling to profit or loss) has been irrevocably exercised.

It should also be noted that the reclassification of loans to customers to the portfolio of assets designated at fair value through profit or loss due to failure of the SPPI test was marginal (€14,269 thousand).

In addition to the reclassifications in application of IFRS 9 (i.e. due to the business model and SPPI test), mention should also be made here of the reclassifications due to the introduction of the new official presentation schemes through the December 2017 update to Bank of Italy Circular 262. As regards the new Circular 262 in particular, attention should be drawn to the different approach to presenting financial assets, which in lieu of the previous items loans to customers, loans to banks, financial assets held to maturity, financial assets available for sale, financial assets measured at fair value and financial assets held for trading are now classified to the new items financial assets designated at fair value through profit or loss, financial assets designated at fair value through other comprehensive income and financial assets measured at amortised cost.

There were no significant impacts of the reclassification due to the transition to IFRS 9 on financial liabilities. Solely in the interest of completeness, the following should be emphasised:

- the reclassification of provisions for credit risk in respect of commitments to grant finance and financial guarantees given, which under the previous version of Bank of Italy Circular 262 had been classified among other liabilities, but which according to the new rules are to be included among provisions for risks and charges.

However, attention should also be drawn to the reclassifications of items of liabilities and shareholders' equity due to the new official schemes introduced by the often-cited Circular 262.

In the new official schemes introduced by the Bank of Italy, in addition to the changes to the presentation of cumulative adjustments to guarantees given and commitments to grant finance mentioned above, it also bears noting that the previous items relating to amounts due from banks, amounts due from customers and debt securities issued have all been merged into item 10. Financial liabilities at amortised cost

Reconciliation of the balance sheet at 31 December 2017 (reflecting the new IFRS 9 presentation rules) and the balance sheet at 1 January 2018 (reflecting the new IFRS 9 measurement and impairment rules)

The statements of reconciliation between the balance sheet at 31 December 2017 (under IAS 39), reflecting the reclassifications due to the new IFRS 9 classification rules discussed above, and the balance sheet at 1 January 2018 (IFRS 9) are set out below. In these schedules, the accounting balances at 31 December 2017 (determined in accordance with IAS 39) have been modified due to the application of the new measurement and impairment rules, in order to determine the IFRS 9-compliant opening balances.

ASSETS	31/12/2017	IFRS9 C&M	IFRS9 - Impairment	01/01/2018 FTA	Change
Cash and cash equivalents	23,944,208	-		23,944,208	-
Financial assets measured at fair value through profit or loss	36,576,893			36,576,893	-
Financial assets measured at fair value through other comprehensi	353,549,286		-	353,549,286	-
Financial assets measured at amortised cost	3,269,002,611	(6,207,073)	(33,739,644)	3,229,055,894	(39,946,717)
a) Due from banks	77,731,993	(511,692)	-	77,220,301	(511,692)
b) Loans to customers	3,191,270,618	(5,695,381)	(33,739,644)	3,151,835,592	(39,435,026)
Equity investments	3,780,287	-		3,780,287	-
Property, plant and equipment and intangible assets	81,531,353	-		81,531,353	-
Tax assets	73,563,525	(23,575)	11,235,164	84,775,114	11,211,589
Other assets	61,980,707	-	-	61,980,707	-
Total assets	**3,903,928,870**	**(6,230,648)**	**(22,504,480)**	**3,875,193,742**	**(28,735,128)**

LIABILITIES	31/12/2017	IFRS9 C&M	IFRS9 - Impairment	01/01/2018 FTA	Change
Financial liabilities measured at amortised cost	3,528,116,804	-		3,528,116,804	-
a) Due to banks	674,119,359			674,119,359	-
b) Due to customers	2,709,001,820			2,709,001,820	-
c) Securities issued	144,995,625			144,995,625	-
Financial liabilities held for trading and hedging	765,302	-		765,302	-
Passività fiscali	5,148,451	(1,811,192)		3,337,259	(1,811,192)
Tax liabilities	60,950,095	-	727,739	61,677,834	727,739
Other liabilities	7,395,172	-		7,395,172	-
Valuation reserves	15,438,011	(4,959,548)	478,695	10,957,158	(4,480,853)
Reserves	68,218,633	540,092	(23,710,914)	45,047,811	(23,170,822)
Share premiums	167,021,739	-		167,021,739	-
Share capital	50,913,255	-		50,913,255	-
Treasury shares (-)	(791,592)	-		(791,592)	-
Net income (loss) (+/-)	753,000	-		753,000	-
Total liabilities	**3,903,928,870**	**(6,230,648)**	**(22,504,480)**	**3,875,193,742**	**(28,735,129)**

Classification and measurement

The different classification of financial assets to the new IFRS 9 categories and the resulting different measurement metric resulted in a negative impact on Civibank's shareholders' equity of €4,419 thousand, as detailed below.

The adjustment to the carrying amount of financial assets due to the change in the business model, essentially attributable to the debt securities portfolio, had an overall negative impact on shareholders' equity of €4,959 thousand. This effect is primarily due to the following factors:

- reclassification of financial assets available for sale held within a hold-to-collect business model, with the resulting redetermination of carrying amount and derecognition of the AFS reserve (€4,211 thousand);
- reclassification of financial assets measured at amortised cost held within a trading business model and resulting redetermination of carrying amount (fair value), with recognition of changes in fair value from the date of initial recognition of the assets concerned (€749 thousand) to the specific earnings reserve (FTA reserve).

The application of the new impairment rules ("expected credit losses") to financial assets measured at amortised cost (on-balance sheet exposures) resulted in a negative impact, gross of taxes, of €33,739 thousand (€22,740 thousand net of the tax effect), as detailed below:

- increased adjustments to performing on-balance sheet loans of €7,393 thousand, attributable to the allocation of part of the performing portfolio to Stage 2, on the basis of the established stage allocation criteria, with the resulting need to calculate the expected loss for the entire residual duration of the financial assets.
- increased adjustments to performing securities of €225 thousand, of a financial nature;
- increased adjustments to non-performing loans of €26,121 thousand, primarily as a result of the inclusion in the calculation of expected credit losses of the sale scenario – planned as part of company objectives for reducing non-performing assets within the framework of an NPL strategy reported to

the supervisory authority – for a part of the loan portfolio previously classified as bad debts meeting the requirements for sale.

The greater adjustments may be broken down into impairment of bad debt positions of €21,845 thousand and of positions classified as unlikely-to-pay and past-due of €4,276 thousand.

On the liabilities side, there were greater adjustments to guarantees given and commitments (irrevocable and revocable) to grant finance of €728 thousand recognised among provisions for risks and charges. This increase was due to both the application of the new impairment rules and the expanded scope of application, which also includes revocable commitments.

Reconciliation of IAS 39 shareholders' equity and IFRS 9 shareholders' equity

The statement of reconciliation between shareholders' equity at 31 December 2017, as presented in the 2017 financial statements, and the opening shareholders' equity at 1 January 2018, following the transition to IFRS 9, incorporating the effects commented upon above, is set out below.

Effect of transition to IFRS 9 (euro)		
A)	**IAS 39 Shareholders' Equity - 31.12.2017**	**301,553,046**
B)	**CLASSIFICATION AND MEASUREMENT**	**(4,419,456)**
	Adjustment to carrying amount of financial assets resulting from change in business model	(4,959,548)
	Reclassification from valuation reserves to retained earnings reserves:	540,092
	net change in valuation reserves due to application of new classification and measurement rules	*540,092*
C)	**IMPAIRMENT**	**(34,467,383)**
	Application of the new (ECL) impairment model to loans measured at amortised cost:	(34,242,298)
	performing (Stage 1 e 2)	*(7,393,205)*
	guarantees and commitments (Stage 1 e 2)	*(727,739)*
	non performing (Stage 3)	*(26,121,355)*
	Application of the new (ECL) impairment model to debt securities measured at amortised cost:	(225,085)
	performing (Stage 1 e 2)	*(225,085)*
D)	**TAX EFFECT**	**11,235,164**
E)=B)+C)+D)	**Total IFRS 9 transition effects at 1.1.2018**	**(27,651,675)**
A)+E)	**IFRS 9 Shareholders' Equity - 1.1.2018**	**273,901,371**

The accounting effects described above also have consequences at the level of regulatory capital and capital ratios. In particular, the increase in impairment reduces CET1 through the reduction of book shareholders' equity net of the tax effect. As a consequence, the impact of the first-time adoption of IFRS 9 (classification, measurement and impairment) on the Bank's CET1 ratio is:

- 107 bps according to the fully loaded approach;
- 22 bps according to the phase-in approach, i.e. with the application of Article 473a of the Capital Requirements Regulation ("CRR").

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

Loans to customers	Ias 39					Ifrs9				
Items	*Gross exposure*	*Specific writedowns*	*Portfolio writedowns*	*Net exposure*	*Coverage**	*Gross exposure*	*Specific writedowns*	*Portfolio writedowns*	*Net exposure*	*Coverage**
Bad loans	(441.58)	280.14		(161.45)	63.4%	(441.6)	302.0		(139.6)	68.4%
Unlikely to pay	(207.07)	44.98		(162.09)	21.7%	(205.2)	48.0		(157.3)	23.4%
Past-due loans	(16.60)	2.02		(14.58)	12.2%	(16.6)	2.3		(14.3)	14.1%
Other assets	(2,297.36)	x	11.31	(2,286.05)	0.49%	(2,284.0)	x	18.7	(2,265.3)	0.82%
Total	**(2,962.6)**	**327.1**	**11.3**	**(2,624.2)**		**(2,947.4)**	**352.3**	**18.7**	**(2,576.4)**	
Non-performing loans / Total	**22.5%**			**12.9%**		**22.5%**			**12.1%**	
Coverage non-performing loans		**49.2%**					**53.1%**			

Composition and stage allocation of exposures at amortised cost subject to the IFRS 9 impairment process and related ECL

Effects of first-time adoption of IFRS 15

IFRS 15 calls for the recognition of revenue in an amount that reflects the consideration to which the entity believes it is entitled in exchange for the transfer of the goods or services to the customer. The new Standard replaces all current requirements regarding the recognition of revenue in IFRSs. The Bank launched a thorough analysis in 2017, through which it was determined, on the basis of the types of products present, that are no material impacts.

Effects of first-time adoption of IFRS 9 on ratios

Regulation (EU) No 2017/2395 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, introducing the new Article 473a "Introduction of IFRS 9" to Regulation No. 575/2013, was issued on 12 December 2017. The above Article allows banks to mitigate impacts on own funds due to the introduction of the new impairment rules set out in IFRS 9 over a transitional period of five years, by neutralising the impact on CET1 through the application of decreasing percentages over time.

The Bank adopts the provisions of the above Article with regard to both the impact based on the comparison of the adjustments to IAS 39 values as at 31 December 2017 and the IFRS 9 adjustments as at 1 January 2018 and the greater adjustments to stage 1 and 2 due at the end of the reporting period when compared to the same adjustments as at 1 January 2018. This makes it possible to include in Common Equity Tier 1 capital (CET1) a lesser share of the impact, calculated net of the tax effect, of the new accounting standard on own funds. This share is set to decline gradually from the 95% envisaged for 2018 to 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022.

A.2 – MAIN CAPTIONS OF THE FINANCIAL STATEMENTS

This section describes the accounting policies adopted in preparing the financial statements for the year ended 31 December 2018 and includes an illustration by item of the criteria for recognition, classification, measurement, derecognition and, where relevant, the criteria for the recognition of income components.

1 - Financial assets designated at fair value through profit or loss

This category includes financial assets other than those classified as financial assets designated at fair value through other comprehensive income and financial assets measured at amortised cost.

Item "20. Financial assets designated at fair value through profit or loss" includes:

- ✓ financial assets held for trading, essentially debt and equity securities, and the positive value of derivative contracts other than those designated as effective hedging instruments, held for trading purposes;
- ✓ financial assets designated at fair value, defined as such upon initial recognition, where the requirements laid down in IFRS 9 have been met. In particular, the reference is to assets the designation of which at fair value through profit or loss eliminates or significantly reduces a measurement inconsistency (sometimes termed an "accounting asymmetry"). The Bank currently does not classify any financial assets as designated at fair value;
- ✓ other financial assets mandatorily measured at fair value, consisting of financial assets that do not meet the requirements for measurement at amortised cost or fair value through other comprehensive income. In particular, the item includes financial assets that: i) give rise to cash flows that are not solely payments of principal of interest (i.e., they do not pass the SPPI test); ii) are not held within a business model the purpose of which is to hold the financial assets in order to obtain their cash flows or collect cash flows through the sale of the asset; and iii) units in CIUs.

Debt securities, equity securities and units in CIUs are recognised on the settlement date, loans on the disbursement date and derivative financial instruments on the subscription date. Upon initial recognition they are recognised at fair value, normally represented by the consideration for the transaction, without including the transaction costs/revenue attributable to the instrument, taken directly to profit or loss.

Reclassifications of financial assets to other categories are only permitted where the entity changes the business model within which they are held. In such rare cases, a financial asset designated at fair value through profit or loss may be reclassified to financial assets measured at amortised cost or financial assets designated at fair value through other comprehensive income. The transfer value is the reclassification date fair value and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate on the reclassified financial asset is based on its reclassification date fair value, and the reclassification date is taken as the date of initial recognition for allocation to the various credit risk stages for the purposes of determining impairment on financial assets.

After initial recognition, financial assets at fair value through profit or loss are measured at fair value and the effects of the application of this approach are taken to profit or loss. Accordingly, all associated gains and losses, including trading gains and losses, interests and dividends collected and changes in fair value due to changes in market rates, share prices and other market variables, are taken to profit or loss.
The fair value of financial instruments quoted on active markets is determined on the basis of the official prices of the most advantageous market to which the Bank has access. If, for a given financial instrument, the conditions for identifying an active market have not been satisfied, it will be necessary to make use of a measurement technique, by which is meant a process that permits the identification of the price at which the instrument could be exchanged between independent parties in balanced bargaining conditions.
Financial assets, or portions thereof, are derecognised when the contractual rights to the cash flows have expired or been transferred without retaining essentially all the associated risks and benefits. Conversely, a substantial share of the associated risks and benefits is retained following the transfer of legal title to financial assets, the assets concerned will continue to be carried.

2 - Financial assets designated at fair value through other comprehensive income
This category includes financial assets for which both of the following conditions have been met:
- ✓ they are held within a business model the purpose of which is both to collect the associated contractual cash flows and to sell the instrument concerned;
- ✓ the contractual clauses meet the requirements of the SPPI test, i.e. the cash flows represent, on given dates, payments of principal and interest accrued on the amount of the principal to be repaid.

This item also includes equity instruments not held for trading which upon initial recognition the entity opted to designate at fair value through other comprehensive income. Debt and equity securities are recognised at the settlement date, whereas loans are recognised on the disbursement date. Upon initial recognition they are recognised at fair value, inclusive of the transaction costs and revenues attributable to the instrument concerned.
Reclassifications of financial assets to other categories are only permitted where the entity changes the business model within which they are held. In such rare cases, a financial asset designated at fair value through other comprehensive income may be reclassified to financial assets measured at amortised cost or financial assets designated at fair value through profit or loss. The transfer value is the reclassification date fair value and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification to the amortised cost category, the cumulative gain (loss) taken to the valuation reserve is applied as an adjustment to the financial asset's reclassification date fair value. In the event of reclassification to fair value through profit or loss, the cumulative gain (loss) previously taken to the valuation reserve is reclassified from equity to net income (loss) for the year. After initial recognition, assets classified at fair value through other comprehensive income other than equity securities are measured at fair value, with changes in value taken to other comprehensive income and the impacts of the application of the amortised cost approach, the effects of impairment and any foreign exchange effects taken to profit or loss. Changes in value taken to other comprehensive income are recycled to profit or loss when the asset in question is derecognised.
Equity instruments which the entity has opted to designate at fair value through other comprehensive income are measured at fair value with changes taken to other comprehensive income. This effect may not be recycled to profit or loss, even in the event of sale. Dividends are taken to profit or loss.
The fair value of financial instruments quoted on active markets is determined on the basis of the official prices of the most advantageous market to which the Bank has access. If, for a given financial instrument, the conditions for identifying an active market have not been satisfied, it will be necessary to make use of a measurement technique, by which is meant a process that permits the identification of the price at which the instrument could be exchanged between independent parties in balanced bargaining conditions. Interest is calculated according to the effective interest rate method. The effective interest rate is the rate that results in the present value of the cash flows expected over the lifetime of the instrument being equal to the carrying amount of the asset concerned. Expected cash flows have been determined considering all contractual terms of the instrument and include all fees and basis points paid or received between the parties to the contract, transaction costs and all other premiums or discounts that can be measured and are considered an integral part of the transaction's effective interest rate. The use of the effective interest rate to calculate interest entails the distribution of interest over the life of the instrument. Dividends on equity instruments are taken to profit or loss when the right to receive payment of the dividends accrues. At each reporting date, financial assets designated at fair value through other comprehensive income other than equity instruments are tested for

impairment according to the rules set out in the standard IFRS 9; adjustments applied are taken to profit or loss.
Financial assets, or portions thereof, are derecognised when the contractual rights to the cash flows have expired or been transferred without retaining essentially all the associated risks and benefits.

3 - Financial assets measured at amortised cost
This category includes financial assets for which both of the following conditions have been met:
- ✓ they are held within a business model the purpose of which is to collect the associated contractual cash flows;
- ✓ the contractual clauses meet the requirements of the SPPI test, i.e. the cash flows represent, on given dates, payments of principal and interest accrued on the amount of the principal to be repaid.

Specifically, without prejudice to satisfaction of the requirements set out in the foregoing paragraph, the following are entered to item “40. Financial assets measured at amortised cost”:
- ✓ loans to banks;
- ✓ loans to customers;
- ✓ debt securities;
- ✓ other instruments relating to operating receivables associated with the provision of financial activities and services, in accordance with the Consolidated Banking Act and Consolidated Finance Act.

Loans are initially recognised when disbursed and debt securities on the settlement date. Upon initial recognition they are measured at fair value, which normally corresponds to the amount disbursed, inclusive of the costs and income directly attributable to the transaction and determinable at inception.
Reclassifications of financial assets to other categories are only permitted where the entity changes the business model within which they are held. In such rare cases, a financial asset measured at amortised cost may be reclassified to financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss. The transfer value is the reclassification date fair value and the effects of the reclassification apply prospectively from the reclassification date. The gains or losses resulting from the difference between the amortised cost of the financial asset and its fair value
are taken to profit or loss in the event of reclassification to financial assets designated at fair value through profit or loss and comprehensive equity, and to other comprehensive income, through the specific valuation reserve, in the event of reclassification to financial assets designated at fair value through other comprehensive income. After initial recognition, the loans are measured at amortised cost using the effective interest rate method.
The effective interest rate is the rate that results in the present value of the cash flows expected over the lifetime of the instrument (until maturity or “expected” maturity or, where appropriate, over a lesser period) being equal to the carrying amount of the asset concerned. The use of this rate to calculate interest entails the distribution of interest over the life of the instrument. Expected cash flows have been determined considering all contractual terms of the instrument and include all fees and basis points paid or received between the parties to the contract, transaction costs and all other premiums or discounts that can be measured and are considered an integral part of the transaction's effective interest rate. Amortised cost is not calculated for short-term transactions, where the effect of calculation is deemed immaterial, and for loans with indefinite maturities or revocable loans. Such loans are measured at cost, and the associated costs/income are taken to profit and loss in a linear manner over the contractual term of the loan. At each reporting date, financial assets measured at amortised cost are tested for impairment according to the rules set out in the standard IFRS 9; adjustments applied are taken to profit or loss.
If the grounds for impairment cease to apply due to an event that occurs after such a loss has been recognised, a recovery is recognised through the income statement. The amount of the recovery cannot result in a carrying amount for the financial asset in excess of its amortised cost if no impairment losses had been recognised in previous periods. Recoveries on impairment associated with time-value effects are included in net interest income. The original contractual conditions could be modified over the life of the financial instrument by the will of the contractual parties. In such cases, it must be verified whether the original asset is to continue to be carried or the original instrument is to be derecognised and a new financial instrument recognised. Generally, modifications of a financial asset result in the derecognition of the asset and the recognition of a new asset when they are “substantial” and the assessment as to whether the modification is “substantial” must be based on qualitative and quantitative considerations. More specifically, the analyses set out in the foregoing paragraph must consider:

- ✓ the purposes of the modifications: the reference is to renegotiations due to financial difficulties (forbearance measures), rather than to negotiations for commercial reasons (generally aimed at bringing the cost of debt into line with market conditions);
- ✓ the existence of objective triggers that are believed to entail derecognition in view of their impact on the original contractual cash flows.

Financial assets, or portions thereof, are derecognised when the contractual rights to the cash flows have expired or been transferred without retaining essentially all the associated risks and benefits. If a significant share of the associated risks and benefits is retained following the transfer of legal title to financial assets, the assets concerned will continue to be carried.

Finance leases

Loans to customers in respect of leased assets are recognised upon the commencement of the contracts in question, i.e. when the assets are formally delivered. Loans to customers in respect of leased assets are recognised at amortised cost, i.e. the initial value of the investment, inclusive of the initial direct costs incurred and directly attributable commissions, less principal repayments and adjusted by the depreciation calculated according to the effective interest rate method, i.e. by discounting estimated future payment flows over the expected term of the financing by the effective interest rate. Criteria similar to those previously illustrated were adopted for impairment losses and recoveries. They are subject to impairment according to the rules set out in IFRS 9 for financial assets measured at amortised cost discussed above.

5 - Equity investments

Item "70. Equity investments" includes the value of equity interests in companies subject to joint control and significant influence. Equity investments in jointly controlled entities are investments in respect of which the power to make decisions regarding the relevant activities is shared between two or more parties. Equity investments in associated entities are investments in entities over which significant influence is exercised, i.e. the power to participate in decisions regarding financial and management policies, without this power translating into a situation of control.

If 20% or more of the votes that may be cast in the investee's general meeting are held, directly or indirectly, it is supposed that significant influence exists, unless the contrary can be proved. In particular, significant influence is not considered to exist, even when more than a 20% interest is held in the investee, if only financial rights are held to the investments, without access to management policies and without governance rights.

Conversely, if less than 20% of the votes that may be cast in the investee's general meeting are held, directly or indirectly, it is supposed that significant influence is not exercised, unless such influence may be clearly demonstrated. Equity investments are initially recognised at cost and then according to the equity method.

In accordance with IAS 36, equity investments become impaired when their carrying amount exceeds their recoverable amount, defined as the greater of fair value less costs to sell and value in use. Fair value is determined on the basis of the best available information to reflect the amount that an entity could obtain, at the reporting date, by disposing of the asset in a free transaction between informed, willing parties, less costs to sell. The results of recent transactions involving similar assets undertaken within the same sector are considered when determining this amount. Value in use is calculated using models based on the discounting of expected cash flows.

The owner of the asset is only required to determine its recoverable amount if there are circumstances representing evidence of potential impairment. The following indicators have been taken into account in assessing whether equity investments have become impaired:

- ✓ significant changes in the environment in which the entity operates have occurred during the year or may occur in the near future, resulting in an adverse effect on the investee;
- ✓ market interest rates or other rates of return on investment capital have increased during the year and such increases are likely to affect the discount rate used in calculating the value in use of the investment and significantly reduce its recoverable amount;
- ✓ significant changes adversely affecting the investee have occurred during the year or are expected to occur in the near future;
- ✓ there is evidence that the investee's financial performance is or will be worse than expected;
- ✓ the investee is expected to experience substantial financial difficulties;
- ✓ the investee becomes subject to insolvency proceedings;
- ✓ there are quantitative indicators of a significant, prolonged decrease in the financial asset's fair value, below its initial carrying amount. In particular, such indicators consist of market quotations or valuations

that are more than 30% below the initial carrying amount or that remain below the carrying amount for a period of over 18 months;

When there are indicators of impairment, an impairment loss is recognised to the extent that the recoverable amount is less than the carrying amount, and the resulting adjustment is taken to profit or loss. If the grounds for impairment cease to apply due to a subsequent event, a recovery is recognised through profit or loss.
Equity investments are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is transferred along with substantially all the associated risks and benefits.

6 - Property, plant and equipment

Items of property, plant and equipment purchased on the market are recognised to item "90. Property, plant and equipment" when the main risks and benefits relating to the asset are acquired. "Non-investment property" is property used to conduct company business, assuming that it is to be used for a period in excess of one year, whereas "investment property" is property held in order to collect rent or in view of appreciation of the property, or for both reasons. Both investment and non-investment property is initially recognised at cost, inclusive of all charges directly attributable to the purchase or placement in service of the asset. Extraordinary maintenance expenses that increase the future economic benefits are allocated to increase the value of the assets, while other ordinary maintenance costs are recognised in the income statement.
Property, plant and equipment is then measured at cost, less accumulated depreciation, adjusted for any impairment losses or recoveries, with the exception of non-investment property and fine art, which are measured according to the appraisal method.
Property, plant and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount consists of the cost of the assets less their estimated residual value at the end of the depreciation period. Buildings are amortised at a rate deemed appropriate to account for the deterioration of the assets over time due to use. Land is not subject to depreciation, regardless of whether it is purchased separately or included in the value of buildings, since it is considered to have an indefinite useful life. Fine art and other objects of historical, artistic and decorative value are also not depreciated, since the useful lives of such assets cannot be estimated and their value normally increases over time. Finally, depreciation does not apply to investment property, which is designated at fair value through profit or loss in accordance with IAS 40.
Each asset's residual amount, useful life and depreciation methods are revised at the end of each year and, where necessary, adjusted on a prospective basis.
If there is evidence that an asset may have become impaired, the carrying value and recoverable amount of the asset are compared. Any impairment losses are recognised in the income statement. If the grounds for impairment cease to apply, a recovery is recognised, in an amount that may not exceed the asset's value net of depreciation charges, in the absence of any previous impairment losses.
Items of property, plant and equipment are derecognised on disposal or when an asset is permanently withdrawn from use and no future economic benefits are expected to flow from its disposal.

7 - Intangible assets

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Goodwill, which represents the positive difference between the purchase cost and the fair value of an acquiree's assets and liabilities, is also recognised among intangible assets.
Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. Where this is not the case, the cost of an intangible asset is recognised in the income statement in the year in which it is incurred.
For assets with finite useful lives, cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected to flow from the asset.
Assets with indefinite useful lives are not subject to systematic amortisation, but rather periodically tested for impairment. If there is any evidence that an asset may have become impairment, that asset's recoverable amount is estimated. The impairment loss, which is recognised through the income statement, is equal to the difference between the carrying amount and recoverable amount of the asset.
In particular, intangible assets include:

- ✓ technology-related intangibles, such as software, which are amortised on the basis of their obsolescence and over a maximum period of five years;
- ✓ trademarks and licences; and
- ✓ goodwill.

Goodwill may be recognised when the positive difference between the fair value of the shareholders' equity acquired and the purchase price or initial recognition amount (inclusive of accessory costs) is representative of the equity investment's future income-generating potential. If the difference is negative (badwill), or if goodwill is not justified by the entity's future income-generating potential, it is recognised directly through the income statement.
Goodwill is tested for impairment annually (or whenever there is evidence of impairment). The amount of an impairment loss is determined on the basis of the difference between the carrying amount of goodwill and the recoverable amount of the CGU to which the goodwill has been allocated, if lower. The recoverable amount is equal to the greater of the fair value of the cash-generating unit, less any cost to sell, and the relative value in use. The consequent adjustments are recognised through the income statement.
An intangible asset is derecognised upon disposal or when no future economic benefits are expected to flow from the use of the asset.

9 - Current and deferred taxation
Income tax, calculated according to the national tax code, is accounted for as a cost on an accruals basis, in a manner consistent with the method applied to account for the costs and revenue that give rise to the tax. It thus represents the balance of current and deferred taxation relating to the net income or loss for the year. Current tax assets and liabilities include the tax positions of the Bank with respect to Italian tax authorities. More specifically, these items include the net balance of current tax liabilities for the year, calculated on the basis of a conservative estimate of the tax charges due for the year, assessed according to the tax code currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes paid or tax credits from previous years that the Bank claimed against taxes payable in future years. Current tax assets also include tax credits in respect of which a tax refund claim has been filed by the Bank with the relevant tax authorities.
Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years. Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are set off against one another.
If deferred tax assets and liabilities refer to items affecting the income statement, they are recognised through income taxes. Where the deferred tax assets and liabilities relate to transactions recognised directly in equity without passing through the income statement (such as adjustments due to the first-time adoption of IASs/IFRSs and the measurement of available-for-sale financial instruments), such assets and liabilities are recognised in equity, through specific reserves, where applicable (e.g., valuation reserves).

10 - Provisions
The item may be broken down as follows.

Commitments and guarantees given
This sub-item refers to provisions for credit risk adjustments recognised in respect of commitments to grant finance and financial guarantees given that fall within the scope of application of the IFRS 9 impairment rules ("Rules for determining the impairment of financial assets").
The same approaches to allocation to the three credit risk stages and calculation of expected credit losses set out with regard to financial assets measured at amortised cost or at fair value through other comprehensive income are generally applied to these items.
The caption also includes provisions for risks and charges recognised in respect of other types of commitments and guarantees given, the characteristics of which mean that they fall outside the scope of application of the IFRS 9 impairment rules.

Other provisions for risks and charges
Provisions for risks and charges are recognised when an entity has a (legal or constructive) present obligation as the result of a past event, when it is probable that resources capable of generating economic benefits will need to be expended in order to discharge the obligation and the amount of the obligation may be estimated reliably. The amount recognised represents the present value of the amount that an entity would reasonably incur to extinguish the obligation at the reporting date. Discounting is not applied where the time value effect on the obligation is deemed immaterial. Once recognised, provisions are reviewed at each reporting date and adjusted to reflect the best current estimate. Where it is no longer likely that resources capable of generating economic benefits will need to be expended to discharge the obligation, the provision is released and the excess amount taken to profit or loss. In particular, the amount includes provisions relating to disputes that are determined taking into account, where available, the amount sought by the counterparty, the technical estimate prepared internally on the basis of accounting evidence and/or evidence brought to light during the trial and, in particular, the amounted estimated by the court-appointed technical expert, where appointed, in addition to legal interest, calculated on the principal from the date of service of the introductory document, and any expenses to be reimbursed in the event of an adverse judgment. The caption also includes provisions relating to long-term employee benefits other than pension benefits, the amount of which is determined by projecting future outlays on the basis of historical and statistical analyses and the demographic curve, and then discounting the resulting cash flows at a market interest rate. The actuarial gains and losses resulting from changes in previously applied actuarial assumptions result in the recalculation of the liability and are taken to profit or loss.

11 – Financial liabilities at amortised cost
This caption includes amounts due to banks, amounts due to customers and debt securities issued, and primarily refers to funding raised on the interbank market and from customers, including through the placement of bonds and certificates of deposit. A financial instrument issued is classified as a liability when, on the basis of the substance of the contract, there is a contractual obligation to deliver money or another financial asset to another party. Transactions are recognised when they are executed, except for transactions involving the remittance of bills and the placement of securities, which are recognised when they are settled. Financial liabilities are initially measured at fair value, which corresponds to the consideration received, net of directly attributable transaction costs, and thereafter at amortised cost, according to the effective interest rate method. Amortised cost has not been calculated for short-term transactions, where the effect of calculation is deemed immaterial. The captions in question also include amounts due in respect of commitments to purchase own equity instruments, where the conditions for the recognition of such commitments have been met. Financial liabilities, or parts of such liabilities, are derecognised when they are extinguished, that is when the obligation is discharged or cancelled or expires. Such assets are also derecognised when they are repurchased on the market. Derecognition is based on the fair value of the component issued and the component repurchased at the purchase date. Any gains or losses deriving from the transaction, depending on whether the recognised amount of the repurchased component is greater or less than the purchase price, are recognised through the income statement. If a security is then placed again, this transaction is treated as a new issue and is recognised at the new placement price.

12 - Financial liabilities held for trading
Financial liabilities held for trading consist of derivative contracts held for trading that present a negative fair value. They are recognised at the subscription or issue date, at the fair value of the instrument, without considering any directly attributable transaction costs or income. Financial liabilities held for trading are measured at fair value through profit or loss. They are derecognised when the contractual rights to the related cash flows expire or when the liability is transferred, along with substantially all of the risks and benefits of ownership.

14 - Foreign-currency transactions
Foreign-currency transactions are initially recognised in the functional currency using the applicable exchange rate on the transaction date. At every subsequent balance-sheet date:

- ✓ monetary items are translated at the exchange rate prevailing at the balance-sheet date;
- ✓ non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date; and
- ✓ non-monetary items designated at fair value are translated using the exchange rate prevailing at the date the fair value was determined.

A monetary item is the right to receive, or the obligation to deliver, a fixed or determinable number of units of a currency. Conversely, the fundamental characteristic of non-monetary items is the absence of the right to receive, or the obligation to deliver, a fixed or determinable number of units of a currency. Translation differences relating to monetary items are recognised through the income statement when they arise, whereas those relating to non-monetary items are recognised through shareholders' equity or the income statement, depending on the manner in which the gains or losses that include this component are recognised. Costs and revenues in foreign currencies are measured at the exchange rate prevailing at the date of recognition or, if they have yet to accrue fully, at the exchange rate prevailing at the balance-sheet date.

15 - Other information

Rules for determining the impairment of financial assets

IFRS 9 provides that, for financial assets measured at amortised cost, financial assets at fair value through other comprehensive income other than equity instruments and commitments to grant finance and guarantees given that are not measured at fair value through profit or loss, impairment losses are to be determined on the basis of the 12 month expected credit loss and, where a significant increase in credit risk with respect to the date of initial recognition is observed, on the basis of the expected loss determined over the entire residual lifetime of the financial instrument. Financial instruments are classified to three distinct stages:

- ✓ stage one includes performing financial instruments for which a significant increase in credit risk compared to the date of initial recognition has not been observed. Impairment is determined collectively on the basis of the expected credit loss over one year (the "12-month expected credit loss");
- ✓ stage two includes performing financial instruments for which a significant increase in credit risk compared to the date of initial recognition has been observed. Impairment is determined collectively on the basis of the lifetime expected credit loss;
- ✓ stage three includes non-performing financial instruments. Impairment is determined individually on the basis of the lifetime expected credit loss.

The Bank has identified the main elements that entail reclassification from stage one to stage two. In particular, these relate to the change in the lifetime probability of default since the initial recognition of the financial instrument, based on the credit quality of each relationship at each measurement date; in addition, the presence of any amounts past due by at least 30 days and/or forbearance measures has presumptively been regarded as indicators of a significant increase in credit risk and entails reclassification to stage two. Specific models based on those used to set internal ratings have been created for the calculation of the 12-month expected credit loss and lifetime expected credit loss.

Forward-looking information relating to, among other subjects, the development of the macroeconomic scenario is included when calculating expected credit losses. The Bank adopts the approach known as the "most-likely scenario + add-on" with regard to this latter aspect, in consideration of the proportional criterion. This approach involves determined the expected credit loss in the base scenario deemed the most probable and used for other purposes (for example, for budget and planning purposes), to which an add-on is added to reflect the effects of any non-linearity of the expected credit loss in respect of the macroeconomic scenarios.

External providers have been consulted as part of the process of calculating expected credit losses on securities. It bears emphasising that the "first-in, first-out" or "FIFO" method has been used to calculate the recycling to the income statement of the expected credit loss recognised in the event of sales. It should also be noted that the low credit risk exemption has been applied to some categories of exposures of a residual nature. On the basis of this exemption, the exposures in question have been included in stage 1 since they were rated investment-grade or higher on the transition date.

The financial instruments considered non-performing according to the Bank of Italy rules, in keeping with IASs/IFRSs and European supervisory regulations, have been classified to Stage 3, as summarised below:

- ✓ Bad debts: these are the on- and off-balance sheet exposures to a party in a state of insolvency (including where not established by the courts) or substantially equivalent situations, regardless of any loss projections formulated by the bank. Exposures the anomalous nature of which relates to country risk are excluded;
- ✓ Unlikely-to-pay positions: these are on- and off-balance sheet exposures to a single debtor which in the bank's view is unlikely to discharge its credit obligations (principal and interest) in full without recourse to actions such as enforcement of guarantees, regardless of the presence of any past-due amounts or instalments;
- ✓ Non-performing past-due positions: these are on-balance sheet positions other than those classified as bad debts or unlikely-to-pay positions that at the reporting date are past due by more than 90 days. In

identifying past-due loans, only the individual debtor approach has been used for all positions in portfolio since 1 January 2014.

In conducting the analytical assessment of Stage 3 loans, the loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the position's original effective interest rate. Cash flows are estimated by taking account of the guarantees securing the debt exposure. Where guarantees are not likely to be enforced, their present value must be considered; otherwise, their realisable value, net of recovery expenses, must be considered. Individual impairment losses are based on the presumed losses on the single non-performing loan positions. The expected credit loss on non-performing loans classified as low-value unlikely-to-pay positions or as non-performing past-due positions is calculated for uniform categories based on internal statistical models applied separately to each position. Forward-looking factors that temper the weighted probability of occurrence of the various future scenarios have also been included in the assessment of exposures classified to stage three. In particular, alternative recovery scenarios, such as the sale of non-performing loan portfolios, have been considered, in view of the company targets for reducing non-performing financial assets set out in the 2019-2021 Business Plan, to which a probability of occurrence must be attributed, to be considered within the framework of the overall assessment. Accordingly, the expected losses on non-performing exposures that may potentially be sold are calculated on the basis not only of the cash flows expected to be recovered through internal management, but also the cash flows expected to be recovered through the possible sale of the positions concerned.

Treasury shares

Any treasury shares in portfolio are deducted from equity. Similarly, the original cost of such treasury shares and the gains and losses on their subsequent sale are recognised as changes in equity.

Leasehold improvements
The costs of renovating third-party properties are capitalised in view of the fact that over the term of the lease agreement the company using the property has control of the assets and may derive future economic benefits from them. Such costs, classified among other assets in accordance with the Bank of Italy's Instructions, are depreciated over a period not to exceed the term of the lease agreement.

Employee termination benefits
As a result of the entry into force of the 2007 Finance Act, which advanced to 1 January 2007 the effective date of the reform of supplementary pension schemes enacted in Legislative Decree No. 252 of 5 December 2005, employee termination benefits consist solely of sums accrued through 31 December 2006. In further detail, portions of employee termination benefits accrued from 1 January 2007 are considered "defined-contribution plans" for accounting purposes in accordance with IAS 19. The expense is limited to the contribution defined by the provisions of the Italian Civil Code, without the need to apply any actuarial approach.
Conversely, the provision for employee termination benefits accrued as at 31 December 2006 continues to be considered a defined-benefit plan for accounting purposes in accordance with IAS 19. However, the liability associated with employee termination benefits is subject to actuarial assessment without pro-rating service rendered inasmuch as the service to be assessed may be considered fully accrued.
All actuarial gains and losses on defined-benefit plans are recognised immediately through other comprehensive income. Such actuarial gains and losses arise as the result of adjustments to previous actuarial assumptions due to actual experience or the modification of those assumptions. They are allocated to a specific equity reserve.

Recognition of revenue and costs
Revenues arising from the use by third parties of an entity's assets that generate interest, commissions or dividends are recognised when it is probable that the economic benefits from a given transaction will flow to the entity and the amount of revenue can be determined reliably. Interest and commissions are recognised through the income statement according to the classification of the financial instrument to which they refer, whereas dividends are recognised when shareholders become entitled to receive payment. Other commissions are recorded on an accrual basis.
Costs are recognised when they are incurred by following the principle of the correlation of costs and revenue that arise directly and jointly from the same transactions or events. If costs and revenue may only be correlated generically and indirectly, the costs are recognised over multiple periods according to a systematic allocation approach. When costs may not be associated with revenue, they are immediately recognised through the income statement.

Determining amortised cost
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the amount at maturity, less any reduction for impairment.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or until the repricing date. To calculate present value, the effective interest rate is applied to the future cash payments or receipts over the entire useful life of the financial asset or financial liability – or a shorter period if certain conditions have been met (for example, the revision of market rates).
After initial recognition, amortised cost allows the revenues and costs deducted from or added to the instrument to be allocated over that instrument's entire expected life through the amortisation process. Amortised cost is determined differently depending on whether the financial asset or financial liability to be measured is fixed-rate or floating-rate and, in the latter case, whether the range of rate fluctuation is known in advance. For instruments with fixed rates or fixed rates by time bands, future cash flows are quantified according to the known interest rate (single or floating) over the life of the loan. For floating-rate financial assets or financial liabilities, the range of fluctuation of which is not known in advance (for example, because it is linked to an index), cash flows are determined according to the most recent known rate. Whenever the rate is revised, the repayment schedule and effective interest rate are recalculated over the entire useful life of the instrument, i.e. through its maturity date. The adjustment is recognised as income or expense in the income statement.
The amortised cost method is applied to financial assets measured at amortised cost, financial assets at fair value through other comprehensive income and financial liabilities measured at amortised cost.

Financial assets and financial liabilities traded at arm's length conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid, including directly attributable transaction costs and commissions in the case of instruments measured at amortised cost.
Transaction costs are internal or external marginal costs and income attributable to the issuance, acquisition or disposal of a financial instrument that may not be charged back to the customer. Such commissions, which must be directly attributable to the individual financial asset or financial liability concerned, affect the original effective return and result in a difference between the effective interest rate associated with the transaction and the contractual interest rate. Transaction costs do not include costs or income associated with several transactions without distinction and components associated with events that may occur during the life of the financial instrument, but are not uncertain upon initial definition, such as give-up commissions, commitment fees and prepayment fees. In addition, costs that the entity would be required to incur irrespective of the transaction (e.g., administrative costs, stationery costs and communications costs) and costs that despite being specifically attributable to the transaction fall within normal loan management practice (for example, disbursement activities) are not considered when determining amortised cost.
In the case of loans in particular, the costs considered include those attributable to the financial instrument, the fees paid to distribution channels, the fees paid for consulting/counsel regarding organising and/or participating in syndicated lending and, finally, the upfront fees relating to loans disbursed at above market rates, whereas the revenues considered when calculating amortised cost include the upfront fees related to loans disbursed at below-market rates, the fees for participating in syndicated transactions and the brokerage fees paid to brokerage firms.
In the case of securities issued, amortised cost is calculated by considering the fees for the placement of bonds paid to third parties, the fees paid to securities exchanges and the fees of auditors' services in respect of each issuance programme, whereas amortised cost does not include fees paid to rating agencies, legal fees and consulting/auditing fees for annual updates to securities prospectuses, the costs of using indices and fees that arise over the life of the bond in issue.

Use of estimates and assumptions in preparing the annual financial statements

In preparing the annual financial statements, use has been made of estimates and assumptions that could have an impact on the amounts recognised in the balance sheet and the income statement and disclosed in the notes. Specifically, the greatest use of subjective assessments by management is required in the following cases:

- ✓ determining the amount of impairment losses for financial assets, especially loans and receivables;
- ✓ determining the fair values of financial instruments to be used for disclosure purposes and using valuation models to determine the fair values of financial instruments not quoted in active markets;
- ✓ assessing the appropriateness of the value of goodwill;
- ✓ determining the amounts of staff provisions and provisions for other risks and charges; and
- ✓ preparing estimates and assumptions relating to the recoverability of deferred tax assets.

Reasonable estimates and assumptions to be used in accounting for management transactions are formulated through subjective assessments founded upon the use of all available information and past experience.

A.2.1 – Main comparative figures relating to financial instruments

Provisions for the impairment of loans relating to 2017 have been recognised pursuant to IAS 39, according to the incurred loss criterion. Such provisions include both individual and portfolio elements, as described in greater detail in the 2017 annual financial report.

Chapter A.3 – TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In 2018 the Bank did not undertake any transfers between the various fair value levels. There were no residual assets reclassified in previous years at 31 December 2018.

Chapter A.4 – INFORMATION ABOUT FAIR VALUE

QUALITATIVE DISCLOSURES

This section includes the disclosure regarding financial instruments subject to reclassification from one portfolio to another pursuant to the rules set forth in IFRS 9 and the disclosure regarding the fair-value hierarchy in accordance with the provisions of IFRS 13.

Fair value is the price at which an asset may be sold or a liability transferred in a transaction between market participants at the measurement date.

Consequently, it is an exit price and not an entry price.

The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

For financial instruments measured at fair value on a recurring basis, the bank attributes higher priority to the use of observable inputs and lower priority to measurement techniques that do not use market inputs. In particular, the bank establishes the order of priority, criteria and conditions that result in the choice of one of the following measurement techniques:

- ✓ mark-to-market: a measurement method coinciding with classification to level 1 of the fair value hierarchy;
- ✓ comparable approach: a measurement method based on the use of observable market inputs, the use of which entails classification to level 2 of the fair value hierarchy;
- ✓ mark-to-model: a measurement method involving the application of pricing models whose inputs result in classification to level 3 (use of at least one significant non-observable input) of the fair value hierarchy.

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

If, for a given financial instrument, the conditions for identifying an active market have not been satisfied and it thus is not possible to classify it to level 1 of the fair value hierarchy and apply the mark-to-market approach, it will be necessary to make use of a measurement technique, by which is meant a process that permits the identification of the price at which the instrument could be exchanged between independent parties in balanced bargaining conditions.

If this measurement technique is based on observable market inputs, the instrument is classified as level 2 and a comparable approach is applied.

The measurement techniques applied in this case include:

- ✓ the use of recent market transactions between knowledgeable, independent parties;
- ✓ reference to the fair value of a financial instrument having the same characteristics;
- ✓ cash flow discounting techniques;
- ✓ option valuation techniques;
- ✓ the use of commonly used pricing techniques, provided that such techniques yield prices in line with those applied in actual exchanges.

The market inputs used in the comparable approach are:

- ✓ prices quoted on active markets for similar assets or liabilities;
- ✓ prices quoted for the instrument in question or similar instruments on inactive markets, i.e., markets on which there are few transactions. The prices are not current or vary substantially over time and amongst the various market markets, or little information is made public;
- ✓ observable market inputs (e.g., interest rates, observable yield curves, credit spreads, quoted volatilities);
- ✓ inputs that derive from observable market data, for which the relationship is supported by parameters such as correlation.

If the measurement techniques adopted also use non-observable inputs, and their contribution to the determination of fair value is to be regarded as significant, the measurement of the financial asset or liability is to be considered level 3.

The mark-to-model approach applies to all financial instruments for which there is no active market, where:

- ✓ significant adjustments to the observable inputs used based on non-observable inputs are necessary;
- ✓ the estimate of fair value is based on the bank's internal assumptions concerning future cash flows and the discount curve used;
- ✓ the measurement techniques used are of sufficient complexity to entail significant model risk.

- ✓ The main inputs used in this approach are:
- ✓ for real estate funds, a NAV adjustment model aimed at taking account of the issuer's default risk;
- ✓ for structured bonds, the discounted cash flow model, applied on the basis of estimates of future cash flows and/or the discount factor;
- ✓ for equity instruments, the market approach (a model based on market multiples and price matrices), the Black-Scholes-Merton model and the binomial model.

A.4.2 Valuation processes and sensitivity

The Bank conducted an assessment of the potential impacts of sensitivity to unobservable market parameters in the measurement of instruments classified to level 3 in the fair-value hierarchy and measured at fair value on a recurring basis. That assessment indicated that the impacts concerned were not material with respect to the situation represented. In further detail, the portfolio of instruments measured at fair value on a recurring basis and classified to level 3 of the fair-value hierarchy consists primarily of equity investments, subject to impairment testing when the requirements for so doing have been met, and investments in fund shares.

A.4.3 Fair-value hierarchy

IFRS 13 establishes that financial instruments measured at fair value are to be classified according to the degree of observability of the inputs analysed when pricing them.

Specifically, three levels of classification have been established:

- ✓ Level 1: the fair value of the instruments classified to this level is determined on the basis of quoted prices observable on active markets;
- ✓ Level 2: the fair value of the instruments classified to this level is determined on the basis of measurement models that use inputs observable on active markets;
- ✓ Level 3: the fair value of the instruments classified to this level is determined on the basis of measurement models that primarily use inputs not observable on active markets.

The levels indicated above are to be applied in hierarchical order, giving the highest priority to the use of observable market parameters that permit the assets or liabilities to be measured on the basis of the assumptions used by market participants and the lowest priorities to measurement techniques that do not contemplate market parameters and thus reflect a greater degree of discretion in measurement by the bank.

QUANTITATIVE DISCLOSURES

A.4.5 Fair-value hierarchy

The following tables show the breakdown of portfolios of assets and liabilities measured at fair value into the aforementioned levels and annual changes in assets and liabilities of this kind classified to level 3.

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

Financial assets / liabilities at fair value	31/12/2018			31/12/2017		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	156	2,501	27,054	7,515	511	28,550
a) financial assets held for trading	156	145	-	4,469	511	-
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	2,356	27,054	3,046	-	28,550
2. Financial assets measured at fair value through other comprehensive income	285,703	795	31,970	313,181	8,267	32,101
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	2,770	-	-	2,770
Total	**285,859**	**3,296**	**61,794**	**320,696**	**8,779**	**63,421**
1. Financial liabilities held for trading	-	168	-	-	765	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	**168**	-	-	**765**	-

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

(*) Values determined in accordance with the accounting standard IAS 39, reclassified by convention in the interest of uniformity of comparison.

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

	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	HEDGING DERIVATIVES	PROPERTY, PLANT AND EQUIPMENT	INTANGIBLE ASSETS
	Total	OF WHICH: A) FINANCIAL ASSETS HELD FOR TRADING	OF WHICH: B) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	OF WHICH: C) FINANCIAL ASSETS MANDATORILY AT FAIR VALUE				
1. Opening balance	-	-	-	28,550	32,101	-	2,770	-
2. Increasese	-	-	-	873	1,206	-	-	-
2.1. Purchases	-	-	-	-	-	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-	-	-
2.2.1.Income statement	-	-	-	873	-	-	-	-
- of which unrealised gains	-	-	-	873	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	1,205	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	1	-	-	-
3. Decreases	-	-	-	2,369	1,337	-	-	-
3.1. Sales	-	-	-	-	-	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3 Losses recognized in:	-	-	-	-	-	-	-	-
3.3.1. Income statement	-	-	-	1,225	-	-	-	-
- of which unrealised losses	-	-	-	1,225	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	1,337	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	1,144	-	-	-	-
4. Closing balance	-	-	-	27,054	31,970	-	2,770	-

(*) Values determined in accordance with the accounting standard IAS 39, reclassified by convention in the interest of uniformity of comparison.

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

None of the items in the table, provided for by the Bank of Italy, A.4.5.3 "Annual changes in financial liabilities designated at fair value on a recurring basis (level 3)" presents values.

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

Financial assets / liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2018 BV	L1	L2	L3	31/12/2017 BV	L1	L2	L3
1. Financial assets measured at amortised cost	3,290,966	569,507	6,162	2,985,804	3,269,003	625,716	-	2,879,072
2. Investment property	2,770	-	-	2,770	2,770	-	-	2,770
3. Non-current assets or groups of assets being divested	-	-	-	-	-	-	-	-
Total	**3,293,736**	**569,507**	**6,162**	**2,988,574**	**3,271,773**	**625,716**	**-**	**2,881,842**
1. Financial liabilities measured at amortised cost	3,507,783	45,645	23,465	3,433,506	3,528,117	-	144,996	3,391,554
2. Liabilities associated with assets classified as held for sale	-	-	-	-	-	-	-	-
Total	**3,507,783**	**45,645**	**23,465**	**3,433,506**	**3,528,117**	**-**	**144,996**	**3,391,554**

Key: BV= Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

(*) Values determined in accordance with the accounting standard IAS 39, reclassified by convention in the interest of uniformity of comparison.

It is assumed that the carrying amounts of non-performing loans classified to level three of the fair value hierarchy are a reasonable approximation of their fair values. This assumption is based on the fact that the calculation of fair value is primarily influenced by the expectation of a recovery, based on subjective assessment by the manager.

Similarly, the fair value of performing loans classified to level three is based on models that rely on primarily non-observable inputs (e.g., internal risk parameters).

As a result, and due to the lack of a secondary market, the fair value presented in the financial statements, for disclosure purposes only, could differ significantly from the prices of any sales.

A.5 Day-one profit/loss

On the basis of the composition of the financial instruments portfolio and the results of the analyses performed, no day-one profits were identified. "Day-one profit" is defined as the difference, upon initial recognition, not immediately recognised in the income statement pursuant to IAS 39 AG 76 and AG 76A, between the transaction price and value obtained through the use of valuation techniques that make use of non-market inputs.

Chapter B – NOTES TO THE BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - item 10

1.1 Cash and cash equivalents: composition

	31/12/2018	31/12/2017	%
a) Cash	18,259	21,443	-14.8%
b) Free deposits with Central banks	11,488	2,501	359.3%
Total	**29,747**	**23,944**	**24.2%**

Section 2 - Financial assets designated at fair value through profit or loss - item 20

2.1 Financial assets held for trading: composition by type

	31/12/2018			31/12/2017			%
	L1	L2	L3	L1	L2	L3	
A. Cash assets							
1. Debt securities	11	2	-	4,103	91	-	-99.7%
1.1 structured securities	-	-	-	-	-	-	-
1.2 other debt securities	11	2	-	4,103	91	-	-99.7%
2. Equities	0	-	-	53	-	-	-99.9%
3. Quotas of UCI	145	-	-	282	-	-	-48.5%
4. Loans	-	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-	-
Total A	**156**	**2**	**-**	**4,469**	**60**	**-**	**-96.5%**
B. Derivatives							
1. Financial derivatives	-	142	-	-	451	-	-68.5%
1.1 trading	-	142	-	-	451	-	-68.5%
1.2 fair value option	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-	-
2.2 fair value option	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-
Total	**-**	**142**	**-**	**-**	**451**	**-**	**-68.5%**
TOTAL (A+B)	**156**	**145**	**-**	**4,469**	**511**	**-**	**-94.0%**

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

	31/12/2018	31/12/2017	%
A. ON-BALANCE-SHEET FINANCIAL ASSETS	**158**	**4,529**	-96.5%
1. Debt securities	**13**	**4,194**	-99.7%
a) Governments and central banks	-	2,562	-100%
b) Other government agencies	-	77	-100%
c) Banks	-	1	-100%
d) Other financial companies	12	1,554	-99.2%
of which: insurance	-	-	-
e) Non financial companies	1	-	-
2. Equity securities	**145**	53	**174%**
a) Banks	-	53	-100%
b) Other issuers	**0**	0	-65%
of which: insurance	-	-	-
c) Non financial companies	0	0	0%
d) Other issuers	-	0	-100%
3. Quotas of UCI	**145**	**282**	**-48.5%**
4. Loans	-	-	-
a) Governments and central banks	-	-	-
b) Other government agencies	-	-	-
c) Banks	-	-	-
d) Other financial companies	-	-	-
of which: insurance	-	-	-
e) Non financial companies	-	-	-
f) Households	-	-	-
Total A	**158**	**4,529**	**-96.5%**
B. Derivatives	**142**	**451**	**-68.5%**
a) Central counterparties	-	29	-100%
b) Other	**142**	**422**	**-66.3%**
Total B	**142**	**451**	**-68.5%**
TOTAL (A+B)	**300**	**4,980**	**-94.0%**

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

	31/12/2018			31/12/2017			%
	L1	L2	L3	L1	L2	L3	
1. Debt securities	-	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-	-
3. Quotas of UCI	-	1,324	13,930	3,046	-	14,282	-12.0%
4. Loans	-	**1,033**	**13,124**	-	-	**14,268**	**-0.8%**
4.1 Repurchase agreements	-	-	-	-	-	-	-
4.2 Other	-	1,033	13,124	-	-	14,268	-0.8%
Total	-	**2,356**	**27,054**	**3,046**	-	**28,550**	**-6.9%**

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

2.6 Other financial assets mandatorily measured at fair value: composition by borrower/issuer

	31/12/2018	31/12/2017	%
1. Equities	-	-	-
of which: banks	-	-	-
of which: other financial companies	-	-	-
of which: non financial companies	-	-	-
2. Debt securities	-	-	-
a) Central Banks	-	-	-
b) Public administration	-	0	-
c) Banks	-	-	-
d) Other financial companies	-	0	-
of which: insurance companies	-	0	-
e) Non financial companies	-	-	-
3. Quotas of UCI	**15,254**	**17,328**	-12.0%
4. Loans	**14,157**	**14,269**	**-1%**
a) Central Banks	-	-	-
b) Public administration	-	-	-
c) Banks	-	-	-
d) Other financial companies	14,157	14,269	-0.8%
of which: insurance companies	13,189	13,304	-0.9%
e) Non financial companies	-	-	-
f) Households	-	-	-
Total	**29,410**	**31,597**	**-6.9%**

Section 3 - Financial assets designated at fair value through other comprehensive income - item 30

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

	31/12/2018			31/12/2017			%
	L1	L2	L3	L1	L2	L3	
1. Debt securities	285,703	-	-	313,181	7,431	-	-10.9%
1.1 Structured securities	-	-	-	-	-	-	-
1.2 Other debt securities	285,703	-	-	313,181	7,431	-	-10.9%
2. Equities	-	795	31,970	-	836	32,101	-0.5%
3. Loans	-	-	-	-	-	-	-
Total	**285,703**	**795**	**31,970**	**313,181**	**8,267**	**32,101**	**-9.9%**

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

3.2. Financial assets designated at fair value through other comprehensive income: composition by borrower/issuer

	31/12/2018	31/12/2017	%
1. Debt securities	**285,703**	**320,611**	**-10.9%**
a) Central Banks	-	-	-
b) Public administration	272,439	284,456	-4.2%
c) Banks	10,678	33,125	-67.8%
d) Other financial companies	2,586	3,030	-14.6%
of which: insurance companies	-	-	-
e) Non financial companies	-	-	-
2. Equities	**32,766**	**32,938**	**-1%**
a) Banks	5,786	20,481	-72%
b) Other issuers:	26,979	12,457	117%
- other financial companies	16,717	6,998	139%
of which: insurance companies	2,500	2,500	0%
- non financial companies	10,262	5,459	88%
- other	-	-	-
3. Loans	-	-	-
a) Central Banks	-	-	-
b) Public administration	-	-	-
c) Banks	-	-	-
d) Other financial companies	-	-	-
of which: insurance companies	-	-	-
e) Non financial companies	-	-	-
f) Household	-	-	-
Total	**318,469**	**353,549**	**-9.9%**

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

	Gross amount				Total adjustment			Total partial write-offs *
	Stage 1	of which: Instrument with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	**286,184**	-	-	-	**479**	-	-	-
Loans	-	-	-	-	1,942	-	-	-
Total 31.12.2018	**286,184**	-	-	-	**479**	-	-	-
Total 31.12.2017	**322,074**	-	-	-	**1,462**	-	-	-
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

** Value to be presented for disclosure purposes*

Section 4 - Financial assets measured at amortised cost - item 40

4.1 Financial assets measured at amortised cost: composition of loans to banks by type

Tipologia operazioni/Valori	31/12/2018						31/12/2017					
	Book value			Fair Value			Book value			Fair Value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3
A. Claims on central banks	**19,680**	-	-	-	-	**19,680**	**19,265**	-	-	-	-	**19,265**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirement	19,680	-	-	X	X	X	19,265	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**55,546**	-	-	**21,535**	**X**	**34,094**	**58,467**	-	-	**44,405**	**X**	**14,062**
1. Loans	34,095	-	-	-	-	34,094	14,062	-	-	-	-	14,062
1.1 Current accounts and free deposi	29,978	-	-	X	X	X	9,945	-	-	X	X	X
1.2 Time deposits	4,116	-	-	X	X	X	4,117	-	-	X	X	X
1.3 Other financing	0	-	-	X	X	X	-	-	-	X	X	X
- repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- other	0	-	-	X	X	X	-	-	-	X	X	X
2. Debt securities	**21,452**	-	-	**21,535**	-	-	**44,405**	-	-	**44,405**	-	-
2.1 structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 other debt securities	21,452	-	-	21,535	-	-	44,405	-	-	44,405	-	-
Total	**75,226**	-	-	**21,535**	-	**53,774**	**77,732**	-	-	**44,405**	-	**33,327**

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

4.2 Financial assets measured at amortised cost: composition of loans to customers by type

Tipologia operazioni/Valori	31/12/2018						31/12/2017					
	Book value			Fair Value			Book value			Fair Value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3
1. Loans	**2,407,208**	**251,662**	**300**				**2,271,774**	**338,185**	-			
1.1. Current accounts	261,946	49,884	300	X	X	X	286,888	65,296	-	X	X	X
1.2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgage loans	1,556,421	173,996	-	X	X	X	1,480,056	219,734	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automa	47,067	1,767	-	X	X	X	47,980	1,606	-	X	X	X
1.5. Finance leases	214,960	16,072	-	X	X	X	195,360	37,518	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other	326,814	9,944	-	X	X	X	261,490	14,031	-	X	X	X
2. Debt securities	**556,869**	-	-				**581,311**	-	-			
2.1. structured	-	-	-				-	-	-			
2.2. other debt securities	556,869	-	-				581,311	-	-			
Total	**2,964,077**	**251,662**	**300**				**2,853,085**	**338,185**	-			

4.3 Finance leases

	Total 31/12/2018						
	Up to 3 months	Between 3 and 6 moths	Between 6 month and 1 year	Over 1 year	Specific writedowns	Portfolio writedowns	Net exposure
Bad debts	-	-	-	15,734	9,477	-	6,257
Unlikely to pay	385	42	76	11,966	3,500	-	8,969
Past-due	15	40	732	226	167	-	846
Other	221,925	17	1,747	-	-	2,521	221,168
Total	**222,325**	**99**	**2,555**	**27,926**	**13,144**	**2,521**	**237,241**

At 31 December 2018 net finance lease exposures amounted to €237,241 thousand, after deducting provisions for impairment of €19,132 thousand. Net non-performing exposures came to €15,665 thousand.
The lease contracts entered into have the following characteristics:

- ✓ all of the risks and rewards associated with ownership of the asset are transferred to the lessee;
- ✓ on signing the lessee pays an advance that is retained by the lessor when the contract begins to generate income and is deducted from the amount financed;
- ✓ the lessee makes periodic payments over the useful life of the contract, the amount of which may vary according to benchmarking clauses;
- ✓ at the end of the contract, the lessee is granted the option to purchase the asset governed by the contract at below the fair value on the strike date, which means that it is reasonably certain that the option will be exercised.

Since the lessor retains legal ownership of the asset for the entire life of the contract, the asset itself constitutes an implicit guarantee of the lessee's exposure, with the consequence that there is no residual amount not covered by the guarantee. In cases of assets that currently cannot be sold or subject to rapid obsolescence, ancillary guarantees are also requested from the lessee or, alternatively, the supplier of the asset
During the year, charges for potential lease payments of €3,190 thousand were recognised. In this regard, it bears recalling that IAS 17 defines a potential lease payment as the part of a payment the amount of which is not predetermined, but which is based on the future value of a parameter that changes for reasons other than the passage of time (such as a percentage of future sales, the amount of future use, future price indices or future market interest rates).

4.4 Financial assets measured at amortised cost: composition of loans to customers by borrowers/issuers

	31/12/2018			31/12/2017		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired
1. Debt securities	**556,869**	**-**	**-**	**581,311**	**-**	**-**
a) Public administration	550,808	-	-	581,311	-	-
b) Other financial companies	6,061	-	-	-	-	-
of which: insurance	-	-	-	-	-	-
c) Non financial companies	-	-	-	-	-	-
2. Loans:	**2,407,208**	**251,663**	**300**	**2,272,685**	**337,274**	**-**
a) Public administration	7,018	0	-	7,771	-	-
b) Other financial companies	92,801	4,492	300	111,565	5,312	-
of which: insurance	0	-	-	13,239	-	-
c) Non financial companies	1,118,452	146,035	-	1,170,561	268,124	-
d) Households	1,188,938	101,136	-	982,788	63,838	-
Total	**2,964,077**	**251,663**	**300**	**2,853,996**	**337,274**	**-**

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

	Gross amount				Total adjustment			Total partial write-offs *
	Stage 1	of which: Instrument with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	579,481	-	-	-	1,160	-	-	-
Loans	2,248,728	-	227,555	511,118	6,311	8,989	259,455	5,772
Total 31.12.2018	**2,828,209**	**-**	**227,555**	**511,118**	**7,472**	**8,989**	**259,455**	**5,772**
Total 31.12.2017	**2,593,084**	**-**	**305,561**	**664,437**	**15,312**	**1,638**	**327,162**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	-	750	X	-	450	-

* Value to be presented for disclosure purposes

Section 5 - Hedging derivatives - item 50

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 6 - Change in fair value of macro fair value hedge portfolios - item 60

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 7 - Equity investments - item 70

7.1 Equity investments: information on investments

	Registered office	Headquarters	% holding	% of votes
A. Companies under exclusive control				
1 Civitas SPV S.r.l. *	Conegliano (TV) - Via V. Alfieri n. 1	Conegliano (TV) - Via V. Alfie	0.00%	
2 Civiesco Srl	Udine - Via Vittorio Veneto n. 24	Udine - Via Vittorio Veneto n.	100.00%	
B. Companies subject to joint control				
C. Companies under significant influence				
1 Acileasing S.p.A.	Udine - Via Crispi n. 3	Udine - Via Crispi n. 3	30.00%	
2 Acrent S.p.A.	Udine - Via Crispi n. 17	Udine - Via Crispi n. 17	30.00%	
3 Help Line	Cividale del Friuli (UD) - Via G. Pelizzo n. 8	Cividale del Friuli (UD) - Via G.	29.68%	

** Civitas SPV S.r.l. is a special purpose entity included among the equity investments of Banca di Cividale due to its status as originator of the securitisation operation (without derecognition of the assets transferred) and the contractual conditions of the transaction.*

7.2 Significant equity investments: carrying amounts, fair values and dividends

	Book Value	Fair Value	Dividends received
A. Companies under exclusive control			
1 Civitas SPV S.r.l. *	-	-	-
2 Civiesco Srl	89	-	-
B. Companies subject to joint control			
C. Companies under significant influence			
1 Acileasing S.p.A.	579	-	-
2 Acrent S.p.A.	548	-	-
3 Help Line	2,553	-	-
	3,769	-	-

7.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Adjustments to / writebacks on property, equipment and intangible assets	Income (Loss) before tax from continuing operations	Income (Loss) after tax from continuing operations	Income (Loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Comprehensive income (3) = (1) + (2)
A. Companies under exclusive control														
1 Civitas SPV S.r.l. *														
2 Civiesco Srl	X	-	-	-	-	-	X	X	-	-	-	-	-	-
B. Companies subject to joint control														
C. Companies under significant influence														
1 Acileasing S.p.A. **	X	281	1.632	67	1.846	361	X	X	(273)	(307)	-	(307)	-	(307)
2 Acirent S.p.A. **	X	4.887	1.318	4.153	2.052	3.534	X	X	164	151	-	151	-	151
3 Help Line ***	X	2.204	19.703	-	21.907	32.351	X	X	1.176	801	-	801	-	801
Total	-	**7.372**	**22.653**	**4.220**	**25.805**	**36.246**	-	-	**1.067**	**645**	-	**645**	-	**645**

7.5 Equity investments: annual changes

	31/12/2018	31/12/2017
A. Opening balance	**3,780**	**3,819**
B. Increases	-	**60**
B.1 Purchases	-	60
of which business combinations	-	-
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**11**	**99**
C.1 Sales	-	20
C.2 Writedowns	11	79
C.3 Other changes	-	-
of which business combinations	-	-
D. Closing balance	**3,769**	**3,780**
E. Total revaluations	-	-
F. Total writedowns	**11**	**79**

7.7 Commitments regarding investments in companies subject to significant influence

No commitments have been recognised in respect of companies subject to significant influence, as shown in the list of equity investments provided in the foregoing table 7.1.

7.8 Significant restrictions

No commitments have been recognised in respect of the list of equity investments presented in table 7.1 above.

Section 8 - Property, plant and equipment - item 80

8.1 Operating property, plant and equipment: composition of assets measured at cost

	31/12/2018	31/12/2017	%
1. Property and equipment owned	**69,295**	**71,239**	**-2.7%**
a) land	4,933	4,933	0.0%
b) buildings	60,163	61,876	-2.8%
c) movables	3,661	3,919	-6.6%
d) electrical plant	538	510	5.5%
e) other	-	1	-100.0%
finance lease	-	-	-
a) land	-	-	-
b) buildings	-	-	-
c) movables	-	-	-
d) electrical plant	-	-	-
e) other	-	-	-
Total	**69,295**	**71,239**	**-2.7%**

The following are the estimated useful lives of depreciable items of property, plant and equipment by asset class:

- land: indefinite;
- works of art: indefinite;
- buildings – 2% – 50 years;
- furniture – 12% – 9 years;
- plant – 15% – 7 years;
- plant – 30% – 4 years;
- plant – 7.5% – 14 years;
- fixtures – 15% – 7 years; and
- electronic machines – 20% – 5 years.

8.2 Investment property: composition of assets measured at cost

Breakdown	31/12/2018				31/12/2017			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Property and equipment owned	**7,164**	**-**	**-**	**7,164**	**7,979**	**-**	**-**	**7,979**
a) land	2,770	-	-	2,770	2,770	-	-	2,770
b) buildings	4,394	-	-	4,394	5,209	-	-	5,209
finance lease	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**7,164**	**-**	**-**	**7,164**	**7,979**	**-**	**-**	**7,979**
of which: resulting from the enforcement of guarantees	-	-	-	-	-	-	-	-

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

8.6 Operating property, plant and equipment: annual changes

	Land	Buildings	Furniture	Electrical plant	Other	Total
A. Opening gross balance	4,933	81,725	13,283	12,225	42	112,209
A.1 Total net writedowns	-	19,850	9,365	11,715	42	40,971
A.2 Opening net balance	4,933	61,875	3,918	511	1	71,238
B. Increases	-	88	322	236	-	646
B.1 Purchases	-	88	313	210	-	611
of wich: business combinations	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	X	X	X	-
B.7 Other changes	-	-	9	26	-	35
C. Decreases	-	1,800	580	209	1	2,590
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,525	562	198	1	2,286
C.3 Writedowns for impairment recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	275	-	-	-	275
C.4 Fair value losses recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to	-	-	-	-	-	-
a) investment property	-	-	X	X	X	-
b) discontinuing operations	-	-	-	-	-	-
C.7 Other changes	-	-	18	11	-	29
D. Closing net balance	4,933	60,163	3,660	538	-	69,295
D.1 Total net writedowns	-	21,650	9,936	11,938	42	43,565
D.2 Closing gross balance	4,933	81,813	13,596	12,476	42	112,860
E. Measurement at cost	-	-	-	-	-	-

8.7 Investment property: annual changes

	Total 31/12/2018	
	Land	Buildings
A. Opening gross balance	2,770	5,209
B. Increases	-	-
B.1 Purchases	-	-
of wich: business combinations	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	-
B.4 Write-backs	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from property used in operations	-	-
B.7 Other changes	-	-
C. Decreases	-	815
C.1 Sales	-	729
of which business combinations		
C.2 Depreciation	-	86
C.3 Negative fair value differences	-	-
C.4 Impairment losses	-	-
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to other assets	-	-
a) property used in operations	-	-
b) non-current assets held for sale and discontinued operatior	-	-
C.7 Other changes	-	-
D. Final carrying amount	2,770	4,394
E. Fair value measurement		

Section 9 - Intangible assets - item 90

9.1 Intangible assets: composition by category

	31/12/2018		31/12/2017		%
	finite useful life	indefinite useful life	finite useful life	indefinite useful life	
A.1 Goodwill	X	-	X	2,190	-100.0%
A.2 Other intangible assets	-	-	-	-	-
A.2.1 Assets measured at cost	153	-	124	-	23.4%
a) Internally generated intangible assets	-	-	-	-	-
b) Other assets	153	-	124	-	23.4%
A.2.2 Assets measured at fair value	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-
b) Other assets	-	-	-	-	-
Total	**153**	**-**	**124**	**2,190**	**-93.0%**

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Fin.	Indef.	Fin.	Indef.	
A. Gross initial carrying amount	9,136	-	-	332	-	9,468
A.1 Total net adjustments	6,946	-	-	208	-	7,154
A.2 Net initial carrying amount	2,190	-	-	124	-	2,314
B. Increases	-	-	-	88	-	88
B.1 Purchases	-	-	-	88	-	88
of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	2,190	-	-	58	-	2,248
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	2,190	-	-	-	-	2,190
- Amortisation	X	-	-	58	-	58
- Write-downs recognised in	2,190	-	-	-	-	2,190
shareholders' equity	X	-	-	-	-	-
income statement	2,190	-	-	-	-	2,190
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net final carrying amount	-	-	-	153	-	153
D.1 Total net adjustments	9,136	-	-	267	-	9,403
E. Gross final carrying amount	**9,136**	**-**	**-**	**420**	**-**	**9,556**
F. Measurement at cost	-	-	-	-	-	-

Key: Def: finite term; Indef: indefinite term Goodwill refers to:

1. the acquisition of the banking arm of the former Banca Agricola di Gorizia; and
2. the acquisition of a bank branch from third parties.

Impairment testing of goodwill

Goodwill is initially measured at cost, which derives from the amount by which the consideration paid exceeds the net assets and liabilities acquired. If the amount of consideration is less than the fair value of the acquiree's net assets, the difference is recognised through the income statement.
After initial recognition, goodwill is measured at cost less any cumulative impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination must be allocated at the acquisition date to each cash-generating unit of the entity that is expected to benefit from the combination, irrespective of whether the acquiree's assets or liabilities are assigned to those units.
Goodwill is tested for impairment at least once a year (at 31 December) and more frequently where circumstances indicate that the carrying amount may have become impaired.

Allocation of goodwill to cash-generating units (CGUs)
With regard to the definition of "cash-generating unit" (CGU), in the second half of 2013, in order to maximise synergies in support of expected financial performance, the Bank approved a plan to reorganise and simplify the ownership structure based on the merger of Banca di Cividale S.p.A. and NordEstBanca S.p.A. into Banca di Cividale S.c.p.A., which was completed in 2014, with the merger of CivileasingS.p.A. and Tabogan Srl. It was therefore decided that the cash-generating units associated with goodwill should be attributed to the operating segment coinciding with the legal entity Banca di Cividale as a whole, which represents the "smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets."

Estimating cash flows to determine the value in use of a CGU
The accounting principles of reference require that impairment testing be conducted by comparing the carrying amount and recoverable amount of each CGU. Where the recoverable amount is less than the carrying amount, an impairment loss must be recognised. The recoverable amount of a CGU is the greater of its fair value and value in use. The recoverable amount of the Bank's CGUs is represented by its value in use, determined on the basis of the future cash flows generated by each CGU to which goodwill has been allocated. These cash flows have been estimated on the basis of the Strategic Plan for the 2019-2022 period.
Value in use has been determined by applying Excess Capital variant of the Dividend Discount Model ("DDM"). This approach is used to determine the value of a company or business unit according to the dividend flows that it is estimated it may generate on a prospective basis, while maintaining a minimum capitalisation level consistent with the instructions provided in this regard by supervisory authorities and in a manner consistent with expected business trends.
This method is widely adopted in well-established current valuation practice and is supported by the foremost academic theory regarding business valuation, particularly as regards entities operating in the banking sector.
The application of the Dividend Discount Model involved the use of expected profitability estimates and financial parameters to discount flows. In further detail, value in use was calculated on the basis of the following assumptions and elements:

- ✓ **Cash flows:** 2019-2022 period estimated on the basis of: i) the 2019-2022 Strategic Plan; and ii) the minimum level of capitalisation (minimum capital) required to ensure the operation of banking activity.
- ✓ **Terminal value,** estimated as a function of: i) long-term expected net income; and ii) the sustainable growth rate, equal to long-term expected inflation;
- ✓ **Minimum capital:** the minimum capital ratios were estimated by considering the supervisory requirements set by the Bank of Italy for Banca di Cividale following the SREP prudential revision process. The process for 2018 was launched by notice dated 19 February 2018 and has yet to be concluded. Accordingly, the previous communication was taken into account.
- ✓ **Discounting rate (Ke):** future cash flows have been discounted by using a cost of equity capital (Ke) determined as the sum of the nominal rate of return on risk-free assets and a specific risk premium that reflects the risk level of the industry of reference and the specific risks associated with the Bank's operations. In further detail, the cost of equity capital has been estimated as **9.94%** as the result of:
  - **Rf:** the rate of return on risk-free assets, identified on the basis of the gross annual return on the ten-year Italian benchmark BTP, twelve-month average surveyed on 31 December 2018 at 2.63%;

- **β:** the beta coefficient, which indicates the risk level of a specific equity with respect to the equity market at large, estimated on the basis of the historical average five-year betas of a sample of quoted Italian banks surveyed on 31 December 2018 at 1.35;
- **R_m - Rf:** the premium, or difference in return, requested by investors for an investment in equities rather than a risk-free investment; this premium was determined at 5.96%, in line with professional practice; and
- **g-rate:** the long-term growth rate expected after the explicit forecasting period of 1.00%.

Sensitivity analysis

Since valuation is rendered especially complex by the macroeconomic and market scenario currently affecting the financial sector as a whole, as well as by the ensuing difficulty in formulating projections concerning long-term future profitability, and in order to comply with the provisions of IAS 36, a sensitivity analysis was conducted of the parameters used in the assessment aimed at determining the change in recoverable amount, assuming a change in parameters used in the impairment testing procedure. In particular, that analysis was conducted as a function of a positive and negative change of 100 basis points in the Ke with respect to 9.94%.

The results of the impairment test

The impairment test, conducted in accordance with international accounting principles, as well as the instructions contained in Bank of Italy/Consob/ISVAP Document No. 4 of 3 March 2010, indicated the need to recognise an impairment loss of €2.2 million on goodwill. The results of the analysis conducted to determine the recoverable amount of the CGU referring to the full scope of the Bank indicated a considerably lower contribution to cash flow generation – over a significant time horizon – than considered when estimating the original cash flows.

Section 10 - Tax assets and tax liabilities - item 100 of assets and item 60 of liabilities

10.1 Deferred tax assets: composition

Composition by type:	31/12/2018	31/12/2017
Tax effect on AFS reserve	860	165
Staff costs	1,897	610
Credit losses	47,817	47,817
Fiscal losses	5,027	6,627
Property and equipment	1,916	1,827
Fta Ifrs 9	9,908	-
Other	2,002	1,127
Total	**69,427**	**58,174**

10.2 Deferred tax liabilities: composition

Composition by type:	31/12/2018	31/12/2017
Tax effect on AFS	730	3,258
Fta Ifrs 9	256	-
Other	273	301
Total	**1,259**	**3,559**

10.3 Changes in deferred tax assets (through the income statement)

	31/12/2018	31/12/2017
1. Opening balance	57,851	62,512
2.Increases	4,359	3,732
2.1 Deferred tax assets recognised during the year	4,359	3,732
a) in respect of previous periods	3	60
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) other	4,356	3,672
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	3,651	8,393
3.1 Deferred tax assets derecognised during the year	3,651	8,393
a) reversals	-	-
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	3,651	8,393
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
a) conversion in tax assets set forth in Italian Law 214/2011	-	-
b) other	-	-
4.Closing balance	**58,559**	**57,851**

10.3-bis Changes in deferred tax assets pursuant to Law 214/2011

	31/12/2018	31/12/2017
1. Opening balance	**47,817**	**52,214**
2.Increases	-	-
3. Decreases	-	4,397
3.1 Reversals	-	-
3.2 Transformation into tax credits	-	-
a) from losses for the year	-	-
b) from fiscal losses	-	-
3.3 Other decreases	-	4,397
4.Closing balance	**47,817**	**47,817**

10.4 Changes in deferred tax liabilities (through the income statement)

	31/12/2018	31/12/2017
1.Opening balance	301	435
2. Increases	-	-
2.1 Deferred tax liabilities recognised during the year	-	-
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	28	134
3.1 Deferred tax liabilities derecognised during the year	28	134
a) reversals	-	-
b) due to change in accounting policies	-	-
c) other	28	134
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**273**	**301**

10.5 Changes in deferred tax assets (through equity)

	31/12/2018	31/12/2017
1.Opening balance	323	585
2. Increases	12,028	101
2.1 Deferred tax assets recognised during the year	12,028	101
a) in respect of previous periods	-	-
b) due to changes in accounting policies	11,235	-
c) other	793	101
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	1,483	363
3.1 Deferred tax assets derecognised during the year	1,483	363
a) reversals	-	-
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	1,327	-
d) other	155	363
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4.Closing balance	**10,868**	**323**

10.6 Changes in deferred tax liabilities (through equity)

	31/12/2018	31/12/2017
1.Opening balance	3,258	4,730
2. Increases	986	3,258
2.1 Deferred tax liabilities recognised during the year	986	3,258
a) in respect of previous periods	-	-
b) due to changes in accounting policies	256	-
c) other	730	3,258
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	3,258	4,730
3.1 Deferred tax liabilities derecognised during the year	3,258	4,730
a) reversals	-	-
b) due to change in accounting policies	-	-
c) other	3,258	4,730
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	986	3,258

Probability test on deferred taxes

According to international accounting standard IAS 12, deferred tax assets and liabilities are recognised according to the following criteria:

- ✓ a deferred tax liability must be recognised for all taxable temporary differences;
- ✓ a deferred tax asset is to be recognised for all deductible temporary differences if it is probable that sufficient taxable income will be earned for the deductible temporary differences. Deferred tax assets not previously recognised – inasmuch as the requirements for their recognition had not been satisfied – are to be recognised in the year in which those requirements are met.

Accordingly, the amount of the deferred tax assets recognised must be tested each year in order to determine whether it is reasonably certain that future taxable income will permit the recovery of the assets.

Considering the amount of the Bank's recognised deferred tax assets, for the 2018 financial statements, as for previous years, an analysis was conducted with the aim of verifying whether forecast earnings are sufficient to ensure the recovery of such assets and therefore justify their continuing recognition in the financial statements (a process known as the “probability test”).

In conducting the probability test on deferred tax assets carried in the financial statements as at 31 December 2018, as for 2017, deferred tax assets deriving from deductible temporary differences relating to impairment and losses on loans and receivables were considered separately, as were those on goodwill and other intangible assets with indefinite useful lives (“qualified deferred tax assets” and “qualified temporary differences”), provided that they were recognised in or before financial year 2014. In this regard, it is relevant that, with effect from the tax period ended on 31 December 2011, IRES (corporate income) deferred tax assets recognised in the financial statements on the basis of tax losses deriving from the deferred deduction of qualified temporary differences may be converted into tax credits (Art. 2 (56-bis) of Law Decree No. 225 of 29 December 2010, introduced by Art. 9 of Law Decree No. 201 of 6 December 2011). With effect from tax period 2013, a similar conversion option applies when a net negative value of production is declared in an IRAP (regional production tax) return, including in the case of IRAP deferred tax assets deriving from qualified temporary differences that have formed part of the net negative value of production (Art. 2 (56-bis) of Law Decree No. 225 of 29 December 2010, introduced by Law No. 147/2013). These forms of convertibility – which are in addition to those already envisaged where the individual financial statements present a loss for the year (Art. 2 (55) and (56) of Law Decree No. 225/2010, as most recently amended by Law No. 147/2013) – represent an additional, complementary means of recovery, which is intended to ensure that deferred tax assets may be recovered in all situations, regardless of the company's future profitability. In fact, if qualified temporary differences exceed taxable income or the net value of production in a given year, the recovery of deferred tax assets does not take the form of a reduction of current taxes, but rather of the recognition of deferred tax assets on the tax loss or net negative value of production, convertible into tax credits pursuant to Article 2 (56-bis) and (56-bis.1) of Law Decree No. 225/2010. The convertibility of deferred tax assets on tax losses and the net negative value of production resulting from qualified temporary differences is therefore a sufficient condition for the recognition of qualified deferred tax assets in the financial statements, excluding them from the scope of application of the earnings probability test.

A further limit on the outright deductibility of deferred tax assets was introduced by Article 11 of Law Decree No. 59 of 3 May 2016, amended by Law Decree No. 237 of 23 December 2016, which rendered the eligibility for conversion into a tax credit of qualified deferred tax asset that is not associated with an actual prepayment of taxes (a “type-2 DTA”) contingent on an annual payment of 1.5% of the total value of the asset in the years

2016-2030. No payment is due to convert into tax credits qualified deferred tax assets associated with an actual prepayment of greater taxes (“type-1 DTAs”). Considering that the qualified deferred tax assets recognised by the company were all found to be “type-1 DTAs”, the Bank was not actually required to make such payments for 2017.
Accordingly, the probability test is structured as follows:
This arrangement is also borne out in the joint Bank of Italy, Consob and ISVAP document no. 5 of 15 May 2012 (issued in the framework of the IAS/IFRS Application Coordination Board) concerning the Accounting Treatment of Deferred Tax Assets Deriving from Law 214/2011 and in the subsequent Italian Banking Association IAS document no. 112 of 31 May 2012 (Tax Credits Deriving from the Transformation of Deferred Tax Assets: Clarification from the Bank of Italy, Consob and ISVAP Regarding the Application of IAS/IFRS).
On this basis, the test consisted of the following steps in particular:

a) identifying deferred tax assets other than those associated with impairment losses on loans, goodwill and other intangible assets with indefinite useful lives (“non-qualified deferred tax assets”) recognised in the financial statements; b) analysing such non-qualified deferred tax assets and the deferred tax assets recognised in the financial statements, distinguishing them by type of origin and thus by foreseeable timing of recovery; and
b) forecasting the Company’s future profitability with the aim of verifying the ability to absorb the deferred tax assets set forth in point a) above.

Consequently, the recoverability test was conducted on the basis of the following assumptions:

- ✓ future taxable income has been estimated on the basis of cash flow projections prepared according to the 2019-2022 Strategic Plan;
- ✓ deferred tax liabilities (DTLs) were set off against DTAs where the temporary differences were reversed in the same year;
- ✓ the Italian tax code does not provide for any time limits on the recovery of IRES (corporate income tax) losses (Art. 84 (1) of Presidential Decree No. 917 of 22 December 1986).

The investigations thus performed supported the recoverability of the DTAs that cannot be converted over a reasonably defined time horizon, even where more extended than the strategic plan's express forecasting period.
In the interest of completeness, it should be noted that the 2019 Budget Act (Law 145 of 30 December 2018), in addition to providing for the deductibility over a period of ten years of adjustments to loans to customers applied upon the first-time adoption of the international accounting standard IFRS 9, which resulted in the recognition of new unqualified DTAs, also provides for new, longer timing for the reversal of qualified DTAs. In particular, the law calls for the deferral until 2026 of the deductions that otherwise would have applied in 2018 in respect of impairment losses and losses on loans to customers applied but not deducted in previous years (Art. 1 of paragraphs 1056 and 1065). These effects were also taken into account in the probability tests described above.

Section 11 - Non-current assets held for sale and discontinued operations and associated liabilities - item 110 of assets and item 70 of liabilities
This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 12 - Other assets - item 120
12.1 Other assets: composition

	31/12/2018	31/12/2017	%
Other assets - Amounts due from the tax authorities	20,528	11,829	73.5%
Other assets - Other	9,223	17,899	-48.5%
Other items - Costs and advances pending financial allocation	170	329	-48.1%
Other items - Varius items	25,494	31,924	-20.1%
Total	**55,416**	**61,981**	**-10.6%**

The various items include, among others:
- €5,733 thousand of cheques in processing;
- €4,158 thousand of commission income to be received;
- €2,860 thousand of invoices issued for lease payments;
- €2,263 for processing of SDDs received.

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - item 10

1.1 Financial liabilities measured at amortised cost: composition of amounts due to banks by type

	31/12/2018				31/12/2017			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L2		L1	L2	L2
1. Due to central banks	**550,882**	**X**	**X**	**X**	**555,670**	**X**	**X**	**X**
2. Due to banks	**121,519**	**X**	**X**	**X**	**118,449**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	5,047	X	X	X	11,187	X	X	X
2.2 Time deposits	20,001	X	X	X	5,000	X	X	X
2.3 Borrowings	96,195	X	X	X	102,262	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 other	96,195	X	X	X	102,262	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity	-	X	X	X	-	X	X	X
2.5 Other payables	275	X	X	X	-	X	X	X
Total	**672,401**	**-**	**0.0%**	**0.0%**	**674,119**	**-**	0.0%	0.0%

Key: BV= Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

1.2 Financial liabilities measured at amortised cost: composition of amounts due to customers by type

	31/12/2018				31/12/2017			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L2		L1	L2	L2
1. Current accounts and demand deposits	1,817,469	X	X	X	1,802,007	X	X	X
2. Time deposits	390,126	X	X	X	301,816	X	X	X
3. Borrowings	256,611	X	X	X	291,580	X	X	X
3.1 Repurchase agreements	256,430	X	X	X	219,296	X	X	X
3.2 Other	181	X	X	X	72,285	X	X	X
4. Liabilities in respect of commitments to repurchase own equity	-	X	X	X	-	X	X	X
5. Other payables	301,393	X	X	X	313,598	X	X	X
Total	**2,765,600**				**2,709,002**			

Key: BV= Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

1.3 Financial liabilities measured at amortised cost: composition of debt securities issued by type

	31/12/2018				31/12/2017			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities	**69,782**	-	**45,645**	**23,593**	**144,996**	-	**72,840**	**71,536**
1. Bonds	69,654	-	45,645	23,465	131,945	-	59,790	71,536
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	69,654	-	45,645	23,465	131,945	-	59,790	71,536
2. Other	128	-	-	128	13,050	-	13,050	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	128	-	-	128	13,050	-	13,050	-
Total	**69,782**	-	**45,645**	**23,593**	**144,996**	-	**144,996**	-

Key: BV= Book value; L1 = Level 1; L2 = Level 2; L3 = Level 3

1.4 Composition of subordinated debt/securities

Description	Amount 31/12/2018	Amount 31/12/2017
Subordinated securities	22,370	25,933

The amount included under item 10.c) "Debt securities issued" came to €22,370 thousand. The item refers to the following bond issue:

- Subordinated bond with an original nominal value of €22.35 million issued on 19/12/2014 having the following characteristics:
  - ✓ fixed interest rate of 2.75%;
  - ✓ bullet repayment at maturity:
  - ✓ maturity: 19 December 2019;

Section 2 - Financial liabilities held for trading - item 20

2.1 Financial liabilities held for trading: composition by type

	31/12/2018					31/12/2017				
		FV					FV			
	NV	L1	L2	L3	FV*	NV	L1	L2	L3	FV*
A. On-balance-sheet liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 structured	-	-	-	-	X	-	-	-	-	X
3.1.2 other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 structured	-	-	-	-	X	-	-	-	-	X
3.2.2 other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	-	-	168	-	-	-	-	765	-	-
1.1 trading	X	-	168	-	X	X	-	765	-	X
1.2 associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 other	X	-	-	-	X	X	-	-	-	X
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**	-	**168**	-	**X**	**X**	-	**765**	-	**X**
Total (A+B)	**X**	-	**168**	-	**X**	**X**	-	**765**	-	**X**

Key: FV = fair value; FV* = fair value calculated by excluding the changes in value due to the change in the issuer's credit rating since the issue date; NV = nominal or notional value

Section 3 - Financial liabilities designated at fair value - item 30

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 4 - Hedging derivatives - item 40

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 5 - Change in fair value of macro fair value hedge portfolios - item 50

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 6 - Tax liabilities - item 60

For information on this section, please see Section 10 under Assets.

Section 7 - Liabilities associated with discontinued operations - item 70

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 8 - Other liabilities - item 80

8.1 Other liabilities: composition

	31/12/2018	31/12/2017	%
Other liabilities - Various items	74,868	56,666	32.1%
Other liabilities - Amouns due to tax authorities	6,424	4,284	49.9%
Total	**81,292**	**60,950**	**33.4%**

The various items include:

- ✓ third-party bills and documents in portfolio of €20,486 thousand;
- ✓ securitisation liabilities of €11,060 thousand;
- ✓ SEPA credit transfers to be settled of €9,502 thousand;
- ✓ other liabilities due to accruals basis accounting of €5,607 thousand;
- ✓ F24 tax payment forms to be settled of €3,670 thousand;
- ✓ leasing direct debits to be collected of €936 thousand.

Section 9 - Employee termination benefits - item 90

9.1 Employee termination benefits: annual changes

	31/12/2018	31/12/2017
A. Opening balance	**5,073**	**5,685**
B. Increases	**1,864**	**1,755**
B.1 Provision for the year	1,864	1,755
B.2 Other increases	-	-
C. Decreases	**2,143**	**2,367**
C.1 Severance payments	112	653
C.2 Other decreases	2,031	1,714
D. Closing balance	**4,794**	**5,073**
Total	**4,794**	**5,073**

Item C.2 "Other decreases" refers to the amounts transferred to the pension fund and INPS Treasury Fund. Under international accounting principles, employee termination benefits are considered post-employment benefits of the defined-benefit type. Accordingly, for accounting purposes, their value is determined through actuarial approaches based on a technical procedure known in actuarial literature as the "MAGIS" method. This method, based on a stochastic simulation of the Montecarlo type, allows projections to be prepared for the compensation costs for each employee, considering the demographic and compensation figures associated with each position, without aggregating those positions or introducing average values. The calculations were performed for the number of years necessary for all workers currently in service to leave service.
In accordance with IAS 19, the actuarial assessments have been conducted according to the accrued benefit method by using the Projected United Credit Method. Technical assessments were conducted according to the following parameters:

- ✓ annual technical discount rate: 1.57%;
- ✓ annual inflation rate: 1.50%;

As required by ESMA, the actuarial assessment was repeated while leaving all other hypotheses unchanged but considering a discounting rate equal to the index for the Eurozone, Iboxx Corporate AA, with a duration of 10+ years, in a manner consistent with the average financial duration of prospective divestments tied to departures from the category subject to assessment.

Section 10 - Provisions for risks and charges - item 100

10.1 Provisions for risks and charges: composition

	31/12/2018	31/12/2017
1. Provisions for credit risk associated with commitments and financial guarantees given	326	-
2. Provisions on other commitments and other guarantees given	1,055	632
3. Post-employment benefits	-	-
4. Other provisions for risks and charges	6,416	1,690
4.1 legal disputes	866	101
4.2 personnel charges	5,000	1,351
4.3 other	550	238
Total	**7,797**	**2,322**

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and other guarantees given	Postemployment benefits	Other provisions for risk and charges	Total
A. Opening balance	-	-	**1,690**	**1,690**
B. Increases	**1,381**	-	**6,697**	**8,078**
B.1 Provision for the year	749	-	6,387	7,136
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to changes in discount rate	-	-	-	-
B.4 Other increases	632	-	310	942
of which: business combinations	-	-	-	-
C. Decreases	-	-	**1,971**	**1,971**
C.1 Use during the year	-	-	1,217	1,217
C.2 Changes due the changes in discount rate	-	-	-	-
C.3 Other decreases	-	-	754	754
D. Closing balance	**1,381**	-	**6,416**	**7,797**

10.3 Provisions for risks and charges relating to commitments and financial guarantees given

	Provisions for credit risk associated with commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	-	-	-	-
2. Financial guarantees given	50	3	274	326
Total	**50**	**3**	**274**	**326**

10.4 Provisions for other commitments and other guarantees given

	Provisions for credit risk associated with commitments and other guarantees given			
	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	114	562	-	677
2. Financial guarantees given	333	45	-	378
Total	**447**	**607**	**-**	**1,055**

10.6 Provisions for risks and charges - other

Provisions for risks and charges consist of the following:

Provision for revocatory actions

This provision stood at €78 thousand as at 31 December 2018 and represents the estimated amount of foreseeable liabilities, calculated individually with the support of the Bank's legal counsel, in respect of judicial and out-of-court actions in which the Bank is a defendant.

Provisions for contingencies and complaints

At 31 December 2018 this provision amounted to €6,338 thousand, of which €888 thousand of accruals for complaints by customers and legal disputes with former employees and €4,800 thousand relating to the accrual for the voluntary redundancy procedure involving the use of the solidarity fund in support of income, employment, retraining and professional development, €200 thousand relating to legal fees for ongoing tax disputes and the remainder of accruals for probable future contractual commitments.

Section 11 - Redeemable shares - item 120

11.1 Redeemable shares: composition

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 12 - Shareholders' equity - items 110, 130, 140, 150, 160, 170 and 180

Shareholders' equity is defined by international accounting standards as "the residual value of an entity's assets after all liabilities have been deducted." From a financial standpoint, equity represents the monetary extent of the resources contributed by the owners or generated by the entity.

Capital management is the set of policies and decisions required to determine the capitalisation level, as well as the optimal combination of the various alternative capitalisation instruments aimed at ensuring that capital and capital ratios are consistent with the risk profile assumed, in full accordance with supervisory requirements.

In further detail, the capital policy adopted by the Bank is founded upon the three following approaches:

- ✓ full compliance with regulatory requirements (regulatory approach);
- ✓ appropriate monitoring of risks associated with banking operations (management approach); and
- ✓ support for company development projects (strategic approach).

At 31 December 2018, Banca di Cividale had fully subscribed and paid-in share capital of €50,913 thousand, divided into 16,971,085 ordinary shares.

12.1 Share capital and treasury shares: composition

	31/12/2018	31/12/2017	%
1. Share capital	50,913	50,913	0.0%
2. Share premiums	167,022	167,022	0.0%
3. Reserves	45,805	68,219	-32.9%
4. (Treasury shares)	(1,260)	(792)	59.1%
5. Valuation reserves	9,496	15,438	-38.5%
6. Capital instruments	-	-	-
7. Net income (loss) for the period	2,043	753	171.3%
Total	**274,018**	**301,553**	**-9.1%**

12.2 Share capital - number of shares: annual changes

	Ordinary	Other
A. Shares at start of year	**16,971,085**	-
- fully paid	16,971,085	-
- partly paid	-	-
A.1 Treasury stock (-)	(53,012)	-
A.2 Shares in circulation: opening balance	**16,918,073**	-
B. Increases	-	-
B.1 New issues	-	-
- paid issues:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**60,098**	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	60,098	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**16,857,975**	-
D.1 Treasury stock (+)	113,110	-
D.2 Shares at end of the year	16,971,085	-
- fully paid	16,971,085	-
- partly paid	-	-

12.3 Share capital: other information

Schedule illustrating eligibility for distribution, possible uses and origins of shareholders' equity reserves as required by Article 2427 of the Italian Civil Code

	Amount to 31/12/2018	UTILISATION OPTIONS	AMOUNT AVAILABLE	USE IN PRIOR YEARS FOR LOSS COVERAGE	OTHER
Share capital	**50,913**	-	-	-	-
Capital reserves	-	-	-	-	-
Share premiums	167,022	A - B - C	167,022	167,022	-
Valuation reserves	9,496	A-B	9,496	9,496	-
Other reserves	-	**A - B - C**	-	-	-
- legal reserve	22,392	B	22,392	22,392	-
- reserve for the purchase of treasury shares	(1,260)	-	-	-	-
- statutory reserve	39,553	A - B	39,553	39,553	-
- other reserves	(16,140)	A - B -	16,140 -	16,140	-
- retained earnings	-	A - B	-	-	-
Net income for the period	2,043	-	-	-	-
Total	**274,018**	-	**222,322**	**222,322**	-
Non available	-	-	-	-	-
Available	**274,018**	-	**222,322**	**222,322**	-

a) for share capital increases; b) for coverage of losses c) for distribution to shareholders

12.4 Earnings reserves: other information

	31/12/2018	31/12/2017	%
Legal reserve	22,392	22,317	0.3%
Statutory reserve	39,553	40,402	-2.1%
Other reserves	5,500	5,500	0.0%
FTA IFRS9	(23,171)	-	N.A.
Treasury shares	1,531	-	-
Total	**45,805**	**68,219**	**-32.9%**

OTHER INFORMATION

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

	Nominal value on financial release obligations and guarantees			31/12/2018	31/12/2017
	First stage	Second stage	Third stage		
1. Commitment to supply funds	**573,181**	**-**	**5,688**	**578,868**	**56,331**
a) Central Banks	-	-	-	-	-
b) Public Administration	-	-	-	-	125
c) Banks	14,780	-	-	14,780	-
d) Other financial companies	11,040	-	770	11,810	-
e) Non-financial companies	478,702	-	4,020	482,722	51,303
f) Families	68,658	-	898	69,556	4,903
2. Financial release guarantees	**10,777**	**63**	**5,962**	**16,802**	**15,008**
a) Central Banks	-	-	-	-	-
b) Public Administration	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	10,742	63	5,800	16,606	12,635
f) Families	35	-	161	196	2,373

2. Other commitments and other guarantees given

	Nominal value	
	31/12/2018	31/12/2017
1. Others guarantees given	**66,354**	**61,745**
of which: non-performing loans	-	-
a) Central Banks	-	-
b) Governments and other Public Sector Entities	520	392
c) Banks	-	-
d) Other financial companies	1,264	1,195
e) Non-financial companies	58,375	54,223
f) Households	6,195	5,935
2. Others commitments	**42,790**	-
of which: non-performing loans	-	-
a) Central Banks	-	-
b) Governments and other Public Sector Entities	113	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	38,078	-
f) Households	4,599	-

It is further reported that the Bank has posted off-balance sheet securities of €303,841 thousand as collateral for funding transactions.

3. Assets pledged as collateral for liabilities and commitments

Portfolios	31/12/2018	31/12/2017
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	89,946	15,504
3. Financial assets measured at amortised cost	169,517	203,251
4. Property and equipment	-	-
of which: property and equipment that constitute inventories	-	-

5. Management and intermediation services

Type of service	31/12/2018	31/12/2017
1. Trading in financial instruments on behalf of third parties	-	-
a) Purchases	-	-
1. settled	-	-
2. not yet settled	-	-
b) Sales	-	-
1. settled	-	-
2. not yet settled	-	-
2. Asset management	**189,332**	**216,489**
3. Custody and administration of securities	**4,593,262**	**3,246,014**
a) third-party securities held as part of depository bank services (excluding portfolio management)	-	-
1.securities issued by reporting entity	-	-
2. other	-	-
b) other third-party securities on deposit (excluding portfolio management): other	801,538	981,593
1. securities issued by reporting entity	101,406	154,095
2. other	700,132	827,498
c) third-party securities deposited with third parties	796,321	775,749
d) securities owned by bank deposited with third parties	2,995,402	1,642,768
4. Other	-	-

6-7 Financial assets/liabilities presented on a net basis, subject to master netting agreements or similar agreements

IFRS 7 requires that specific disclosure be provided for financial instruments that are set off in the balance sheet pursuant to IAS 32 or that are partially eligible for offsetting, upon the occurrence of certain conditions, in that they are governed by master netting agreements or similar agreements that do not comply with the criteria established by IAS 32 for offsetting in the financial statements.

For Banca di Cividale, there were no outstanding netting agreements for which balances are to be offset in the balance sheet pursuant to IAS 32.

The financial instruments potentially eligible for offsetting in the tables below are governed by the following agreements:

- ✓ for derivative instruments: an ISDA master agreement and clearing house netting agreements;
- ✓ for repurchase and reverse repurchase agreements: Global Master Repurchase Agreements (GMRAs);
- ✓ for securities lending: global master securities lending agreements (GMSLAs).

Technical forms	Gross amountof financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets shown in the financial statements (c=a-b)	Related amounts not offse tin the financial statements		Net amount 31/12/2018 (f=c-d-e)	Net amount 31/12/2017
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	6	-	6	-	-	6	22
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2018	**6**	**-**	**6**	**-**	**-**	**6**	**X**
Total 31/12/2017	**22**	**-**	**22**	**-**	**-**	**X**	**22**

Technical forms	Gross amountof financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets shown in the financial statements (c=a-b)	Related amounts not offse tin the financial statements		Net amount 31/12/2018 (f=c-d-e)	Net amount 31/12/2017
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	160	-	160	303	-	**(143)**	**(70)**
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total 31/12/2018	**160**	**-**	**160**	**303**	**-**	**(143)**	**X**
Total 31/12/2017	**798**	**-**	**798**	**868**	**0**	**X**	**(70)**

Chapter C – NOTES TO THE INCOME STATEMENT

Section 1 - Interest - items 10 and 20

1.1 Interest income and similar revenues: composition

	Debt securities	Loans	Other transactions	31/12/2018	31/12/2017	%
1. Financial assets measured at fair value through profit or loss	**26**	**-**	**529**	**555**	**499**	11.1%
1.1 Financial assets held for trading	26	-	-	26	31	-17.6%
1.2 Financial assets designated at fair value	-	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	529	529	468	13.0%
2. Financial assets measured at fair value through other comprehensive income	**1,964**	-	X	**1,964**	2,861	-31.3%
3. Financial assets measured at amortised cost	**4,123**	**67,618**	-	**71,741**	**75,634**	-5.1%
3.1 Due from banks	421	368	X	789	3,389	-76.7%
3.2 Loans to customers	3,701	67,251	X	70,952	72,245	-1.8%
4. Hedging derivatives	X	X	-	-	-	-
5. Other assets	X	X	-	-	-	-
6. Financial liabilities	X	X	X	**3,965**	2,632	50.6%
Total	**6,112**	**67,618**	**529**	**78,224**	**81,626**	**-4.2%**
of which: interest income on impaired financial assets	-	5,593	-	-	-	-

1.2 Interest income and similar revenues: other information

1.2.1 Interest income on foreign-currency financial assets

	31/12/2018	31/12/2017	%
Interest income on foreign-currency financial assets - securities	94	59	59.1%
Total	**94**	**59**	**59.1%**

1.2.2 Interest income on finance lease transactions

	31/12/2018	31/12/2017	%
Interest income on financial lease payables	5,458	5,466	-0.1%
Total	**5,458**	**5,466**	**-0.1%**

1.3 Interest expense and similar charges: composition

	Debt	Securities	Other liabilities	31/12/2018	31/12/2017	%
1. Financial liabilities measured at amortised cost	15,852	1,943	-	17,794	14,069	26.5%
1.1 Due to Central Banks	-	X	X	-	-	-
1.2 Due to banks	1,363	X	X	1,363	1,539	-11.4%
1.3 Due to customers	14,487	X	X	14,487	12,529	15.6%
1.4 Securities issued	X	1,943	X	1,943	4,650	-58.2%
2. Financial liabilities held for trading	-	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-	-
4. Other liabilities and allowances	X	X	-	-	69	-100.0%
5. Hedging derivatives	X	X	-	-	-	-
6. Financial assets	X	X	X	- 1	-	-
Total	**15,852**	**1,943**	**-**	**17,794**	**18,787**	**-5.3%**

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on foreign-currency financial liabilities

	31/12/2018	31/12/2017	%
Interest expence on foreign-currency financial assets	559	437	27.9%
Total	**559**	**437**	**27.9%**

Section 2 - Commissions - items 40 and 50

2.1 Commission income: composition

Type of services / Amounts	31/12/2018	31/12/2017	%
a) guarantees issued	1,098	1,010	8.7%
b) credit derivatives	-	-	-
c) management, intermediation and advisory services:	9,871	9,566	3.2%
1. trading in financial instruments	79	16	404.2%
2. foreign exchange	315	515	-38.9%
3. asset management	1,896	2,098	-9.6%
4. securities custody and administration	122	158	-23.1%
5. depository services	-	-	-
6. securities placement	4,535	5,175	-12.4%
7. reception and transmission of orders	283	379	-25.1%
8. advisory services	-	-	-
8.1. on investments	-	-	-
8.2. on financial structure	-	-	-
9. distribution of third-party services	2,641	1,226	115.5%
9.1 asset management	-	-	-
9.1.1 individual	-	-	-
9.1.2 collective	-	-	-
9.2 insurance products	2,641	1,226	115.5%
9.3 other	-	-	-
d) collection and payment services	9,301	8,894	4.6%
e) servicing activities for securitizations	-	-	-
f) services for factoring transactions	-	-	-
g) tax collection services	-	-	-
h) management of multilateral trading facilities	-	-	-
i) management of current accounts	6,234	5,958	4.6%
j) other	8,207	7,449	10.2%
Total	**34,711**	**32,877**	**5.6%**

2.2 Commission income: distribution channels for products and services

Channels/Amounts	31/12/2018	31/12/2017	%
a) at Bank branches:	9,072	8,498	6.75%
1. portfolio management	1,896	2,098	-9.62%
2. placement of securities	4,535	5,175	-12.37%
3. third party products and services	2,641	1,226	115.48%
b) outside bank branches:	-	-	-
1. portfolio management	-	-	-
2. placement of securities	-	-	-
3. third party products and services	-	-	-
c) other distribution channels:	-	-	-
1. portfolio management	-	-	-
2. placement of securities	-	-	-
3. third party products and services	-	-	-

2.3 Commission expenses: composition

	31/12/2018	31/12/2017	%
a) guarantees received	33	37	-11.2%
b) credit derivatives	-	-	-
c) management and intermediation services:	77	12	ns
1. trading in financial instruments	77	12	ns
2. foreign exchange	-	-	-
3. asset management	-	-	-
3.1 own portfolio	-	-	-
3.2 third-party portfolio	-	-	-
4. securities custody and administration	-	-	-
5. placement of financial instruments	-	-	-
6. off-premises distribution of securities, products and servic	-	-	-
d) collection and payment services	3,683	2,846	29.4%
e) other services	896	965	-7.2%
Total	**4,689**	**3,860**	**21.5%**

Section 3 - Dividends and similar income - item 70

3.1 Dividends and similar income: composition

	31/12/2018		31/12/2017		%
	Dividends	Similar income	Dividends	Similar income	
A. Financial assets held for trading	18	1	30	-	-40.9%
B. Other financial assets mandatorily measured at fair value	-	21	-	-	100.0%
C. Financial assets measured at fair value through other comprehensive income	10,509	-	788	-	N.S.
D. Equity investments	-	X	-	X	-
Total	**10,527**	**22**	**818**	**-**	**N.S.**

Section 4 - Net trading income or loss - item 80

4.1 Net trading income or loss: composition

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading	1	242	(132)	(401)	(290)
1.1 Debt securities	1	91	(122)	(365)	(396)
1.2 Equity securities	0	71	(1)	(35)	36
1.3 Units in collective investment undertakings	-	80	(9)	(1)	70
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
exchange differences	X	X	X	X	(52)
4. Derivatives	112	527	(115)	(430)	906
4.1 Financial derivatives	112	527	(115)	(430)	94
- on debt securities and interest rates	112	527	(115)	(430)	94
- on equity securities and equity indices	-	-	-	-	-
- on foreign currencies and gold	X	X	X	X	812
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**338**	**2,067**	**(609)**	**(2,093)**	**564**

Section 5 - Net fair value changes in hedge accounting - item 90

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 6 - Profit (loss) on disposal or repurchase - item 100

6.1 Profits (loss) on disposal of investments: composition

Transactions/Income components	Total 31/12/2018			Total 31/12/2017		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
Financial assets						
1. Financial assets measured at amortised cost	2,118	(2,941)	(823)	4,441	261	4,180
1.1 Due from banks	-	-	-	-	-	-
1.2 Loans to customers	2,118	(2,941)	(823)	4,441	261	4,180
2. Financial assets measured at fair value through other comprehensive income	1,176	(607)	569	7,708	1,909	5,799
2.1 Debt securities	1,176	(607)	569	7,708	1,909	5,799
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**3,294**	**(3,548)**	**(254)**	**12,149**	**2,170**	**9,979**
Financial liabilities valued at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	126	(15)	111	50	44	5
Total liabilities (B)	**126**	**(15)**	**111**	**50**	**44**	**5**

Section 7 - Profit (loss) on financial assets and liabilities designated at fair value - item 110

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

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1. Financial assets					
1.1 Debt securities	-	-	-	-	-
1.2 Equities	-	22	-	(27)	(5)
1.3 Quotas of UCI	151	181	(1,055)	(513)	(1,235)
1.4 Loans	90	-	(10)	-	80
2. Financial assets: exchange differences	X	X	X	X	
Total	**241**	**203**	**(1,065)**	**(540)**	**(1,160)**

The capital losses on interests in CIUs refer to the units in:

- ✓ Fondo Immobiliare Asset Bancari of €636 thousand;
- ✓ Fondo Immobiliare Asset Bancari III of €220 thousand;
- ✓ Fondo Finint Fenice of €160 thousand;
- ✓ Fondo Housing Sociale of €22 thousand;
- ✓ Fondo Sviluppo PMI of €11 thousand;
- ✓ Fondo Idea CCR of €5 thousand;
- ✓ Fondo Aladdin Ventures of €1 thousand.

Section 8 - Charges/write-backs on impairment - item 130

8.1 Net charges on impairment due to credit risk on financial assets measured at amortised cost: composition

	Impairment losses (1)			Recoveries		31/12/2018 (3) = (1) + (2)	31/12/2017	%
		Stage 3						
	Stage 1 and 2	Write-offs	Other	Stage 1 and 2	Stage 3			
A. Due from banks	94	-	-	-	-	94	-	100%
- Loans	94	-	-	-	-	94	-	100%
- Debt securities	-	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired	-	-	-	-	-	-	-	0%
B. Loans to customers	925	6,144	34,991	(3,508)	(13,591)	24,961	23,521	6%
- Loans	-	6,144	34,991	(3,508)	(13,591)	24,036	23,521	2%
- Debt securities	925	-	-	-	-	925	-	-
of which: purchased or originated credit-impaired	-	-	-	-	-	-	-	-
C. Total	**1,019**	**6,144**	**34,991**	**(3,508)**	**(13,591)**	**25,055**	**23,521**	**7%**

8.2 Net charges on impairment due to credit risk on financial assets designated at fair value through other comprehensive income: composition

	Impairment losses (1)			Recoveries		31/12/2018 (3) = (1) + (2)	31/12/2017	%
		Stage 3						
	Stage 1 and 2	Write-offs	Other	Stage 1 and 2	Stage 3			
A. Debt securities	11	-	-	-	-	11		
B. Loans	-	-	-	-	-	-		
- to customers	-	-	-	-	-	-		
- to banks	-	-	-	-	-	-		
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-		
C. Total	**11**	**-**	**-**	**-**	**-**	**11**		

Key: A = interest B = other write-backs

The table is not comparable with 31 December 2017 and no comparative figures are therefore provided.

Section 9 - Profit/(loss) on contractual amendments not subject to derecognition - item 140

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 10 – Administrative expenses – item 160

10.1 Personnel expenses: composition

	31/12/2018	31/12/2017	%
1) Employees	39,717	39,634	0.2%
a) w ages and salaries	27,621	27,788	-0.6%
b) social security contributions	7,513	7,415	1.3%
c) severance benefits	239	106	125.1%
d) pensions	-	-	-
e) allocation to employee severance benefit provision	1,504	1,670	-9.9%
f) allocation to provision for pensions and similar liabilities	-	-	-
- defined contribution	-	-	-
- defined benefit	-	-	-
g) payments to external pension funds	1,313	1,149	14.3%
- defined contribution	1,313	1,149	14.3%
- defined benefit	-	-	-
h) costs in respect of agreements to make payments in ow n equity instruments	-	-	-
i) other employee benefits	1,526	1,507	1.3%
2) Other personnel	1,053	966	8.9%
3) Board of Directors	576	593	-2.9%
4) Early retirement costs	-	-	-
5) Recovery of expenses for employees of the Bank seconded to other entities	189	-	100.0%
6) Reimbursement of expenses for employees of other entities seconded to the Bank	-	-	-
Total	**41,157**	**41,194**	**-0.1%**

10.2 Average number of employees by category

	2018	2017
Employees		
a) Senior management	10	10
b) Middle management	242	237
c) Other personnel	341	340
Other personnel	-	-
Total	**593**	**587**

10.4 Other employee benefits

Other employee benefits include €713 thousand in meal vouchers and €745 thousand in insurance policies.

10.5 Other administrative expenses: composition

	31/12/2018	31/12/2017	%
Maintenance and repairs	894	970	-7.9%
Electricity, heating and shared property service charges	982	986	-0.3%
Cleaning	466	457	2.0%
Rent payable	1,991	2,150	-7.4%
Management of real estate assets expenses	**4,333**	**4,562**	-5.0%
Fees and expences for mandatory activities	902	701	28.7%
Legal expences for debt collection	1,391	1,656	-16.0%
Legal expenses for banking activity	985	1,037	-5.0%
Consultancy services	1,133	2,125	-46.7%
Professional and legal expenses	**4,411**	**5,518**	-20.1%
Office supplies and printing	192	197	-2.2%
Telephone, postal and data transmission	444	529	-16.1%
Insurance	297	219	35.8%
Membership fees	530	512	3.5%
Commercial information	663	841	-21.1%
Security and transport of valuables	456	427	6.8%
General structure costs	**2,584**	**2,725**	-5.2%
Travel expenses	**851**	**1,046**	-18.6%
Advertising and promotional expenses	**926**	**849**	9.0%
Services provided by third parties	**6,786**	**10,209**	-33.5%
Taxes and duties	**6,751**	**6,669**	1.2%
Contributions to SFR and DGS	**3,647**	**3,656**	-0.3%
Other expenses	**793**	**1,977**	-59.9%
Total	**31,081**	**37,212**	**-16.5%**

Contributions to deposit guarantee schemes and resolution mechanisms

In enacting Directive 2014/49/EU (Deposit Guarantee Schemes Directive – “DGSD”) of 16 April 2014, Directive 2014/59/EU (Bank Recovery and Resolution Directive – “BRRD”) of 15 May 2014, and establishing the Single Resolution Mechanism (Regulation (EU) No 806/2014 of 15 July 2014), European lawmakers made significant changes to the rules for bank crises, with the strategic aim of reinforcing the single market and systemic stability. Following the transposition of the above Directives into national legislation, with effect from 2015 credit institutions have been required to provide the financial resources necessary to fund the Interbank Deposit Protection Fund (FITD) and National Resolution Fund (merged into the Single Resolution Fund – SRF – with effect from 2016) by paying ordinary contributions and, where necessary, extraordinary contributions. In accordance with the DGSD, the FITD has required Italian banks to pay ordinary annual contributions until target level has been reached. This target level has been set at 0.8% of the total protected deposits of Italian banks participating in the FITD. This level must be reached by 3 July 2024. The amount of the contribution required of each bank is proportionate to the amount of its protected deposits as at 30 September of each year, as a percentage of the total protected deposits of Italian banks participating in the FITD, and to the risk level of the participating bank with protected deposits compared with the risk levels of all other banks participating in the FITD.

Under the BRRD, Italian banks must pay ordinary annual contributions until the SRF has reached financial resources of at least 1% of the total protected deposits of all authorised credit institutions in all participating Member States. This level must be reached by 1 January 2024. Each entity's contributions are calculated according to the ratio of its liabilities (net of protected deposits and own funds and, for entities belonging to a group, net of intra-group liabilities) to the total liabilities (net of protected deposits and own funds) of all Italian banks and to the risk level associated with each credit institution compared with the risk levels of all other Italian banks. It bears emphasising that if the available financial resources of the FITD and/or the SRF should prove insufficient to ensure reimbursement of depositors or to finance resolution, respectively, credit institutions are required to cover these needs through extraordinary contributions.

Ordinary contributions are recognised in item “160. b) Other administrative expenses” in application of interpretation IFRIC 21 Levies, according to which the liability associated with the payment of a levy (the contributions in question are considered equivalent to a levy from an accounting standpoint) arises when the “obligating event” occurs, i.e. when the obligation to pay the annual dues is incurred. In the case of the contributions in question, it has been determined that the “obligating event” occurs in the first quarter for the SRF and in the third quarter for the FITD.

In further detail, in 2018:

- ✓ the ordinary and extraordinary contribution to the national resolution fund amounted to €2,420 thousand, charged to the income statement entirely in 2018, on the basis of the notification received from the Bank of Italy. It bears clarifying that this contribution was paid solely in “cash”, since Banca di Cividale did not exercise the option of paying 15% of the amount through irrevocable payment commitments;
- ✓ the ordinary contribution to the FITD amounted to €1,206 thousand, was charged to the income statement in its entirety in 2018 and was paid in 2018, in accordance with the notification received from the FITD that same month.

Interbank Deposit Protection Fund – Voluntary Scheme

Banca di Cividale is a participant in the FITD Voluntary Scheme, created in November 2015 to provide action in support of participating banks in extraordinary administration, in default or at risk of default.

At 31 December 2018 the fair value of the mezzanine and junior securities subscribed by the Voluntary Scheme totalled €19.6 million. The fair value of the residual investment held by Banca di Cividale in the Voluntary Scheme, taken to “Financial assets mandatorily measured at fair value”, amounted to €42 thousand.

Section 11 - Net provisions for risks and charges - item 170

11.2 Net provisions for other commitments and other guarantees given: composition

Net provisions for commitments and other guarantees given amounted to €21 thousand.

11.3 Net provisions for other risks and charges: composition

	31/12/2018	31/12/2017	%
Customer disputes	(4,969)	183	N.S.
Legal disputes	(712)	-	-
Revocatory actions	-	(334)	-100.0%
Other	49	(491)	-110.0%
Total	**(5,632)**	**(642)**	**N.S.**

Section 12 - Charges/write-backs on impairment of property, plant and equipment - item 180

12.1. Charges/write-backs on impairment of property, plant and equipment: composition

Assets/Income component	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c) 2018
A. Property, plant and equipment				
A.1 owned	2,371	275	-	2,646
- operating assets	2,371	275	-	2,646
- investment property	X	-	-	-
A.2 acquired under finance leases	-	-	-	-
- operating assets	-	-	-	-
- investment property	-	-	-	-
Total	**2,371**	**275**	-	**2,646**

Section 13 - Charges/write-backs on impairment of intangible assets - item 190

13.1 Charges/write-backs on impairment of intangible assets: composition

Assets/Income component	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments 2018 (a+b-c)
A. Intangible assets				
A.1 Owned	58	-	-	58
- generated internally by the Bank	-	-	-	-
- other	58	-	-	58
A.2 Acquired under finance leases	-	-	-	-
Total	**58**	-	-	**58**

Section 14 - Other operating income/expenses - item 200

14.1 Other operating expenses: composition

	31/12/2018	31/12/2017	%
Losses from sales of fixed assets under finance leases	-	-	-
Property sales losses, investment securities, equity investments, other assets	-	-	-
Out-of-period expenses and reductions in assets	(1,189)	(420)	-183.1%
Other	(236)	(133)	-76.7%
Total	**(1,425)**	**(553)**	**-157.5%**

14.2 Other operating income: composition

	31/12/2017	31/12/2017	%
Other income - rentals and fees	305	394	-22.6%
Expenses charged to others - recovery of taxes	5,413	5,444	-0.6%
Expenses charged to others on deposits and current accounts	629	554	13.5%
Expenses charged to others - other	2,548	1,845	38.1%
Out-of-period income and reductions in liabilities	569	785	-27.5%
Total	**9,465**	**9,022**	**4.9%**

Section 15 - Profit (loss) on equity investments - item 220

15.1 Profit (loss) on equity investments: composition

Income component/Amount	31/12/2018	31/12/2017	%
A. Revenues	-	-	-
1. Revaluations	-	-	-
2. Profits on disposal	-	-	-
3. Write-backs	-	-	-
4. Other	-	-	-
B. Charges	11	84	87%
1. Write-downs	-	-	0%
2. Impairment losses	11	79	86%
3. Losses on disposal	-	5	100%
4. Other	-	-	-
Net result	**(11)**	**(84)**	**87%**

Section 16 – Net adjustment to the fair value of property, plant and equipment and intangible assets – item 230

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 17 - Goodwill impairment - item 240

As stated in the report on operations, impairment losses of €2,190 thousand were recognised during the year on the basis of impairment testing.

Section 18 - Profit (loss) on disposal of investments - item 250

18.1 Profits (loss) on disposal of investments: composition

Income component/Amount	31/12/2018	31/12/2017
A. Real estate assets	67	-
- profits on disposal	67	-
- losses on disposal	-	-
B. Other assets (a)	-	-
- profits on disposal	-	-
- losses on disposal	-	-
Net result	67	-

Section 19 - Taxes on income from continuing operations (item 270)

19.1 Taxes on income from continuing operations: composition

	31/12/2018	31/12/2017	%
1. Current taxes (-)	(857)	(218)	-292.8%
2. Changes in current taxes from previous periods (+/-)	-	-	-
3. Reduction of current taxes for the period (+)	-	-	-
3. bis Reduction in current taxes for the year for credit taxes set forth in Italian Law no. 214/2011 (+)	-	-	0
4. Change in deferred tax assets (+/-)	2,367	(2,148)	n.s.
5. Change in deferred tax liabilities (+/-)	28	134	79.5%
6. Taxes for the period (-) (-1+/-2+3+/-4+/-5)	**1,537**	**(2,232)**	**-168.8%**

19.2 Reconciliation of theoretical tax liability and actual tax liability recognised

	31/12/2018	31/12/2017
Income (loss) before tax from continuing operations	67	2,985
Theoretical taxable income	67	2,985
Income tax - theoretical tax expense	(18)	(821)
Effect of revenues that do not form taxable income	2,064	(756)
Income tax - actual tax expense	**2,045**	**(1,577)**
Theoretical tax expense - Irap	(3)	(139)
Effect of other changes	(506)	(517)
Actual tax expense - IRAP	**(509)**	**(656)**
Actual tax expenses for the period	**1,536**	**(2,232)**
of which: actual tax expenses from continuing operations	-	-
actual tax liabilities on the groups of assets being divested	-	-

Section 20 - Income (loss) after tax from discontinued operations - item 290

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 21 - Other information

There is no additional information to report beyond that provided in the previous sections.

Section 22 - Earnings per share

22.1 Average number of ordinary shares (fully diluted)

The methods of calculating basic earnings per share and diluted earnings per share are defined by IAS 33 Earnings per Share. Basic earnings per share is defined as the relationship between the net income attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period. The following table presents basic earnings per share and the details of the calculation.

Basic Earning per share	31/12/2018	31/12/2017
Adjusted attributable profit	2,043	753
Weighted average number of shares	16,971,085	16,971,085
Basic Earning per share	**0.12**	**0.04**

Banca di Cividale has not issued financial instruments that grant their holders the right to obtain ordinary shares.

Chapter D – COMPREHENSIVE INCOME

		31/12/2018	31/12/2017
10	**NET INCOME (LOSS)**	**2,043,000**	**753,000**
	Other comprehensive income without reclassification to profit or loss	-	-
20	Equity instruments measured at fair value through other comprehensive income	-	-
	a) fair value changes	-	-
	b) transfer to other components of shareholders' equity	-	-
30	Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-
	a) fair value changes	-	-
	b) transfer to other components of shareholders' equity	-	-
40	Hedging of equity instruments measured at fair value through other comprehensive income	-	-
	a) fair value changes (hedged instrument)	-	-
	b) fair value changes (hedging instrument)	-	-
50	Property and equipment	-	-
60	Intangible assets	-	-
70	Defined benefit plans	151,364	(8,619)
80	Non-current assets held for sale and discontinued operations	-	-
90	Share of valuation reserves connected with investments carried at equity	-	-
100	Income taxes associated with other comprehensive income that may not be reclassified to the income statement	-	-
	Other comprehensive income that may be reclassified to the income statement	-	-
110	Hedges of foreign investments:	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
120	Foreign exchange differences:	-	-
	a) value change	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
130	Cash flow hedges:	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
	of which: gains (losses) on net positions	-	-
140	Hedging instruments (not designated elements)	-	-
	a) value change	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
150	Financial assets (other than equities) measured at fair value through other comprehensive income	(1,612,934)	(1,899,900)
	a) fair value changes	(1,612,934)	(1,899,900)
	b) reclassification to the income statement	-	-
	- adjustments for credit risk	-	-
	- gains/losses on disposals	-	-
	c) other changes	-	-
160	Non-current assets held for sale and discontinued operations	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	c) other changes	-	-
170	Share of valuation reserves connected with investments carried at equity:	-	-
	a) fair value changes	-	-
	b) reclassification to the income statement	-	-
	- impairment losses	-	-
	- gains/losses on disposals	-	-
	c) other changes	-	-
190	**Income taxes associated with other comprehensive income that may be reclassified to the income statement**	**(1,461,570)**	**(1,908,519)**
200	**TOTAL COMPREHENSIVE INCOME (Item 10+190)**	**581,431**	**(1,155,519)**

Chapter E – RISKS AND HEDGING POLICIES

Introduction

Identifying the risks to which the Bank is actually or potentially exposed is of primary importance to assuming such risks in an informed manner and managing them effectively, using the appropriate tools and techniques to mitigate those risks.

The management and monitoring of risks at Banca di Cividale are founded upon the following basic principles:

- ✓ identifying responsibilities for assuming risks;
- ✓ adopting consistent, adequate measurement and control systems in formal and substantial terms in light of the extent of the risks to be monitored; and
- ✓ organisational separation of functions responsible for management and functions responsible for control.

These principles are formally stated and illustrated in specific policies and the related rules and procedures concerning risks identified as significant. These documents, which are submitted for the approval of the Bank's Board of Directors, govern the set of regulated risks, significant and periodically monitored indicators, observation thresholds and operating limits, breach management methods, stress tests applied and the company's organisational structure, bodies and functions charged with performing the activities concerned, in keeping with the roles and responsibilities assigned to them.

In this process, which takes place at various levels of the organisational structure, a fundamental role is played, in accordance with prudential regulations, by the Bank's Board of Directors, which is responsible for establishing directives and strategic guidelines concerning the assumption of risk, approving strategic and operational limits (RAF) and drawing up the related guidelines.

The Risk Appetite Framework (RAF) thus represents the general architecture within which the risks assumed by the Bank are managed, through the establishment of general principles concerning maximum risk tolerance and the ensuing structure for oversight of the Bank's overall risk profile and major specific risks. The process requires a high degree of consistency and reconciliation of the strategic plan, RAF, ICAAP, ILAAP, Recovery Plan, budget and internal control system.

In accordance with supervisory requirements, a Risk Committee has been operative since 2015. This Committee, internal to the Board of Directors, consists of three non-executive independent directors and at least one member of the Board of Statutory Auditors. It plays an investigative, consultative and propositional role with regard to internal control and risk management systems. Its main purpose is to serve as "interface" between the Board of Directors, Board of Statutory Auditors, control functions and the Bank's other organisational units.

The activities for which the Risk Committee is responsible according to supervisory regulations include liaising with control functions. In accordance with the new supervisory rules (Bank of Italy Circular No. 285/2013), the organisational structure of Banca di Cividale identifies the Risk Management Function and Compliance Function (which also includes Anti-money Laundering Directive), which are to report directly to the Board of Directors, as the level-two control functions. This is also assured for the Auditing Function, a level-three control function that is independent of the other company units. The three functions (Risk Management, Compliance and Internal Auditing) are part of the internal control system, governed by prudential supervisory regulations, the internal document Internal Control System Guidelines, and the Rules and Procedures for the Coordination of Control Functions.

Risk Management Function

It performs a risk control function, as prescribed by the specific supervisory rules. From a structural standpoint, in accordance with the current organisation chart, the Risk Management Function includes a separate sub-unit known as Credit Risk, focused on systematic, integrated measurement and monitoring of the credit risk assumed by the bank.

The Risk Management Function is responsible for mapping, assessing and measuring the relevant company risks included in the "risk map", as well as periodically monitoring them. It collaborates in defining the RAF, the risk governance policies and the various phases of the risk management process, in addition to setting operating limits on the assumption of the various types of risk. It verifies the adequacy of the RAF and conducts ongoing assessment of the adequacy of the risk management process and compliance with operating limits, in addition to reporting periodically to the general management, Management Committee, ALCo, Risks Committee and the company boards on the activities performed, ensuring an adequate system of information flows, the content and frequency of which are established by internal rules and procedures. It is also tasked with formulating advance opinions on the consistency of major transactions with the RAF, and with analysing the risks of new products and services and the risks arising from entry into new operating and market segments. It assists the company boards in assessing strategic risk by monitoring the significant variables, supporting the planning of the assessment of risk profiles, capital adequacy (capital management) and liquidity risk associated with the performance projected in company plans. It coordinates the activities of the ICAAP/ILAAP Process Group (responsible for the internal process of determining capital adequacy and the adequacy of the governance and liquidity risk management system) and the production of the annual ICAAP/ILAAP report in accordance with the supervisory guidelines. It also coordinates the process of preparing and drafting the recovery plan and updates to the recovery plan by periodically monitoring recovery indicators. It is responsible for the stage allocation process and the transfer criteria, as well as for calculating the impairment of performing loans and securities, within the framework of the process of preparing the financial statements, and for conducting benchmark test activities in accordance with IFRS 9.

Compliance Function

Legal compliance is the responsibility of an independent function that supervises management of non-compliance risk, according to a risk-based approach, for all company activity, ensuring that internal procedures are adequate to prevent that risk. The Compliance Function is responsible for supervising legal compliance in respect of financial intermediation and complaints handling services. The Anti-Money Laundering Function, along with a specific sub-unit, is responsible for preventing and managing the risk of non-compliance with laws governing money-laundering and terrorist financing. The Head of the Compliance Function acts as the head of both functions for supervisory purposes, in addition to serving as the party responsible for reporting suspect transactions pursuant to Legislative Decree No. 231/07.

Other committees

According to the organisational model, a Management Committee and an Asset and Liability Committee have been instituted, in addition to the Risk Committee, with the additional aim of ensuring an effective exchange of information regarding exposure to such risks between the various segments and maximising the efficacy of the overall control of those risks.

The Management Committee, the members of which also include the heads of control functions, supports the general management in operational coordination of the guidelines established with the Strategic Plan and periodically compares company results with the objectives established in the Plan. Within the framework of the overall internal control system, it also plays a consultative, informative and propositional role with regard to decisions of an operational nature relating to initiatives and projects that have an effect on the risk management process and it aids the general manager in performing the roles assigned to the position by internal risk management policies.

The ALCo (Asset and Liabilities Committee), in which the Manager of the Risk Management Function also participates, collaborates in determining the strategic guidelines and management policies for managing liquidity risk, including the policies for liquidity reserves and managing collateral, in addition to playing an advisory role with regard to risk assumption rules, liquidity risk mitigation and the identification of any corrective measures aimed at rebalancing the risk position. It is also tasked with identifying and proposing the Bank's strategic decisions in financial matters, by coordinating the policies for managing assets, liabilities and the related risks, in the light of the market scenarios and directives established by the existing strategic plan.

ICAAP, ILAAP and the Recovery Plan at Banca di Cividale

In accordance with the regulatory provisions governing the prudential control process, the Bank has implemented specific company rules, approved by the Board of Directors and periodically updated, that regulate the internal capital adequacy assessment process (ICAAP) and the liquidity risk adequacy assessment process (ILAAP). With effect from June 2018, following the incorporation of the European Banking Authority (EBA) Guidelines into Bank of Italy Circular 285/2013 (Part One, Title III, Chapter 1), specific ILAAP reporting has also become mandatory for less significant banks.

The supervisory regulations require that ICAAP and ILAAP be based on appropriate company risk-management systems and presuppose adequate corporate governance mechanisms, an organisational structure with clearly defined lines of responsibility and an effective internal-control system. The corporate boards are responsible for the process and enjoy full autonomy in defining its structure and organisation to the extent of their respective expertise and prerogatives. They implement and promote updates to ICAAP and ILAAP with the aim of ensuring that they constantly adhere to the Bank's operational characteristics and strategic context. The processes must be formalised, documented, internally audited and approved by the corporate boards. In detail, the processes aim to:

- ✓ identify capital and liquidity requirements on the basis of actual risk and the strategic guidelines set by the Bank, in accordance with the Risk Appetite Framework (RAF);
- ✓ ensure that capital and liquidity reserves are constantly adequate to current and prospective needs;
- ✓ keep all major risks under observation;
- ✓ ensure that regular attention is devoted to risk-measurement and -management processes, developing an increasingly strong "risk culture"; and
- ✓ define approaches, tools, methods, and organisational and control systems for risks and capital commensurate to the Bank's strategies, characteristics, scope and complexity, with a view towards constant, gradual refinement.

In April of each year, at the conclusion of the process described above, the Board of Directors approves the ICAAP/ILAAP Report at 31 December of the previous year, which represents both the point of convergence and end result of financial planning, risk management, capital management and liquidity management, as well as a tool to be used in strategic evaluation and implementation of business decisions.
With effect from 2017, regulations also require banks to prepare a Recovery Plan, a document dedicated to responding promptly and effectively to crisis situations, specifying the measures to be taken to restore the bank to financial equilibrium. Preparation of the Plan is based on the proportionality principle, in a manner consistent with the Bank's business model, associated risk profile, degree of complexity and the volume of the various businesses conducted. Specific qualitative and quantitative recovery indicators are identified to be used as means of promptly identifying any leading signals of a potential state of crisis, integrated into the RAF scheme as thresholds. Within the framework of the escalation process, the Plan sets out the roles, responsibilities and decision-making levels that permit or do not permit crisis management action to be taken, to be implemented in particularly adverse scenarios, providing the Bank with access to a broader range of concretely implementable options and allowing it to maximise their effects for recovery purposes. This document is also approved and signed by the Board of Directors at least once every two years.
In order to ensure that company bodies and control functions are fully aware of and capable of managing risk factors and compliance with the RAF, in addition to the ICAAP and ILAAP reports, Risk Management prepares complete, timely information streams, with the frequency mandated by internal regulations, concerning the assessment and monitoring of exposure to risk, submitted with the established frequency to the senior management, Management Committee, Risk Committee and other company bodies (Board of Directors and Board of Statutory Auditors). Specific stress tests are also introduced to permit a better assessment of risk exposure and how risks respond to adverse conditions, the relating mitigation and control systems and the adequacy of financial and organisational safeguards.
The disclosure obligations imposed by prudential regulations (Bank of Italy Circular 285/2013 and the CRR, Regulation EU No 575/2013) are discharged through preparation of the Disclosure by Institutions document published in the specific Investor Relations section of the company's website, www.civibank.it. The document contains a disclosure for market operators of information concerning capital and liquidity adequacy, risk exposure, the general characteristics of management systems and the oversight thereof. The information, which is both qualitative and quantitative in nature, is provided through concise overviews, thus fostering the transparency and comparability of the data.

SECTION 1 – CREDIT RISK

1.1 CREDIT RISK

QUALITATIVE DISCLOSURES

1. General aspects

Lending is an essential aspect of the core business of Banca di Cividale. In this framework, the Bank is exposed to the risk that some loans may not be repaid either at maturity or thereafter, due to a deterioration of the borrower's financial conditions, and therefore need to be written off in whole or in part.
The provisions of the Credit Policy and the general operating parameters established and approved by the Board of Directors represent the framework of reference for developing and implementing the Lending Process of Banca di Cividale, in accordance with the Bank's Articles of Association, mission and values, and specifically: "to be a point of reference for families, government and businesses in the local community, and to promote and support the social, economic and cultural growth of the community in which it operates."
The strategies, powers and rules for granting and managing credit at Banca di Cividale are oriented towards the following general guidelines:

- ✓ achieving a sustainable growth target for lending, consistent with the risk appetite, with a view to maximising return;
- ✓ diversifying the portfolio, by limiting the concentration of exposures to individual counterparties/groups and individual sectors of the economy;
- ✓ efficiently selecting groups and individual borrowers to which to lend through a thorough analysis of creditworthiness aimed at limiting the risk of default;
- ✓ favouring lending in support of the real economy and production, during the current phase of the economic scenario.
- ✓ constantly monitoring borrowers, through both automatic procedures and systematic surveillance of positions, in order to identify any signs of imbalance in a timely manner and then launch the corrective measures aimed at preventing the relationship from deteriorating.

The general guidelines for granting loans are consistent with the credit risk management policies set by the Board of Directors and are based on a definition of the elements that characterise the Bank's orientation in assuming and managing risk, with particular regard to the following aspects:

- ✓ the tolerated scope of non-performing exposures in the portfolio according to the pre-determined objectives set in the long-term plan for reducing non-performing loans according to a formal strategy aimed at optimising NPL management by maximising the present value of recoveries;
- ✓ concentration limits, including “large exposures”;
- ✓ eligible customer segments;
- ✓ particular limitations on the characteristics of potential borrowers and guarantors;
- ✓ objectives for the mitigation of risk through the acquisition of guarantees;
- ✓ objectives for the profitability and capital absorption of loans;
- ✓ compliance with supervisory regulations in terms of credit quality and risk management and monitoring.

The Bank's credit risk profile takes the form of identifying specific indicators and setting limits on risk, subject to periodic assessment and review, as established in the RAF, for the various phases of the lending process (rating system; concentration limits; large exposures; major transactions; and associated parties) or the risk management control phase (constant monitoring of the quality of the loan portfolio, pursued through the adoption of precise operating methods throughout all management phases of the relationship for assignment to level-two monitoring and control performed by Risk Management).

2. Credit risk management policies

2.1 Organisational aspects

Within the organisational structure adopted by Banca di Cividale, management of credit risk is entrusted to the following organisational units, to varying extents, in accordance with the mission and activities assigned to each under specific internal rules and procedures:

- ✓ Loan and Administration Area: it operates according to guidelines set by the Board of Directors and by the Management Committee, in accordance with the guidelines and/or directives provided by the general management; the area is charged with responsibility for, coordination and management of the sectors operating within its assigned remit.
- ✓ Loan Department: it is tasked with overseeing the process of assuming all types of risks associated with lending, with the support of the Loan Administration and Loan Application Review functions. Through the general management, in consultation with the Risk Management function, it proposes credit management policies to the Board of Directors. It is responsible for ensuring that the lending process is compliant with the provisions of the law, supervisory authority, Articles of Association and internal rules and procedures, and it constantly updates the technical procedures for loan application review, assessment and disbursement and the associated internal rules. It supervises all roles involved in the lending process and ensures that the NPL Department receives support with its monitoring and ongoing management of risk positions, in order to keep credit quality within acceptable limits.
- ✓ Mortgage Administration Function (part of the Services Department, reporting to the Loan and Administration Area): it is tasked with ensuring the regular performance of administrative and accounting tasks associated with the disbursement and management of mortgage loans, special loans, subsidised loans and other medium-to-long-term loans issued by the Bank; it monitors the adequacy of company policies and real-estate appraisal reports prepared for the Bank and oversees activities

relating to the surveillance of properties, availing itself of the support of the competent functions for the various types of loans.

- ✓ NPL Department (reporting directly to the General Manager), established in January 2018, is the unit into which the Anomalous Loan and Dispute functions have been merged and which has been assigned the following main tasks: optimisation of non-performing loan (NPL) management; identification of the optimal combination of the various recovery actions; support with the preparation of operating plans for managing NPLs; support for the creation of special projects (e.g., sale, securitisation, etc.); and periodic monitoring and reporting of the results achieved. The two functions' specific activities are described below.
- ✓ Anomalous Loan Function: with the aid of the loan monitoring IT procedure, it manages positions that present operational anomalies within the framework of the credit limits granted and/or unauthorised uses of credit, or that have been directly or indirectly affected by detrimental events, assigned to the unit on the basis of pre-defined quantitative and qualitative portfolio classification criteria; it provides instructions to the network in order to ensure that the necessary actions are taken at the operational level to restore positions to performing status, where possible, and in any event to ensure the best possible management of credit claims, including assessment of opportunities for transfer to the enforcement procedure. In accordance with internal rules and procedures, it submits proposals to the competent bodies regarding the amount of the provisions to be set aside when preparing the financial statements.
- ✓ Dispute Function: it manages legal aspects of positions classified as bad debts, and in particular is responsible for taking legal measures and actions aimed at recovering the amounts concerned. It is also tasked with conducting assessments of loss projections for individual disputed positions and proposing the necessary provisions.
- ✓ Loan Monitoring Function (an operating unit of the general management staff): it manages, maintains and implements the loan monitoring procedure in accordance with the evolving legal and regulatory situation by preparing additional tools for facilitating the identification and management of positions that present symptoms of deteriorating performance, in order to strengthen the culture of credit quality. It coordinates the activity of the Deputy Area Heads with regard to their duties in connection with "credit quality". It is tasked with managing relations with the outsourcers responsible for debt recovery activities for the positions within its purview and performing quantitative and qualitative checks on the monitoring activity performed by the competent functions (branches or Anomalous Loan Function), in addition to reporting periodically to the Loan Department and the general management on the checks carried out.
- ✓ Risk Management Function/Credit Risk Unit: it is responsible for identifying, assessing and monitoring, according to an integrated, systemic approach, the credit risk assumed by the bank, exposures to large risks and related-party transactions, while ensuring an adequate system for reporting to company bodies and the responsible production units. It collaborates in the preparation of the RAF, in the drafting of the lending policy with regard to the assumption of credit and concentration risk, and in setting the related operating limits. It proposes the quantitative and qualitative parameters required to define credit risk assumption policies, while also referring to stress scenarios. It is tasked with verifying the proper conduct of performance monitoring of individual exposures, in particular non-performing positions, and with assessing the consistency of classification, the appropriateness of provisions and the adequacy of the recovery process. Finally, it is charged with formulating advance opinions regarding the consistency with the RAF of the most significant transactions relating to credit facilities.
- ✓ Treasury & Funding Function: in the context of its specific operations, it is tasked with ensuring the compliance of financing activity with the rules and procedures governing credit risk as regards credit limits for institutional counterparties (monitoring of the system of limits imposed by the regulations).

2.2 Management, measurement and control systems

The risk profile of the loan portfolio of Banca di Cividale is monitored throughout all phases of the process, beginning with application review and assessment of the borrower's satisfaction of reliability requirements, through verification of the borrower's creditworthiness, the transaction's risk level, the appropriateness of the return and the current and prospective sustainability of the credit risk. The power to approve loans is delegated by the network to the head offices and company bodies, according to a system governed by the Lending Process Rules and Procedures, which provide for specific loan authorisation powers assigned according to various factors including the amount of the credit facility, any collateral securing the facility, reports on the use of various services, the classification of the counterparty as non-performing, and specific cases falling within the exclusive purview of the Board of Directors.

The credit decision-making process is supported by an internal procedure (the Credit Portal), which allows management of all phases of the lending process (from contact with the customer to application review, disbursement, management and final closure), and which includes integrated consultation of the various external databases. All applications are automatically assigned to the competent level according to the rules and limits of amount laid down in the Lending Process Rules and Procedures.

Creditworthiness is analysed according to elements of a quantitative nature (income components, financial statement analysis, and internal and systemic performance data) and of a qualitative nature (a thorough understanding of the customer, the competitive environment, an analysis of the sector, shareholder composition, adverse entries, and so forth), with the use of specific data providers (foremost among which are: the Bank of Italy Central Credit Register; CRIF credit information system; CRIF Strategy One, an engine used to calculate an initial score used for individual borrowers only; the Cerved database for excerpts of chamber of commerce certificates and adverse judgments; and the Centrale Bilancio financial statement database).

One fundamental element of the set of parameters and instruments used to manage credit risk by the Bank is represented by the ratings calculated on the basis of specific statistical models and estimated specifically for the various customer segments (Corporate, Retail SME-Corporate, and Retail Individuals). With effect from 9 October 2017, following the change of the IT centre, Banca di Cividale implemented a rating system developed by the CSE consortium, the Bank's new full-outsourcing IT provider. Its main objective is to prepare monthly estimates, based on an associated rating class, of the creditworthiness of the Bank's borrowers and to monitor both the risk of default and the risk of downgrading.

The factors considered in the internal rating model for corporates are: a) the internal performance score, a quantitative score based on a statistical analysis of internal data relating to the performance of the borrower's relationships with the Bank; b) the nationwide performance score, a quantitative score based on a statistical analysis of information from the Centrale Rischi database regarding the customer's behaviour with other intermediaries in the banking system; and c) the financial statement score: a quantitative score based on a statistical analysis of earnings and financial performance indicators drawn from the company's annual financial statements in the Centrale Bilanci database or obtained by the Bank. The factors considered in the internal rating model for individuals are: a) the internal performance score, a quantitative score based on a statistical analysis of internal data relating to the performance of the borrower's relationships with the Bank; b) the nationwide performance score, a quantitative score based on a statistical analysis of information from the Centrale Rischi database regarding the customer's behaviour with other intermediaries in the banking system; and c) the socio-demographic score, a quantitative score based on a statistical analysis of the customer's personal particulars, behaviour and finances according to the Bank's internal records.

The Bank's borrowers are classified according to a score of one to ten, consisting of nine categories of performing borrowers and one category of defaulted borrowers (D). A probability of default is associated with each rating class in each segment, referring to the probability that a borrower classified to a certain rating class will be reclassified to default status within a period of one year. Rating models are estimated on the basis of statistical analyses of the CSE Consortium's historical data and according to a calibration factor that takes account of the Bank's historical series.

Another parameter used by the Bank to measure and manage credit risk is loss given default ("management LGD"), which represents the rate of loss in the event of a default, i.e. the expected value for the relationship of the loss due to the default and the amount of the exposure at the time of default (exposure at default or "EAD"), expressed in percent terms. The estimated LGD on bad debts and the danger rate are taken as the basis for determining LGD. These parameters are also derived from management models developed by the CSE Consortium and adopted by the Bank starting in October 2017.

In accordance with the provisions of IFRS 9 Financial Instruments, for the purposes of identifying expected losses (impairment), the Bank has also adopted estimated risk parameters over a lifetime horizon conditioned by expectations relating to the projected macroeconomic scenarios ("forward-looking" scenarios), determined by internal models developed at the consortium level by the IT provider CSE (to which the Bank has fully outsourced ITO activities and services), on which appropriate calibration measures are performed, inclusive of each bank's historical series.

In accordance with prudential regulations and internal rules and procedures, the overall rating system and IFRS 9 expected credit loss models are subject to periodic reviews by the Risk Management Function within the framework of validation of the models used for non-regulatory purposes and of IFRS 9 validation, as part of a dedicated process that also involves specific activities performed by the CSE Consortium.

Risk parameters play a central role in disbursement, monitoring and performance management processes, and in particular they contribute to steering managers in deciding on the performance classification of positions. With effect from 1 January 2018, the above risk parameters (in particular, ratings and PD) are also used in classifying performing loans to customers (Stage 1 and Stage 2, in accordance with the accounting standard IFRS 9), for the purposes of identifying a significant increase in credit risk (a necessary and sufficient condition for classifying the asset being assessed to Stage 2).

After a loan is approved and disbursed, the position is assessed over time (on a fixed date or at defined intervals), initially by the branches, which are responsible for specific daily and monthly activities, as well as by the geographical areas. Further specific assessments may be conducted on the basis of reports or on the initiative of dedicated units such as the Anomalous Loan Function, which is responsible for performance control of relationships, undertaken according to a management model that calls for the assignment to portfolios of positions belonging to the various credit risk segments (Corporate, Retail SME and Retail Individual), through the application of the new Loan Monitoring procedure, intended to prevent positions from deteriorating, while ensuring active management.

Within the Lending Area's lending process and IT procedures, specific functions have been activated, allowing potential forborne exposures (exposures subject to forbearance measures) to be identified, managed and monitored, in accordance with prudential regulations. Forborne positions do not represent an additional administrative status, but a further element for defining the customer's credit quality, complementary to, while not overlapping with, the previously existing classifications.

Definitive classification as forborne is nonetheless subject to individual assessment by the decision-making body during the processes of disbursing or reviewing the loan. In accordance with applicable supervisory regulations, forborne exposures are classified to two categories (according to a transaction-based approach):

- non-performing forborne exposures, i.e. exposures subject to forbearance measures due to financial difficulty by the borrower, classified among non-performing positions (bad debts, unlikely to pay and past due);
- performing forborne exposures, i.e. exposures subject to forbearance measures due to financial difficulty of the borrower, classified among performing positions, which are subject to different credit monitoring procedures.

In accordance with prudential regulations and the Bank's organisational structure, internal control of credit risk is assigned to the Credit Risk Unit, which through specific periodic reports pursues the objective of monitoring and measuring the level of credit risk associated with the Bank’s loan portfolio. The main information base consists of the data provided by the Central Risks Database, the general records database and the economic groups database.

In particular, the quarterly reports prepared by Risk Management, which are addressed to the general management, Risks Committee and Board of Directors, include:

- ✓ an analysis of the composition and performance of the loan portfolio, with an emphasis on credit quality, including a breakdown of loans into performing positions classified to Stage 1 and Stage 2 and non-performing (past due, unlikely-to-pay and bad debts) and a comparison with the industry benchmark; the analysis also includes the transition matrices and the calculation of default rates;
- ✓ a dedicated analysis relating to the monitoring of the objectives set out in the plan for reducing non-performing loans, in accordance with the Bank's strategy;
- ✓ the qualitative analysis of risk profiles from a strategic standpoint; the application of stress tests on the risk level of the loan portfolio, including in terms of capital requirements;
- ✓ an analysis of concentration risk for single names and associated groups and an analysis of concentration risk by geographical area and sector, with a calculation of capital requirements as well in both ordinary and stress conditions.

Additional information is available concerning online management reporting tools, which allow all management units involved in implementing credit policies to maintain adequate oversight. In particular, analyses of the following are available:

- ✓ the performance of various classes of risk: composition, changes and comparisons by category and area;

- ✓ the ratings assigned to companies and individuals; portfolio composition; distribution by use; changes of class (deterioration/improvement);
- ✓ the primary exposures by risk class; and
- ✓ uses by sector (ATECO or SAE codes).

Supervisory regulations concerning internal control systems also require that the Risk Management Function conduct ongoing credit performance monitoring in order to determine:

- ✓ the proper functioning of the credit monitoring model and the proper use of monitoring parameters;
- ✓ the proper classification of exposures (representative of the risk level) and the proper assessment of valuation inputs (guarantees);
- ✓ the consistency of provisions and the portfolio's risk profile.

On this basis, and in accordance with the proportionality principle, as established by the law, the Credit Risk Unit has implemented a level-two control system aimed at ensuring compliance with regulations.

Concentration risk

The Risk Management Function – Credit Risk Unit, is responsible for measuring concentration risk. The approach taken to measuring the concentration risk of the portfolio of loans to customers differs according to whether it derives from:

- ✓ concentration by individual counterparty or groups of related customers;
- ✓ concentration by common factor (geographical and segment concentration).

The granularity adjustment approach indicated in the prudential supervisory regulations is adopted to measure the internal capital covering concentration risk by individual counterparties or groups of related customers. The method proposed by the Italian Banking Association is adopted to measure concentration risk by geographical area and segment.

Various analyses are conducted by Risk Management, involving the preparation of a series of statements aimed at analysing concentration by geographical area, ATECO sector, counterparty and related groups (monitoring of counterparties that exceed the limit of 3% of own funds) and draw-down levels for major customers (top ten, top 20 and top 50 in terms of amounts drawn down and granted). Periodic reports addressed to the Board of Directors are also prepared by the Loan Department and NPL Department on the performance of the credit relationships with the Bank's largest customers (in terms of amount granted and drawn down), classified as performing, bad debts or unlikely-to-pay, with specific information about the counterparties' state of health.

In accordance with the lending process, in addition to observing the limits set by supervisory provisions with respect to large exposures, Banca di Cividale has implemented an internal system of concentration limits, calculated in proportion to the values of own funds.

2.3 Methods of measuring expected credit losses
See the sub-section "IFRS 9: the new accounting standard on financial instruments" of Section A.1 of the Notes.

2.4 Credit risk mitigation techniques
Risk mitigation techniques include those instruments that contribute to reducing the loss that the Bank would sustain in the event of a default by the counterparty. In particular, they consist of guarantees and various contracts that give rise to a reduction in credit risk. Guarantees are a secondary consideration in the loan approval process. Loan approval continues to be based on the borrower's effective ability to repay the amount of the loan.
Operating procedures for the proper acquisition, use and management of guarantees have been established in specific internal rules with the aim of ensuring consistent, uniform operations.
Guarantees are acquired through an operational procedure that ensures an assessment of the formal and substantive validity of documentation that includes ascertaining the legal capacity to contract required to provide the guarantee in question. Checks are supplemented at the central level, where securities are held and contracts managed. In the case of pledges, only specified, easily liquidated assets are eligible for acquisition and valuation under the procedure. In the case of mortgages, the assets are valued by independent appraisers, who act in accordance with the Italian Banking Association Property Appraisal Guidelines adopted by the Bank and the related rules and procedures.
The guarantees acquired that comply with the generic and specific suitability criteria established by supervisory legislation for the mitigation of credit exposures are also used to determine capital requirements. In the case of real-estate collateral in particular, each year the Bank commissions an external provider to perform a periodic update of the market value of properties provided as collateral or subject to finance lease, on statistical bases, in order to ensure "property monitoring." For exposures of more than €3 million, the Bank has the appraisals revised by independent experts at least once every three years, in accordance with applicable legislation.
Before personal guarantees are accepted, checks are usually made at the competent register of deeds to ascertain the guarantor's actual real-estate portfolio, bearing in mind the possibility of a rapid, unexpected depletion of the asset base.
As part of ICAAP, the Bank assesses what is known as "residual risk", which is defined as the risk that recognised techniques for mitigating credit risk prove less effective than expected. The use of such techniques may expose the Bank to other risks (for example, operational and legal risks) that, were they to occur, might result in greater credit exposure than expected, due to the reduced effectiveness or effective unavailability of protection. Residual risk is primarily managed through appropriate initiatives of a procedural and organisational nature. Organisational changes aimed at enhancing level-one and level-two controls were made with the purpose of reducing residual risk.

3. Non-performing credit exposures

3.1 Management strategies and policies
According to the supervisory regulations, non-performing financial assets (IFRS 9 Stage 3) are classified to the following categories:

- ✓ Exposures past due by more than 90 days: on-balance sheet exposures other than those classified as bad debts or unlikely-to-pay which are past due at the reporting date by more than 90 days, according to the conditions set out in the Bank of Italy supervisory regulations. Past-due exposures may be determined in reference to either the individual borrower or the individual transaction, as permitted by the regulations. Banca di Cividale adopts the individual borrower approach for all exposures.
- ✓ Unlikely to pay: on- and off-balance sheet exposures to borrowers who the Bank, at its discretion, believes it is unlikely will be able to repay all (principal and/or interest) of their credit obligations without recourse to measures such as the enforcement of guarantees.
- ✓ Bad debts: all on- and off-balance sheet exposures to borrowers in a state of insolvency or substantially equivalent situations, regardless of any loss projections formulated.

In accordance with those same supervisory regulations, a transversal category known as "forborne exposures" has also been identified within the various risk classes (performing and non-performing). A forborne exposure is an exposure to which forbearance measures have been applied. Forbearance measures are contractual concessions granted by the Bank to a borrower who is currently experiencing difficulty, or about to experience difficulty, in fulfilling its financial obligations ("financial difficulty"). Such exposures form sub-sets of both

the previous categories of non-performing exposures ("Non-performing exposures with forbearance measures") and of performing exposures ("Other exposures with forbearance measures"), depending on the risk status of the exposure at the time of renegotiation, or as a consequence of renegotiation.
Loans classified as unlikely-to-pay, above a certain threshold, and bad debt positions are the responsibility of the NPL Department.
The classifications of individual positions are decided upon by the competent bodies, normally by proposal of the branch or Anomalous Loan Function. The amount of provisions to be recognised is also determined during the decision-making process. Likewise, the competent bodies also decide to reclassify positions as ordinary and thus out of the unlikely to pay category. Once a loan is classified as unlikely to pay, the decision-making powers of individual loan officers are suspended and any further decision on extending loans rests solely with collegial bodies. Positions classified as unlikely to pay of amounts in excess of the limit set in the Rules for the Classification of Positions and the Assessment of Non-Performing Exposures are managed by the Anomalous Loan Function, which also provides constant support to individual branches with managing accounts of limited amounts, with regard to the measures to be taken to seek to restore the positions to performing status.
The procedure for classifying a position as a bad debt is analogous to that used for managing unlikely-to-pay loans. Decisions concerning the amounts of individual provisions, as well as any changes, are taken by the competent bodies upon the recommendation of the Dispute Function.
The Bank's approach to assessing non-performing exposures involves applying the following criteria: 1) non-performing positions (positions past due by more than 90 days that exceed the materiality threshold) and unlikely-to-pay positions below a pre-defined draw-down threshold are assessed on a portfolio basis by applying a stage 3 impairment classification model consistent with the criteria laid down in the accounting standard IFRS 9 for determining the lifetime expected loss, as established for positions classified to stage 2 and also inclusive of forward-looking parameters; 2) in accordance with IAS/IFRS accounting rules, unlikely-to-pay positions beyond a pre-defined threshold and bad debts are subject to an analytical assessment process that results in the determination of the expected loss on each position.

3.2 Write-off

The gross carrying amount of a financial asset is written off when there is no reasonable expectation that it may be recovered (it is "irrecoverable") and when it is not believed to be economically expedient to proceed with recovery and management activity. When these conditions are met, the Bank writes the asset off; such cases involve a write-off event that does not entail forbearance of the underlying loan.
Write-offs may be total and thus involve the full amount of a financial asset, or partial, in which case only a part of the exposure is written off.
The accounting treatment of this process involves:

- ✓ reversal of the overall adjustments through the gross value of the financial asset;
- ✓ allocation to tax-deductible losses of the amount in excess of the total adjustments.

Any recoveries due to collection of a position that has been written off are taken to profit or loss as other operating income.
The 2018-2021 NPL Strategic Plan, updated in September 2018, calls for the sale and/or derecognition (write-off) of exhausted portfolios of non-performing loans amounting to approximately €205 million over the plan period. In accordance with this objective, a specific write-off policy has been in place since March 2018 and write-offs of €106 million were applied to gross non-performing loans in 2018, largely through the use of the provision already set aside.

3.3 Purchased or originated credit-impaired financial assets

In accordance with IFRS 9, loans already considered impaired when they are initially recognised, in view of the high credit risk associated with them, are termed purchased or originated credit-impaired (POCI) assets. Such loans, where they fall within the scope of application of impairment as defined in IFRS 9, are measured by setting aside, with effect from the date of initial recognition, provisions for covering losses that extend over the entire residual life of the loan (lifetime expected credit loss). Since these are non-performing loans, they are initially classified to Stage 3, although they may be transferred to Stage 2 in the course of their lifetime, where they are no longer found to be impaired on the basis of a credit risk analysis.

4. Renegotiated and forborne financial assets

As specified in section 3.1, forbearance measures are measures granted to a debtor that is currently experiencing, or is about to experience, difficulties in meeting its payment commitments. The term

“forbearance” refers to both contractual amendments granted to a debtor experiencing financial difficulties and new loans granted to permit a pre-existing obligation to be fulfilled. “Forbearance” also includes contractual amendments, which may be freely requested by a debtor within the framework of an existing contract, but only if the creditor believes that the debtor is experiencing financial difficulty (known as “embedded forbearance clauses”). The notion of “forborne” therefore excludes renegotiations for commercial reasons/practices unrelated to financial difficulties experienced by the debtor.
Banca di Cividale identifies the following cases as forbearance (provided that they have not been undertaken for commercial purposes):

- ✓ changes in the economic conditions relating to the rate;
- ✓ suspension of principal and/or interest payments;
- ✓ moratoria;
- ✓ extensions of term;
- ✓ refinancing; and
- ✓ change of loan type.

Changes of economic rate conditions do not apply to newly established relationships, i.e. relationships that less than six months old, since such renegotiations are considered commercial in nature. In addition, the scope also includes exposures for which a debt restructuring plan is envisaged pursuant to Art. 67 or Art. 182-bis of the Bankruptcy Law (i.e. all exposures with the management status of “former restructured” positions).
At the end of 2018, the on-balance credit exposures of Banca di Cividale included gross non-performing forborne exposures of €99,031 thousand and gross performing forborne exposures of €60,930 thousand.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 Performing and non-performing credit exposures: amounts, adjustments, performance and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amounts)

	Bad loans	Unlikely to pay	Non performing, past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	111,235	126,699	13,729	210,926	2,828,377	3,290,966
2. Financial assets measured at fair value through other comprehensive income	-	-	-	89,946	195,757	285,703
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	1,033	-	0	13,123	14,156
5. Non-current financial assets held for sale	-	-	-	-	-	-
Total 31/12/2018	**111,235**	**127,732**	**13,729**	**300,872**	**3,037,258**	**3,590,826**
Total 31/12/2017	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**

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

	Impaired assets				Other assets			Total net exposure
	Gross exposure	Specific writedowns	Net exposure	Overall partial writeoff	Gross exposure	Portfolio writedowns	Net exposure	
1. Financial assets valued to amortized cos	511,118	259,455	251,663	5,772	3,055,764	16,461	3,039,303	3,290,966
2. Financial assets valued to fair value with impact on overall profitability	-	-	-	-	286,183	479	285,703	285,703
3. Financial assets designated to fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily valuated to fair value	1,894	861	1,033	-	X	X	13,123	14,156
5. Financial assets as held for sale	-	-	-	-	-	-	-	-
Total 31/12/2018	**513,012**	**260,316**	**252,695**	**5,772**	**3,341,947**	**16,940**	**3,338,130**	**3,590,826**
Total 31/12/2017	**692,298**	**354,113**	**338,185**	**-**	**3,276,966**	**11,321**	**3,265,645**	**3,603,830**

A.1.3 Distribution of financial assets by past-due brackets (carrying amounts)

Portafogli / stadi di rischio	Stage 1			Stage 2			Stage 3		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	142,259	0	218	46,320	10,982	11,147	6,597	2,241	215,000
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31/12/2018	**142,259**	**0**	**218**	**46,320**	**10,982**	**11,147**	**6,597**	**2,241**	**215,000**
Total 31/12/2017	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**	**N.A.**

A.1.4 Financial assets, commitments to grant finance and financial guarantees given: performance of total adjustments and total provisions

Reasons/risk stages	Total adjustments													Total provisions on commitments to disburse funds and financial guarantees			Total
	Stage 1 assets				Stage 2 assets				Stage 3 assets				Purchased or originated creditimpaired financial assets				
	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	of which: individual writedowns	of which: collective writedowns		Stage 1	Stage 2	Stage 3	
Initial amount																	
Increases in purchased or originated financial assets																	
Derecognition other than write-offs																	
Net losses/recoveries for credit risk (+/-)																	
Changes in contracts without derecognition																	
Changes in the estimation methodology																	
Write-offs																	
Other changes																	
Final amount	**7,378**	**479**	**479**	**7,378**	**-**	**-**	**-**	**8,989**	**259,455**	**-**	**259,455**	**-**	**131**	**50**	**3**	**274**	**276,627**
Recoveries on collection of financial assets previously written off																	
Write-offs recognised directly through profit or loss																	

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

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs*
	Non performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	86,078	174	85,904	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	-	**86,078**	**174**	**85,904**	-
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	6	-	6	-
Total (B)	-	**6**	-	**6**	-
Total (A+B)	-	**86,084**	**174**	**85,910**	-

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

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs*
	Non performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	318,585	X	207,350	111,235	5,772
- of which: forborne exposures	14,993	X	8,162	6,831	-
b) Unlikely to pay	178,667	X	50,935	127,732	-
- of which: forborne exposures	80,811	X	21,706	59,105	-
c) Non-performing past due exposures	15,760	X	2,031	13,729	-
- of which: forborne exposures	3,227	X	407	2,820	-
d) Performing past due exposures	X	304,490	3,617	300,873	-
- of which: forborne exposures	X	17,539	540	16,999	-
e) Other performing exposures	X	2,964,515	13,149	2,951,366	0
- of which: forborne exposures	X	43,391	1,518	41,873	-
Total (A)	**513,012**	**3,269,005**	**277,083**	**3,504,934**	**5,773**
B. Off-balance sheet exposures	-	-	-	-	-
a) Non-performing	11,649	X	274	11,375	-
b) Performing	X	693,301	1,107	692,194	-
Total (B)	**11,649**	**693,301**	**1,381**	**703,569**	-
Total (A+B)	**524,661**	**3,962,306**	**278,464**	**4,208,504**	**5,773**

A.1.9 On-balance sheet loan exposures to customers: changes in gross impaired positions

	Bad loans	Unlikely to pay	Past due positions
A. Opening gross exposure	**466,501**	**209,021**	**16,775**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**43,426**	**29,838**	**12,904**
B.1 from performing positions	-	14,024	8,760
B.2 transfers from other categories of impaired positions	-	-	-
B.3 transfers from other non-performing exposures categories	19,899	2,880	7
B.4 changes in contracts without derecognition	-	-	-
B.5 other increases	23,527	12,933	4,137
C. Decreases	**191,342**	**60,192**	**13,919**
C.1 to performing positions	-	3,417	1,608
C.2 writeoffs	131,580	368	13
C.3 collections	40,435	36,647	7,163
C.4 assignments	6,953	2,235	-
C.5 losses on sale	12,374	1,647	-
C.6 transfers to other categories of impaired positions	-	15,878	5,135
C.7 changes in contracts without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross exposure	**318,585**	**178,667**	**15,760**
- of which: exposures assigned but not derecognized	-	-	-

A.1.9bis On-balance sheet loan exposures to customers: changes in gross forborne exposures, by credit quality

	Forborne exposures: non performing	Forborne exposures: performing
A. Opening gross exposure	**97,142**	**66,768**
- of which: exposures assigned but not derecognized	-	-
B. Increases	**22,616**	**22,845**
B.1 from performing positions	12,484	12,394
B.2 transfers from other categories of impaired positions	4,095	X
B.3 transfers from forborne non performing positions	X	10,330
B.4 other increases	6,037	121
C. Decreases	**20,728**	**28,683**
C.1 to performing positions	X	16,303
C.2 to other categories of performing forborne positions	10,330	X
C.3 to other categories of non performing forborne positions	X	4,095
C.4 write offs	-	-
C.5 collections	7,665	8,285
C.6 assignments	-	-
C.7 losses on sale	-	-
C.8 other decreases	2,733	-
D. Closing gross exposure	**99,030**	**60,930**
- of which: exposures assigned but not derecognized	-	-

A.1.11 Non-performing on-balance sheet loan exposures to customers: changes in total adjustments

Reason/Categories	Bad loans		Unlikely to pay		Past due positions	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Total opening adjustments	**326,898**	**5,802**	**50,823**	**18,111**	**2,512**	**600**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**26,961**	**2,958**	**15,604**	**6,550**	**1,248**	**61**
B.1 impairment losses on acquired or originated assets	-	-	-	-	-	-
B. 2 other value adjustments	19,286	2,725	15,163	6,356	1,248	61
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfer from other impaired exposure	7,675	233	441	194	-	-
B. 5 contractual changes without cancellations	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Reductions	**146,509**	**599**	**15,492**	**2,956**	**1,729**	**253**
C.1 write-backs from assessments	1,525	78	2,495	1,131	372	30
C.2 write-backs from recoveries	7,537	307	4,032	1,824	468	29
C.3 gains on disposal	381	-	30	-	-	-
C.4 write-offs	137,066	214	1,706	-	2	-
C.5 transfers to other impaired exposures	-	-	7,230	-	886	194
C. 6 contractual changes without cancellations	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Closing overall amount of writedowns	**207,350**	**8,162**	**50,935**	**21,706**	**2,031**	**407**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-

A.2 CLASSIFICATION OF FINANCIAL ASSETS, COMMITMENTS TO GRANT FINANCE AND FINANCIAL GUARANTEES GIVEN ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

A.2.1 Distribution of financial assets, commitments to grant finance and financial guarantees given by external rating classes (gross values)

Under the Bank of Italy preparation rules, the table in question has not been compiled since the Bank does not rely on external ratings issued by authorised ratings agencies (ECAIs) for on- and off-balance sheet exposures to customers.

A.2.2 - Distribution of financial assets, commitments to grant finance and financial guarantees given by internal rating classes (gross values)

This table has not been compiled since rating models are not used for regulatory purposes. However, they are used as a management tool for classifying and analysing customers for risk management purposes.

A.3 DISTRIBUTION OF SECURED CREDIT EXPOSURES BY TYPE OF GUARANTEE

A.3.2 On- and off-balance-sheet secured exposures to customers

			Collateralsi (1)				Guarantees (2)									
							Credit derivatives					Signature Loans (loans guarantees)				
								Other credit derivatives								
	Gross exposure	Net exposures	Property	Financial leasing	Securities	Other assets	CLN	Goverments and Central Banks	Other public entities	Banks	Other entities	Goverments and Central Banks	Other public entities	Banks	Other entities	Total (1)+(2)
1. Secured on balance sheet credit exposure:	**2,358,099**	**2,131,065**	**1,516,612**	**172,259**	**17,438**	**111,623**	-	-	-	-	-	**42,779**	**23**	**31,259**	**203,811**	**2,095,804**
1.1. totally secured	313,718	171,965	135,057	12,760	365	4,625	-	-	-	-	-	34,447	23	26,161	194,640	408,077
- of which impaired	141,916	100,243	30,359	-	1,657	10,645	-	-	-	-	-	421	8	2,680	16,048	61,820
1.2. partially secured	70,385	30,528	14,130	-	794	34	-	-	-	-	-	8,332	-	5,099	9,171	37,560
- of which impaired	224,500	223,320	25,594	69	4,424	18,643	-	-	-	-	-	78	-	414	2,561	51,784
2. Secured off balance sheet credit exposure:	**224,500**	**223,320**	**25,594**	**69**	**4,424**	**18,643**	-	-	-	-	-	**443**	**288**	**3,297**	**134,128**	**186,888**
2.1. totally secured	2,335	2,130	490	-	4	529	-	-	-	-	-	316	288	2,725	117,685	122,038
- of which impaired	65,444	64,904	4,340	-	1,252	6,011	-	-	-	-	-	24	-	60	1,022	12,710
2.2. partially secured	1,431	1,431	-	-	-	-	-	-	-	-	-	127	-	572	16,443	17,142
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	5	792	797

In accordance with Bank of Italy Circular No. 262, fourth update, the columns “Collateral” and “Personal guarantees” indicate the fair value of collateral and guarantees as estimated at the reporting date or, absent this information, the contractual value of the collateral or guarantees. It should be noted that, as specified in the above fifth update, differently from previous years, both values may not exceed the carrying amount of the secured exposures.

A.4 FINANCIAL AND NON-FINANCIAL ASSETS OBTAINED THROUGH THE ENFORCEMENT OF GUARANTEES RECEIVED

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Distribution of on- and off-balance sheet credit exposures to customers by business segment

Exposures/Counterparties	Governments		Other public entities		Financial companies		Insurance undertakings		Non-financial companies	
	Net exposure	Specific writedowns	Net exposure	Specific writedowns	Net exposure	Specific writedowns	Net exposure	Specific writedowns	Net exposure	Specific writedowns
A. ON-BALANCE-SHEET EXPOSURES										
A.1. Bad loans	-	-	565	1,536	-	-	69,004	161,576	41,667	44,238
- Of which: forborne exposures	-	-	-	-	-	-	3,645	5,439	3,187	2,723
A.2. Unlikely to pay	-	-	4,959	4,076	-	-	72,163	34,764	50,609	12,096
- Of which: forborne exposures	-	-	1,678	1,282	-	-	37,654	16,220	19,772	4,204
A.3. Non performing, past due exposures	0	-	-	-	-	-	4,869	940	8,860	1,091
- Of which: forborne exposures	-	-	-	-	-	-	1,529	265	1,290	142
A.4. Other performing exposures	830,265	1,471	114,584	210	13,081	-	1,118,453	11,970	1,188,938	3,115
- Of which: forborne exposures	-	-	17	0	-	-	41,760	1,781	17,095	277
TOTAL A	830,265	1,471	120,108	5,822	13,081	-	1,264,488	209,250	1,290,073	60,539
B. OFF-BALANCE-SHEET EXPOSURES										
B.1 Non-performing exposures	-	-	770	-	-	-	9,589	232	1,017	42
B.2 Performing exposures	15,412	0	12,303	1	-	-	585,026	1,071	79,452	35
TOTAL B	15,412	0	13,073	1	-	-	594,615	1,302	80,469	77
TOTAL (A+B) 31/12/2018	845,677	1,471	133,182	5,823	13,081	-	1,859,103	210,553	1,370,542	60,617
TOTAL (A+B) 31/12/2017	861,666	-	128,967	8,553	13,239	65	1,578,085	314,875	1,054,514	42,575

B.2 Distribution of on- and off-balance sheet credit exposures to customers by geographical area

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. ON-BALANCE-SHEET EXPOSURES										
A.1. Bad loans	111,198	207,108	37	198	-	-	-	-	-	45
A.2. Unlikely to pay	127,623	50,657	108	278	1	0	-	-	-	-
A.3. Non performing, past due exposures	13,622	2,005	106	26	0	0	0	0	0	0
A.4. Other performing exposures	3,228,164	16,705	16,144	58	7,158	2	577	0	196	0
TOTAL A	3,480,608	276,475	16,394	560	7,159	3	577	0	197	45
B. OFF-BALANCE-SHEET EXPOSURES										
B.1 Non-performing exposures	11,375	274	-	-	-	-	-	-	-	-
B.2 Performing exposures	688,520	1,106	3,670	1	4	-	-	-	-	-
TOTAL B	699,896	1,380	3,670	1	4	-	-	-	-	-
TOTAL (A+B) 31/12/2018	**4,180,504**	**277,855**	**20,064**	**561**	**7,163**	**3**	**577**	**0**	**197**	**45**
TOTAL (A+B) 31/12/2017	**3,609,713**	**361,626**	**12,295**	**4,310**	**520**	**2**	**417**	**2**	**287**	**64**

In further detail, exposures in Italy break down by geographical area as shown in the following table:

Exposures/Geographical areas	Northwest Italy		North east Italy		Italy - Center		South Italy and Islands	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. ON-BALANCE-SHEET EXPOSURES								
A.1. Bad loans	1,045	3,727	103,530	196,241	5,415	6,026	1,208	1,114
A.2. Unlikely to pay	10,237	4,474	112,622	44,824	4,627	1,336	138	23
A.3. Non performing, past due exposures	46	6	13,534	1,989	34	10	8	1
A.4. Other performing exposures	59,052	1,121	2,309,290	13,811	855,901	1,736	3,921	38
TOTAL A	70,381	9,327	2,538,975	256,865	865,977	9,107	5,275	1,176
B. OFF-BALANCE-SHEET EXPOSURES	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	1	-	11,374	274	-	-	-	-
B.2 Performing exposures	5,653	5	664,711	1,099	17,193	2	963	1
TOTAL B	5,654	5	676,085	1,373	17,193	2	963	1
TOTAL (A+B) 31/12/2018	76,034	9,332	3,215,061	258,237	883,171	9,109	6,238	1,176
TOTAL (A+B) 31/12/2017	43,362	10,317	2,643,072	337,292	917,913	12,611	5,365	1,406

B.3 Distribution of on- and off-balance sheet credit exposures to banks by geographical area

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF WORLD	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. ON-BALANCE-SHEET EXPOSURES										
A.1. Bad loans	-	-	-	-	-	-	-	-	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3. Non performing, past due exposures	-	-	-	-	-	-	-	-	-	-
A.4. Other performing exposures	68,131	148	6,833	5	10,941	21	-	-	-	-
TOTAL A	68,131	148	6,833	5	10,941	21	-	-	-	-
B. OFF-BALANCE-SHEET EXPOSURES										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	6	-	-	-	-	-	-	-
TOTAL B	-	-	6	-	-	-	-	-	-	-
TOTAL (A+B) 31/12/2018	**68,131**	**148**	**6,839**	**5**	**10,941**	**21**	-	-	-	-
TOTAL (A+B) 31/12/2017	**107,017**	-	**7,073**	-	**4,032**	-	-	-	**197**	-

In further detail, exposures in Italy break down by geographical area as shown in the following table:

Exposures/Geographical areas	Northwest Italy		North east Italy		Italy - Center		South Italy and Islands	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. ON-BALANCE-SHEET EXPOSURES								
A.1. Bad loans	-	-	-	-	-	-	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-
A.3. Non performing, past due exposures	-	-	-	-	-	-	-	-
A.4. Other performing exposures	34,095	84	0	0	34,036	64	-	-
TOTAL A	34,095	84	0	0	34,036	64	-	-
B. OFF-BALANCE-SHEET EXPOSURES								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-
TOTAL B	-	-	-	-	-	-	-	-
TOTAL (A+B) 31/12/2018	**34,095**	**84**	**0**	**0**	**34,036**	**64**	-	-
TOTAL (A+B) 31/12/2017	**42,630**	-	**5,130**	-	**59,111**	-	**145**	-

B.4 Large exposures

In accordance with applicable legislation, the number of the "large exposures" presented in the table has been determined by reference to unweighted "exposures" exceeding 10% of Eligible Capital, as defined in Regulation (EU) No 575/2013 ("CRR"), where "exposures" mean the sum of on-balance sheet risk assets and off-balance sheet transactions (excluding those deducted from Eligible Capital) in respect of a customer, or of a group of related customers, without the application of weighting factors.

These presentation criteria result in the inclusion in the "large exposures" table of the financial statements of parties that despite having a weighting equal to 0% present an unweighted exposure in excess of 10% of the entity's Eligible Capital. It bears noting that the table below includes exposures to the Italian government of €912,706 thousand and exposures to Cassa Compensazione e Garanzia of €273,369 thousand, whereas the remainder refers to exposures to financial counterparties.

	31/12/2018	**31/12/2017**
Amount - Book value	1,284,247	1,270,853
Amount - Weighted value	78,924	95,020
Number	4	4

C. SECURITISATIONS

QUALITATIVE DISCLOSURES

Securitisation is undertaken to increase the degree of liquidity of assets and expand the pool of financial instruments eligible for refinancing operations with the European Central Bank and/or suited for use as collateral in financing transactions with institutional and market counterparties. In keeping with medium-to-long term funding needs, such transactions may involve the purchase of securities by third parties, thus yielding immediate liquidity. The following securitisation transactions were ongoing at the reporting date:

- ✓Civitas Spv S.r.l. - RMBS - 2012;
- ✓Civitas Spv S.r.l. - SME - 2012;
- ✓Civitas Spv S.r.l. - RMBS - 2017;

These transactions were undertaken pursuant to Law No. 130/1999.

The quantitative disclosures presented in this section include only the transaction Civitas SPV S.r.l. – RMBS – 2012, since the other transactions, Civitas SPV S.r.l. – SME – 2012 and Civitas Spv Srl – RMBS – 2017 are of the originate-to-retain variety, in which the originator subscribes for all of the liabilities issued by the vehicle at the moment of issuance.

In 2018 the Bank completed its first additional securitisation within the framework of the Civitas SPV S.r.l. – RMBS – 2017 programme, through the sale of performing residential mortgage loans, with the resulting increase in the residual value of the ABSs.

Main information	
Date of transaction	February 2012
Special purpose entities	Civitas Spv Srl - RMBS
Subject matter of the transaction	Performing residential mortgages
Banks/ Originator groups	Banca di Cividale S.c.p.A.
Original aggregate amount of transferred loans and receivables of Banca di Cividale	383 mln
RMBS Restructuring	246 mln
Original aggregate amount of transferred loans and receivables of Banca Popolare di Cividale	629 mln
Securities issued and subscribed by Banca di Cividale	122 mln
of which senior securities a	0 mln
of which junior securities b	122 mln
Rating of senior securities	AA+ Standard&poor's - A1 Moody's
Overall residual notional amount of the securities as at 31/12/2018	122 mln
Residual values of loans and receivables as at 31/12/2018	333 mln
Rating of senior securities	AA Standard&poor's - A2 Moody's

Objectives, strategies and processes: The main objective pursued through the three transactions is to ensure balanced structural management of the Bank's liquidity situation, within the framework of a company strategy consistently focused on this aspect. The Bank's role, in addition to that of originator of the transactions and the underlying loans, is that of servicer responsible for all activities relating to relationships with borrowers, including periodic collection of payments.

Internal measurement systems: the credit risk associated with assets transferred in securitisation operations is retained by the Bank. Consequently, internal risk measurement and control systems are applied in an entirely uniform manner to both securitised and non-securitised assets.

QUANTITATIVE DISCLOSURES

On 18 April 2018 the contractual documentation was signed for the restructuring of new sale within the framework of the Civitas SPV S.r.l. – RMBS – 2017 securitisation programme. The operation has a partly paid structure in which additional tranches of loans may be sold during a "ramp-up" period of three years from issuance, up to a maximum of €600 million. During the additional sale phase, the operation thus entailed:

- ✓ the transfer without recourse of an additional portfolio of performing residential mortgage loans with a face value of €112 million;
- ✓ an increase in the residual value of senior, mezzanine and junior securities of €81 million, €9 million and €16 million, respectively.

C.1 Exposures deriving from major "own" securitisation transactions, by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES						GUARANTEES ISSUED						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries
A. Fully derecognised																		
B. Partly derecognised																		
C. Not derecognised																		
C.1 Civitas Spv Srl																		
- Securities issued	-	-	-	-	122,300	-	-	-	-	-	-	-	-	-	-	-	-	-

In the case of the Civitas SPV S.r.l. – RMBS – 2012 securitisation, the Bank holds all of the junior notes, whereas the senior notes have been sold and are currently held by institutional investors.
The amounts indicated in the table refer to the value of the junior and senior securities held by the Bank, which would have been presented among assets or liabilities in the balance sheet but have been eliminated in application of the accounting standards.

C.2 Exposures deriving from major "third-party" securitisation transactions, by type of securitised asset and type of exposure
There are no exposures of this kind for the set of transactions in which the Bank is the originator.

C.3 Securitisation vehicles

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Civitas Spv Srl	Conegliano Veneto (TV)	Not Consolidated	330,471	-	-	185,017	-	122,300

C.4 Unconsolidated securitisation vehicles
The Bank does not hold interests in unconsolidated structured entities.

C.5 Servicing – own securitisations: collections of securitised loans and redemption of securities issued by the securitisation vehicle
Not applicable.

D. STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION VEHICLES)

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

E. TRANSFERS

A. Financial assets sold but not fully derecognised

QUALITATIVE DISCLOSURES

Securitisation

Within the framework of the various measures aimed at enhancing coverage of exposure to liquidity risk, the Bank has undertaken securitisation transactions with the goal of increasing the degree of liquidity of its assets and prudentially increasing its pool of financial instruments eligible for refinancing operations with the European Central Bank, or otherwise suited for use as collateral in funding transactions beyond the short term with institutional and market counterparties. In accordance with these aims, all asset-backed securities issued by the special-purpose vehicle formed pursuant to Law No. 130/99 have been fully subscribed by the Bank, in the case of the securitisation operations Civitas SPV S.r.l. – SME – 2012 and Civitas SPV S.r.l. – RMBS – 2017, whereas in the case of the operation Civitas SPV S.r.l. – RMBS – 2012 the Bank only holds junior securities (thus retaining, for all three of the transactions cited, the credit risk associated with the underlying loans disbursed). Accordingly, since essentially all of the risks and rewards associated with the transferred portfolio have been retained, the loans concerned have not been derecognised. The following table provides an overview of the securitisation transactions undertaken.

Main information	
Date of transaction	February 2012
Special purpose entities	Civitas Spv Srl - RMBS
Subject matter of the transaction	Performing residential mortgages
Banks/ Originator groups	Banca di Cividale S.c.p.A.
Original aggregate amount of transferred loans and receivables	
of Banca di Cividale	383 mln
RMBS Restructuring	246 mln
Original aggregate amount of transferred loans and receivables	
of Banca Popolare di Cividale	629 mln
Securities issued and subscribed by Banca di Cividale	122 mln
of which senior securities a	0 mln
of which junior securities b	122 mln
Rating of senior securities	AA+ Standard&poor's - A1 Moody's
Overall residual notional amount of the securities as at 31/12/2018	122 mln
Residual values of loans and receivables as at 31/12/2018	333 mln
Rating of senior securities	AA Standard&poor's - A2 Moody's
Main information	
Date of transaction	July 2012
Special purpose entities	Civitas Spv Srl - SME
Subject matter of the transaction	Performing residential and commercial mortgages
Banks/ Originator groups	Banca di Cividale S.c.p.A.
Original aggregate amount of transferred loans and receivables	
of Banca di Cividale	410 mln
RMBS Restructuring	237 mln
Original aggregate amount of transferred loans and receivables	647 mln
Securities issued and subscribed by Banca di Cividale	1,359 mln
of which senior securities a	104 mln
of which junior securities b	145 mln
Rating of senior securities	A+ Standard&poor's - AL DBRS
Overall residual notional amount of the securities as at 31/12/2018	249 mln
Residual values of loans and receivables as at 31/12/2018	246 mln
Rating of senior securities	A+ Standard&poor's - AA DBRS
Main information	
Date of transaction	July 2017
Special purpose entities	Civitas Spv Srl - RMBS
Subject matter of the transaction	Performing residential mortgages
Banks/ Originator groups	Banca di Cividale S.c.p.A.
Original aggregate amount of transferred loans and receivables	
of Banca di Cividale	253 mln
RMBS Restructuring	112 mln
Original aggregate amount of transferred loans and receivables	365 mln
Securities issued and subscribed by Banca di Cividale	600 mln
of which senior securities a	122 mln
of which junior securities b	122 mln
of which mezzanine securities	31 mln
of which junior securities	57 mln
Rating of senior securities	A+ Standard&poor's - AA DBRS
Overall residual notional amount of the securities as at 31/12/2018	332 mln
Residual values of loans and receivables as at 31/12/2018	311 mln
Rating of senior securities	A+ Standard&poor's - AA DBRS

QUANTITATIVE DISCLOSURES

E.1. - Financial assets sold but fully recognised and associated liabilities: carrying amounts

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	of which: securitisations	of which: subject to sales contracts with repurchase clauses	of which: non-performing	Book value	of which: securitisations	of which: subject to sales contracts with repurchase clauses
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	89,933	-	89,933	-	89,118	-	89,118
1. Debt securities	89,933	-	89,933	-	89,118	-	89,118
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	333,318	333,318	-	11,617	185,046	185,046	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	333,318	333,318	-	11,617	185,046	185,046	-
TOTAL 31.12.2018	**423,251**	**333,318**	**89,933**	**11,617**	**274,164**	**185,046**	**89,118**
TOTAL 31.12.2017	**599,737**	**599,737**	**-**	**13,457**	**339,860**	**339,860**	**-**

E.3 Sales with liabilities subject to recovery solely for the assets sold and not derecognised in full: fair values

	Fully recognised	Partly recognised	Total	
			31/12/2018	31/12/2017
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. Financial assets designated at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**384,067**	-	**384,067**	**443,410**
1. Debt securities	-	-	-	-
2. Loans	384,067	-	384,067	443,410
Total financial assets	384,067	-	384066.6191	443,410
Total related financial liabilities	185,359	-	X	124,311
Net value 31.12.2018	**198,707**	-	**0**	**X**
Net value 31.12.2017			X	319,099

B. Financial assets sold and fully derecognised with recognition of continuing involvement

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

F. CREDIT RISK MEASUREMENT MODELS

Please refer to the qualitative disclosures on credit risk for further information.

SECTION 2 - MARKET RISKS

The Bank’s investment policy is inspired by the goal of limiting market risk in its various forms (interest-rate risk, price risk and exchange-rate risk).

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

The trading book, as defined in supervisory regulations, includes financial instruments subject to capital requirements for market risks.

QUALITATIVE DISCLOSURES

A. General aspects

The trading book is of extremely modest value. The Bank does not have positions in structured credit products or derivative contracts. Likewise, there are no ties whatsoever to special-purpose entities (SPEs) with exposures to risky financial instruments.

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

The Bank's investment policy is aimed at limiting market risk for those components of such risk that it knowingly intends to assume:

- ✓ interest-rate risk;
- ✓ price risk; and
- ✓ foreign exchange risk.

The Bank does not normally assume positions that entail commodity risk.

In accordance with the lending policies of the Bank, which focuses on retail customers, financing activity is essentially aimed at protecting the overall financial balance of the Bank. Investment and trading activity is conducted in accordance with the guidelines established at the relevant Bank levels and is carried out within a comprehensive system of delegated powers and specific rules setting operational restrictions in terms of instruments, amounts, investment markets, types of security and issuer and capital absorption. Management of the trading book is particularly aimed at optimising the profitability of the available financial resources, with the limitation of containment of the variability of expected performance in the Finance area and of the Bank's net income.

The investment policies pursued resulted in the retention of a significant amount of government bonds eligible as collateral for refinancing operations with the ECB, primarily as a liquidity buffer. The significance of issuer risk is primarily attributable to the creditworthiness of the Italian government.

At the same time, the extremely limited size of the trading book means that the exposure to price risk associated with the securities held in those portfolios is extremely limited.

The Risk Management Function conducts daily monitoring of the Bank's exposure to market risk and verifies that it is consistent with the risk appetite defined by company bodies in accordance with the Risk Appetite Framework and respect for the system of limits.

QUANTITATIVE DISCLOSURES

1. Regulatory trading book: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and derivatives

Denominated in euro

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years to 10 years	more than 10 years	unspecified maturity
1. Assets	0	11	-	2	0	0	-	-
1.1 Debt securities	0	11	-	2	0	0	-	-
- with early redemption option	0	11	-	1	0	0	-	-
- other	-	-	-	1	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Derivatives	-	26,240	3,238	301	18,438	6,014	1,103	-
3.1 With underlying security	-	14,780	-	-	14,805	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	14,780	-	-	14,805	-	-	-
+ long positions	-	-	-	-	14,805	-	-	-
+ short positions	-	14,780	-	-	-	-	-	-
3.2 Without underlying security	-	11,460	3,238	301	3,633	6,014	1,103	-
- Options	-	-	-	-	1,284	6,014	1,103	-
+ long positions	-	-	-	-	642	3,007	551	-
+ short positions	-	-	-	-	642	3,007	551	-
- Other derivatives	-	11,460	3,238	301	2,350	-	-	-
+ long positions	-	4,876	1,619	151	1,175	-	-	-
+ short positions	-	6,584	1,619	151	1,175	-	-	-

Denominated in other currencies

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years to 10 years	more than 10 years	unspecified maturity
1. Assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Derivatives	-	11,460	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	11,460	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	11,460	-	-	-	-	-	-
+ long positions	-	6,584	-	-	-	-	-	-
+ short positions	-	4,876	-	-	-	-	-	-

Among "other currencies," the main currency of denomination of the trading portfolio is the U.S. dollar.

2.2 INTEREST-RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

The banking book consists entirely of financial assets and liabilities not included in the trading book. It is primarily composed of amounts due from and due to banks and customers and proprietary securities (largely government securities).

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

The process of managing the interest rate risk associated with the banking book is governed by specific company regulations approved by the Board of Directors and subject to periodic review. Those Regulations aim to set general rules for managing interest rate risk for the assets and liabilities included within the banking book, as defined by supervisory regulations for the purposes of determining pillar two capital requirements (namely, all liabilities and assets other than those allocated to the regulatory trading book) and assign precise responsibilities and tasks to the various organisational units of the Bank and companies involved in the process.

Management of interest rate risk aims to limit the impact of unfavourable changes in the rate curve on both the economic value of capital and on cash flows generated by line items. Exposure to interest-rate risk is primarily contained by applying uniform parameters at the level of assets and liabilities.

Measurement of the interest rate risk associated with the banking book is founded upon economic value, defined as the present value of the expected net cash flows generated by assets, liabilities and off-balance sheet positions. In particular, exposure to the interest rate risk associated with the banking book is monitored for the purposes of determining the associated capital absorption on the basis of the Bank of Italy's regulatory model.

Exposure to interest-rate risk is calculated by measuring the change in the economic value of the banking book resulting from hypothetical instantaneous shifts in the interest rate maturity curve. The shift in the interest rate structure is quantified in the following manner, in accordance with prudential regulations:

- in ordinary conditions, in which reference is made to the annual changes for each node of the interest rate structure recorded over an observation period of six years, alternatively considering the 1st percentile (downward shift) and 99th percentile (upwards shift); and
- in a stress scenario, in which reference is made to a parallel shift in the interest rate structure of ± 200 basis points.

In addition to the parallel shock of ± 200 basis points, supervisory regulations require that banks consider shifts in the rate curve other than parallel shocks when conducting stress tests on the exposure of the banking book to interest rate risk.

On the basis of the provisions cited above, and considering the composition of assets and liabilities by currency of denomination, the following additional stress tests have been defined:
- flattening of the interest rate curve (assuming a positively inclined rate curve, an increase in short-term rates and a decrease in medium-to-long term rates);
- steepening of the interest rate curve (assuming a positively inclined rate curve, a decrease in short-term rates and an increase in medium-to-long term rates);
The changes are then normalised in relation to own funds.

The Risk Management Function conducts quarterly monitoring of the Bank's exposure to interest rate risk and verifies that it is consistent with the risk appetite defined by company bodies in accordance with the Risk Appetite Framework and respect for the system of internal limits.

QUANTITATIVE DISCLOSURES

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities

Denominated in euro

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	more than 10 years	unspecified maturity
1. Assets	766,865	1,607,732	219,040	172,959	680,072	66,247	53,683	-
1.1 Debt securities	-	38,606	181,182	76,011	554,955	-	6,061	-
- with early redemption option	-	2,908	-	-	-	-	-	-
- other	-	35,698	181,182	76,011	554,955	-	6,061	-
1.2 Loans to banks	15,546	19,680	-	2,058	2,058	-	-	-
1.3 Loans to customers	751,319	1,549,485	37,857	94,889	123,058	66,247	47,622	-
- current acct.	264,399	5,121	12,025	23,904	6,381	0	-	-
- other loans	486,919	1,544,326	25,832	70,986	116,677	66,247	47,622	-
- with early repayment option	293,958	1,204,757	9,869	17,879	56,055	51,257	37,677	-
- other	192,961	339,569	15,963	53,107	60,622	14,990	9,945	-
2. Liabilities	1,830,654	421,208	78,523	134,435	958,198	51,060	7,056	-
2.1 Due to customers	1,825,328	351,615	73,579	104,900	348,223	28,259	7,056	-
- current acct.	1,770,402	50,136	59,941	79,567	197,822	1,121	-	-
- other payables	54,926	301,478	13,638	25,333	150,401	27,138	7,056	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	54,926	301,478	13,638	25,333	150,401	27,138	7,056	-
2.2 Due to banks	5,315	23,740	3,396	7,166	609,975	22,801	-	-
- current acct.	4,988	-	-	-	-	-	-	-
- other payables	327	23,740	3,396	7,166	609,975	22,801	-	-
2.3 Debt securities	11	45,854	1,547	22,370	-	-	-	-
- with early redemption option	-	-	28	-	-	-	-	-
- other	11	45,854	1,519	22,370	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	43,918	13,751	3,014	18,714	13,254	30,109	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	43,918	13,751	3,014	18,714	13,254	30,109	-
- Options	-	43,918	13,751	3,014	18,714	13,254	30,109	-
+ long positions	-	230	451	3,014	18,714	13,119	25,851	-
+ short positions	-	43,688	13,300	-	-	135	4,257	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other operations	-	60	-	-	-	-	-	-
+ long positions	-	30	-	-	-	-	-	-
+ short positions	-	30	-	-	-	-	-	-

Denominated in other currencies

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	more than 10 years	unspecified maturity
1. Assets	14,432	2,550	-	566	6,642	-	-	-
1.1 Debt securities	-	-	-	566	6,642	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	566	6,642	-	-	-
1.2 Loans to banks	14,432	-	-	-	-	-	-	-
1.3 Loans to customers	0	2,550	-	-	-	-	-	-
- current acct.	0	-	-	-	-	-	-	-
- other loans	0	2,550	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	0	2,550	-	-	-	-	-	-
2. Liabilities	26,649	-	-	-	-	-	-	-
2.1 Due to customers	26,640	-	-	-	-	-	-	-
- current acct.	26,640	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	9	-	-	-	-	-	-	-
- current acct.	0	-	-	-	-	-	-	-
- other payables	9	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other operations	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2. Banking book: internal models and other sensitivity analysis methods

The capital requirement for interest-rate risk on the banking book is calculated by applying the simplified model indicated in Schedule C to Part One, Title III, Chapter 1 of Bank of Italy Circular No. 285/2013, in effect from 1 January 2014, and the subsequent changes introduced by the 20th update to the above Circular, issued by the Bank of Italy on 21 November 2017.
This calculation is performed by classifying fixed-rate assets and liabilities in accordance with the supervisory model into 14 time bands on the basis of their residual lives and classifying floating-rate assets and liabilities into the various time bands according to the date of renegotiation of the interest rate. Within each band, asset and liability positions are multiplied by weighting factors and then set off against one another, resulting in a net position. Exposure to interest-rate risk for the purpose of determining the capital requirement is then calculated by measuring the change in the value of the banking book caused by hypothetical instantaneous shifts in the interest rate maturity curve in a scenario of ordinary conditions. To that end, use is made of the annual changes for each node of the interest rate structure recorded over an observation period of six years, alternatively considering the 1st percentile (downward shift) and 99th percentile (upward shift).
On the basis of the Bank of Italy regulatory model, at 31 December 2018, under ordinary conditions, applying a historical simulation approach to annual changes in interest rates over a period of six years, the decrease in economic capital amounts to €6,342 thousand in the event of an upwards shift in the rate structure, equal to 2.2% of own funds. In the downward shift scenario, subject to the restriction that nominal rates may not go negative, economic capital would increase by €23,132 thousand, or 7.9% of own funds. In the stress scenario, the change in the value of economic capital generated by a parallel upwards shift of 200 basis points amounts to €20,272 thousand, or 6.9% of own funds. In the event of a negative shock of 200 basis points, subject to the restriction that nominal rates for the various maturities may not go negative, the increase in the value of the economic capital of Banca di Cividale's banking book would come to €23,132 thousand, or 7.9% of own funds. The cautionary threshold of 20% of own funds set by supervisory regulations has been observed. The reporting and intervention limits established in internal rules and procedures have also been observed.

2.3 FOREIGN EXCHANGE RISK

QUALITATIVE DISCLOSURES

A. General aspects, foreign exchange risk management processes and measurement methods
The Bank normally does not deal on its own account on the foreign exchange market for speculative purposes. Transactions in foreign currencies are mostly related to spot and forward transactions by customers. Assets and liabilities in foreign currencies are negligible.
Operational management involves real-time monitoring of the exposure in various currencies, systematically hedging positions on the market as required to minimise the exposure to foreign-exchange risk.
At 31 December 2018 the capital requirement for foreign exchange risk, calculated according to the method set out in supervisory regulations, was far below the prudential limit of 2% of the Bank's own funds.

B. Foreign exchange risk hedging

All foreign currency positions generated by relations with Bank customers are handled together by analysing open gaps (un-netted positions), which are typically kept essentially at zero through market hedging transactions.

QUANTITATIVE DISCLOSURES

1. Distribution by currency of assets, liabilities and derivatives

	Currencies					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other
A. Financial assets	**18,121**	**1,188**	**260**	**403**	**3,054**	**1,166**
A.1 Debt securities	6,642	566	-	-	-	-
A.2 Equity securities	0	0	-	-	-	-
A.3 Loans to banks	11,225	621	260	403	757	1,166
A.4 Loans to customers	254	0	-	-	2,296	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**220**	**207**	**36**	**35**	**117**	**81**
C. Financial liabilities	**24,334**	**1,428**	**0**	**454**	**309**	**124**
C.1 Due to banks	9	-	-	-	-	0
C.2 Due to customers	24,325	1,428	0	454	309	124
C.3 Due to customers	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	**6,144**	**3**	**437**	-	**3,995**	**881**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other	6,144	3	437	-	3,995	881
+ Long positions	6,103	-	-	-	177	304
+ Short positions	42	3	437	-	3,817	577
Total assets	**24,443**	**1,394**	**296**	**438**	**3,348**	**1,551**
Total liabilities	**24,375**	**1,431**	**437**	**454**	**4,127**	**701**
Difference (+/–)	**68**	**(37)**	**(142)**	**(16)**	**(778)**	**850**

Section 3 – DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

3.1 TRADING DERIVATIVE INSTRUMENTS

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: end-period notional amounts

Underlying asset/Type of derivatives	31/12/2018				31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rate	-	-	11,232	-	-	-	26,045	-
a) Options	-	-	8,288	-	-	-	15,701	-
b) Swaps	-	-	2,944	-	-	-	10,344	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	-	-	10,657	-	-	-	35,502	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	10,657	-	-	-	35,502	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	**21,889**	-	-	-	**61,546**	-

A.2 Trading financial derivatives: positive and negative gross fair values – distribution by product

Underlying asset/Type of derivatives	31/12/2018				31/12/2017			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	without central counterparties: With netting agreements	without central counterparties: Without netting agreements		Central Counterparties	without central counterparties: With netting agreements	without central counterparties: Without netting agreements	
1. Positive fair value	-	-	-	-	-	-	-	-
a) Options	-	-	6	-	-	-	-	-
b) Interest rate swaps	-	-	136	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	**142**	-	-	-	-	-
2. Negative fair value	-	-	-	-	-	-	-	-
a) Options	-	-	6	-	-	-	-	-
b) Interest rate swaps	-	-	136	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	25	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	**168**	-	-	-	-	-

A.3 OTC trading financial derivatives: notional amounts, positive and negative gross fair values by counterparty

Underlying asset	Central Counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates	-	**5,758**	-	**5,758**
- notional amount	X	5,616	-	5,616
- positive fair value	X	6	-	136
- negative fair value	X	136	-	6
2) Equities and stock indices	-	-	-	-
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign exchange rates and gold	-	**10,682**	-	-
- notional amount	X	10,657	-	-
- positive fair value	X	-	-	-
- negative fair value	X	25	-	-
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	-	-	-
Contracts included under netting agreements	-	-	-	-
1) Debt securities and interest rates	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equities and stock indices	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign exchange rates and gold	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of OTC trading financial derivatives: notional amounts

	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	1,190	8,181	1,860	11,232
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	10,657	-	-	10,657
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2018	**11,847**	**8,181**	**1,860**	**21,889**
Total 31/12/2017	**37,523**	**10,489**	**13,534**	**61,546**

B. CREDIT DERIVATIVES

This item is not applicable to the financial statements of Banca di Cividale S.c.p.A.

3.2 ACCOUNTING HEDGES

This item is not applicable to the financial statements of Banca di Cividale S.c.p.A.

3.3 OTHER INFORMATION ON HEDGING AND TRADING DERIVATIVE INSTRUMENTS

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values by counterparty

Underlying asset	Central Counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates	-	**5,758**	-	**5,758**
- notional amount	X	5,616	-	5,616
- positive fair value	X	6	-	136
- negative fair value	X	136	-	6
2) Equities and stock indices	-	-	-	-
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign exchange rates and gold	-	**10,682**	-	-
- notional amount	X	10,657	-	-
- positive fair value	X	-	-	-
- negative fair value	X	25	-	-
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	-	-	-
Contracts included under netting agreements	-	-	-	-
1) Debt securities and interest rates	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equities and stock indices	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign exchange rates and gold	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

SECTION 4 – LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. General aspects, liquidity risk management processes and measurement methods

Liquidity risk, to which banks are naturally exposed as a result of the maturity transformation phenomenon, is the risk of being unable to fulfil payment obligations due either to an inability to procure funds on the market (funding liquidity risk) or to liquidate assets (market liquidity risk). Liquidity risk also includes the risk that an entity may be forced to discharge its payment obligations at non-market costs, meaning that it may be forced to bear a high cost of funding or (in some cases, concurrently) sustain capital losses when liquidating assets.

The process of assessing the adequacy of the Bank's liquidity profile also includes the risk associated with the level of encumbered assets ("asset encumbrance"), i.e. the risk that such assets may increase due to situations of significant tension, such as plausible, while improbable, shocks, including as regards the downgrading of the Bank's credit rating (where present), the write-down of collateral and increased margin requirements.

In accordance with prudential regulations, the liquidity risk management process includes: procedures for identifying risk factors, measuring the risk exposure, conducting stress tests, identifying appropriate risk mitigation initiatives, preparing emergency plans, monitoring for observance of limits and reporting to company bodies.

The liquidity risk management process primarily involves various specific units.

The ALCo (Asset and Liabilities Committee), in which the Manager of the Risk Management Function also participates, collaborates in determining the strategic guidelines and management policies for managing liquidity risk, including the policies for liquidity reserves and managing collateral, in addition to playing an advisory role with regard to risk assumption rules, liquidity risk mitigation and the identification of any corrective measures aimed at rebalancing the risk position.

Through the Treasury & Funding Function, the Finance Department is responsible for treasury management and funding activities on the interbank market. It plays a role in managing short-term liquidity risk through the use of financial instruments on the markets of reference and may propose funding and structural liquidity risk mitigation transactions. It conducts general supervision of financial management (proprietary portfolio, funding and liquidity policies and trading activity) and takes part in defining the structural liquidity balance (funding plan), within the framework of the annual and long-term planning process of the Bank's various components. The risk control function is involved in managing liquidity risk and contributes to setting risk management policies and processes, develops the liquidity risk assessment process, verifies observance of the limits imposed on the various company functions and proposes risk mitigation initiatives to the strategic supervision and management bodies.

Exposure to liquidity risk is identified, measured and monitored on a current and forward-looking basis. The processes are characterised by two distinct, yet closely related management profiles: - operational liquidity, consisting of daily management of treasury balances and expected cash inflows and outflows over a short-term time horizon; - structural liquidity, aimed at ensuring the Bank's overall financial equilibrium, and as such a part of the strategic high-level financial planning, without time limits.

Furthermore, in addition to the ordinary liquidity situation, the Bank conducts simulations of adverse stress scenarios caused by forms of tension and crisis in the financial system generally or specific significant changes in the Bank’s financial aggregates.

The process of containing exposure to liquidity risk, which aims to ensure the Bank’s solvency even in conditions of tension or crisis, is primarily pursued through a complex set of management decisions and organisational measures, the most significant of which are:

- ✓ constant monitoring of the balanced structure of the maturities of assets and liabilities, through the operational and strategic maturity ladder statements and regulatory capital ratios (LCR and NSFR);
- ✓ diversification at the level of types, counterparties, markets and sources of funding; the Bank intends to maintain a high level of retail funding by pursuing the strategic objective of reducing dependency on market funds (interbank funding and issuance intended for institutional investors), while reinforcing stable, structural forms;
- ✓ holding highly liquid assets that can be used as collateral for financing transactions or sold directly in situations of tension, so as to maintain an adequate short-term liquidity buffer, consistent with the requirements of supervisory regulations governing compliance with the regulatory limit for the short-term liquidity indicator known as the liquidity coverage ratio (LCR); LCR (*Liquidity Coverage ratio*);
- ✓ preparation of a Contingency Funding Plan describing the procedures to be followed and the measures to be taken when situations of severe liquidity tension occur or are expected. This framework calls for an intervention plan to be triggered, according to two levels of criticality, following an evaluation and escalation process based on a series of indicators. The sources of funding and management mechanisms that the bodies tasked with handling the crisis may use in order to restore a normal liquidity situation are also identified. The purpose of the CFRP is to ensure management of a short-term liquidity crisis and is limited to this aspect. On the other hand, the recovery plan refers to situations of significant deterioration of the Bank's financial situation and identifies the recovery options/actions to be implemented in extreme situations;
- ✓ preparation, within the annual ICAAP/ILAAP report, of specific self-assessment analyses within the framework of the Internal Liquidity Adequacy Assessment Process (ILAAP).

QUANTITATIVE DISCLOSURES

1. Distribution of financial assets and liabilities by residual maturity

Denominated in euro

	on demand	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	More than 5 years	Unspecified
On-balance-sheet assets	**450,245**	**2,059**	**8,572**	**42,923**	**69,759**	**130,531**	**350,369**	**1,449,403**	**1,133,655**	**21,568**
A.1 Government securities	-	-	54	-	4,727	2,204	81,984	701,950	20,000	-
A.2 Other debt securities	2,100	-	2,709	5	452	375	822	32,337	21,224	-
A.3 Units in collective investment undertakings	15,399	-	-	-	-	-	-	-	-	-
A.4 Loans	432,746	2,059	5,809	42,918	64,581	127,952	267,562	715,116	1,092,430	21,568
- banks	15,575	-	-	-	-	-	2,171	2,000	-	19,680
- customers	417,171	2,059	5,809	42,918	64,581	127,952	265,391	713,116	1,092,430	1,888
On-balance-sheet liabilities	**1,805,028**	**238,928**	**6,225**	**46,194**	**70,843**	**79,018**	**152,129**	**988,291**	**96,616**	-
B.1 Deposits	1,796,708	2,256	6,225	12,448	49,308	60,253	80,457	197,822	1,121	-
- banks	5,048	-	-	-	20,000	-	-	-	-	-
- customers	1,791,660	2,256	6,225	12,448	29,308	60,253	80,457	197,822	1,121	-
B.2 Debt securities	11	-	-	2,416	18,350	1,438	36,222	10,280	2,015	-
B.3 Other liabilities	8,308	236,672	-	31,330	3,185	17,327	35,450	780,189	93,479	-
Off-balance-sheet transactions	**5,018**	**15,670**	**2,485**	**8,172**	-	**112**	**251**	**18,413**	**5,573**	-
C.1 Financial derivatives with exchange of	-	15,583	2,485	8,172	-	-	-	15,000	-	-
- long positions	-	321	2,485	2,070	-	-	-	15,000	-	-
- short positions	-	15,262	-	6,102	-	-	-	-	-	-
C.2 Financial derivatives without exchange of	284	-	-	-	-	-	-	-	-	-
- long positions	142	-	-	-	-	-	-	-	-	-
- short positions	142	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	-	60	-	-	-	-	-	-	-	-
- long positions	-	30	-	-	-	-	-	-	-	-
- short positions	-	30	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	4,734	27	-	-	-	112	251	3,413	5,573	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Denominated in other currencies

	on demand	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	More than 5 years	Unspecified
On-balance-sheet assets	**14,460**	-	-	**234**	**2,405**	**32**	**656**	**6,550**	-	-
A.1 Government securities	-	-	-	5	-	-	564	-	-	-
A.2 Other debt securities	-	-	-	-	60	32	92	6,550	-	-
A.3 Units in collective investment undertakings	-	-	-	-	-	-	-	-	-	-
A.4 Loans	14,460	-	-	229	2,344	-	-	-	-	-
- banks	14,459	-	-	-	-	-	-	-	-	-
- customers	0	-	-	229	2,344	-	-	-	-	-
On-balance-sheet liabilities	**26,649**	-	-	-	-	-	-	-	-	-
B.1 Deposits	26,640	-	-	-	-	-	-	-	-	-
- banks	0	-	-	-	-	-	-	-	-	-
- customers	26,640	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	9	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	**803**	**2,485**	**8,172**	-	-	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	803	2,485	8,172	-	-	-	-	-	-
- long positions	-	482	-	6,102	-	-	-	-	-	-
- short positions	-	321	2,485	2,070	-	-	-	-	-	-
C.2 Financial derivatives without exchange of	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISKS
QUALITATIVE DISCLOSURES

A. General aspects, operational risk management processes and measurement methods

The definition adopted by the Bank, in line with supervisory regulations, identifies operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Such risks include losses resulting from fraud, human error, business disruption, system unavailability, breach of contract and natural disasters.

In the risk map adopted by the bank, operational risk has been divided into the following sub-categories:

- ✓ legal operational risk: this includes the exposure to fines or penalties due to decisions of the Supervisory Authority or settlements with individuals;
- ✓ ICT operational risk (or ICT risk): this is the risk of incurring economic losses or loss of reputation and market share in connection with the use of information and communication technology (ICT); in the integrated representation of company risks for prudential purposes (ICAAP), this type of risk is classified, according to the specific aspects, as operational, reputational and strategic risk; the analysis of ICT risk is a means of ensuring the efficacy and efficiency of the measures taken to protect ICT resources;
- ✓ privacy risk: with reference to the specific data protection impact assessment process, privacy risk is considered the likelihood of occurrence of a threat that may compromise the confidentiality, integrity or availability of personal information that may give rise to a breach of the rights and freedoms of natural persons. Privacy risk, like legal and ICT risk – with both of which it has something in common – is to be considered a type of operational risk;
- ✓ Other operational risk: this includes all other types of losses arising from the bank's operating activity.

Risk is contained through regulatory, organisational, procedural and training actions.

Operational risk management incorporates elements of considerable complexity, in view of the many aspects involved, and is governed by the “Rules and procedures for managing operational risks”, which lay down the guidelines for preventing and containing operational risks, a process of defining, identifying, assessing and managing the exposure to such risks, including those arising from low-frequency or particularly severe events. The processes of identifying, assessing and monitoring operational risks are aimed at undertaking mitigation actions.

Specific types of risk are transferred through a series of insurance policies that offer broad-spectrum coverage of various types of potentially detrimental events.

In addition, a provision consistent and coherent with the international accounting principles adopted in the Bank's provisioning policy is recognised to mitigate the potential economic losses arising from the legal proceedings pending against the Bank.

Operational risk mitigation activities include the business continuity plan, set out in specific internal rules and procedures to be followed in the event of the states of crisis of various levels to which the bank may be exposed. A description is provided of the operational business continuity plan and the disaster recovery plan, the purpose of which is to respond to events that may result in data-processing centres becoming unavailable.

To protect against operational risks, company operational loss data is collected by line of business and event type (loss threshold of €5,000), in accordance with the scheme adopted by the Italian Operational Loss Database (DIPO) managed by ABI, and compared with industry-wide figures (receipt of the return stream). The results of the data collection process, which is governed by internal rules and procedures entitled “Collection of operational loss data”, are included in a dedicated section of the quarterly report by Risk Management.

From the regulatory standpoint, the Bank adopts the basic method (BIA – Basic Indicator Approach) specified by regulations to determine prudential capital requirements.

OTHER RISKS

In addition to the risks described above, the Bank is exposed to the following other material risks.

Legal risks

Appropriate provisions are recognised in accordance with international accounting standards to account for financial risks associated with legal proceedings involving the Bank. The amount of such provisions is estimated on the basis of multiple factors, primarily relating to the expected outcome of the suit, and, in particular, the probability of an unfavourable outcome to the proceedings resulting in an adverse judgment for the Bank, and on the basis of factors useful in quantifying the amount that the Bank might be required to pay the counterparty in the event of an adverse judgment.

For each position, the projected outcome of the suit (risk of an adverse judgment) is based on the legal issues at stake in the proceedings, assessed in the light of case law, the evidence produced in the course of the proceedings and the status of the trial, and, on appeal, the outcome of the proceedings of the first instance, past experience and all other useful elements, including experts' opinions, that allow the foreseeable development of the dispute to be taken adequately into account.

The amount due in the event of an adverse outcome is expressed in absolute terms and includes the value estimated on the basis of the status of the proceedings, considering the amount requested by the counterparty, the technical estimate prepared internally on the basis of accounting evidence and/or evidence brought to light during the trial and, in particular, the amounted estimated by the court-appointed technical expert, where appointed, in addition to legal interest, calculated on the principal from the date of service of the introductory document, and any expenses to be reimbursed in the event of an adverse judgment.

Where it is not possible to determine a reliable estimate (the claimant has not quantified its compensation claim, or there are legal or factual uncertainties that would render any estimate unreliable), provisions are not recognised until it is possible to predict the outcome of the trial and arrive at a reliable estimate of the amount of the loss, if any.

At 31 December 2018 the Bank was a defendant in 26 law suits in which total damages of €6,505 thousand are sought, for which a total loss of €966 thousand is expected.

Most such suits involve anatocism and bankruptcy claw-back compensation claims, as well as indemnity claims for losses on investments in financial instruments and other types of compensation claims, broken down as follows (in thousands of euros):

	N° of disuptes	Petitum	Provision
Investment services	4	2,008	95
Banking services	6	712	54
Disputes concerning interest	9	730	123
Revocatory disputes	4	3,055	553
Other	3	-	141
Total	**26**	**6,505**	**966**

Tax dispute

On 20 December 2018 the Bank was served assessment notices arising from the audit conducted by the Italian Agency of Revenue – Regional Department for Friuli Venezia Giulia concerning 2013. The charges concern a series of decreases in taxable expenses, with the most serious alleged irregularity by far being that regarding the purported breach of the pertinence principle (Art. 109 of the Consolidated Income Tax Act) in connection with impairment losses on defaulted loans, which the Bank regarded as deductible when figuring its corporate taxable income in accordance with the application of the principle of "derivation" of the income statement, but which the revenue authorities conversely regard as non-tax deductible. The total amount assessed in the assessment notices (taxable income for the purposes of corporate income tax and regional business tax) comes to €13.4 million, with an estimated amount of taxes (excluding interest and penalties) of €4.3 million.

With the support of opinions from the qualified professionals it has retained, the Bank believes that it will be able to prove that the various charges are baseless and therefore has lodged a petition with the competent tax commission, after settling minor charges for a total of €68 thousand. The Directors believe that the risk of an unfavourable outcome to the dispute commenced with the Italian Agency of Revenue may be designated "possible". Accordingly, in application of IAS 37, no provision for risks and charges has been recognised in the 2018 annual financial statements in respect of the amount sought by the revenue authorities, since only the accrual for the estimated legal fees was available, as specified in further detail in another section of this report.

Investigation by the Public Prosecutor's Office of Udine

In the matter of the trial of Civibank for corporate criminal liability pursuant to Legislative Decree No. 231/2001 arising from the trigger offences of which former senior executives had been accused and relating to the investigation launched by the Public Prosecutor's Office of Udine in 2013, during the reporting year the Criminal Court of Udine handed down a judgment fully acquitting Banca di Cividale S.p.A. and Banca Popolare di Cividale S.C.ar.L., and hence CiviBank, on the grounds that there was no case to answer, of the administrative offences with which they had been charged, by operative judgment rendered during the public hearing held on 26 February 2019 (and filed on 5 March 2019), with a period of 90 days to file the grounds of the judgment.

Following this judgment fully acquitting Civibank, even in the event of an appeal, the previous assessment not to recognise a provision for risks due to liability pursuant to Legislative Decree No. 231/2011 in respect of financial year 2018 may be further confirmed.

ICT risk

ICT risk is the risk of incurring economic losses or loss of reputation and market share in connection with the use of information and communication technology (ICT). The analysis of ICT risk is a tool aimed at ensuring that the measures protecting ICT resources are effective and efficient and it is governed by the ICT Function Control Policy, as approved and brought into compliance with the applicable provisions of Bank of Italy Circular No. 285 of 17 December 2013. This document sets out the organisational, methodological and procedural structure for the process of analysing ICT risk and institutes the function of IT Outsourcing Liaison, assigned to the Head of the Operations Department. With effect from 9 October 2017, the Bank decided to outsource the management of the IT system to the new supplier Consorzio CSE, while continuing to adopt a full-outsourcing model. Accordingly, as a first priority, the risk analysis is conducted annually by the supplier on the basis of its own internal policies.

Excessive leverage risk

Excessive leverage risk is defined by prudential regulations as "the risk that a particularly high level of indebtedness with respect to equity may render the bank vulnerable, requiring the adoption of corrective measures to its industrial plan, including the sale of assets resulting in the recognition of losses that could also entail impairment of the remaining assets."

Excessive leverage risk affects the entirety of the financial statements, exposures resulting from the use of derivatives and off-balance sheet assets and is assumed in the conduct of core business. It is closely correlated with planning and capital management activity.

Prudential regulations establish that banks are to monitor the level and changes of their leverage ratios (a regulatory parameter), and the risk associated with leverage, as part of their Internal Capital Adequacy Assessment Process (ICAAP).

The process of managing leverage risk is defined and formalised in a specific regulation approved by the Board of Directors and the risk appetite is monitored quarterly by the Risk Management Service in the context of the Risk Appetite Framework (RAF).

At 31 December 2018 the leverage indicator was above the minimum threshold established in supervisory regulations.

Strategic risk

Strategic risk is defined as the current or prospective risk of a decrease in profits or capital arising from changes in the operating context or poor company decisions, the inadequate implementation of decisions, or insufficient reaction to changes in the competitive scenario. Exposure to strategic risk is not associated with specific operating activities, but rather the adequacy of the decisions made and the efficacy of implementation. The risk is particularly associated with the phases of determining and implementing company strategies represented by the formulation of the business plan, commercial planning, budgeting, management control and monitoring of the markets and competitive scenario, capital allocation and capital management.

Title IV of Bank of Italy Circular No. 285 of 17 December 2013 provides guidance of a general nature on the subject of corporate governance, establishing the framework within which to carry out the strategic planning process, and emphasises the strategic nature of the internal control system and the necessary integration of the Risk Appetite Framework (RAF), business model, strategic plan, ICAAP, ILAAP and the Bank's recovery plan.

Compliance risk
Compliance risk is the risk of incurring legal or administrative penalties, significant financial losses or damages to reputation due to breaches of compulsory provisions (of laws or regulations) or self-imposed rules (e.g., bylaws, codes of conduct, governance codes).
Under the new supervisory provisions concerning the internal control system, the role of supervising compliance has been extended to all rules and procedures concerning company activity, though with different levels of commitment for the traditional, directly applicable areas and other specialistic areas, such as taxation, for which there are other forms of supervision and where the function is nonetheless tasked with assessing the suitability of such supervision.
In 2014 the Compliance function launched various audit processes concerning forms of specialised supervision, and specifically the adequacy of supervision and procedures aimed at preventing the risk of non-compliance extended to the following areas:
- ✓ tax law (bank side and customer side);
- ✓ privacy;
- ✓ workplace health and safety;
- ✓ market abuse;
- ✓ supervisory reporting; and
- ✓ Legislative Decree 231/01.

Considering the extent of compliance risk, the many factors that gave risk to it and its significant implications for various company processes, the Bank has a high level of exposure to this type of risk.
The Compliance Service also includes the Anti-Money Laundering function, which is responsible for the anti-money laundering compliance activities provided for in the order of the supervisory authority of 10 March 2011, in addition to providing support to the head of the Anti-Money Laundering Service with the process of reviewing suspect transaction reports.

Money-laundering risk
Money-laundering risk is the risk of suffering consequences in legal and reputational terms as a result of possible involvement in illegal transactions associated with money-laundering or financing for terrorism. In order to measure and assess that risk, the money-laundering risks inherent in the Bank's operational procedures pertaining to the following processes have been mapped:
- ✓ adequate customer verification;
- ✓ dealings in cash and bearer securities;
- ✓ records in the Consolidated Computer Archive; and
- ✓ the reporting of suspicious transactions.

Given the objective significance of money-laundering risk and the increasing complexity of the legislative framework of reference and resulting obligations, the Bank has gradually enhanced its safeguards in terms of rules, organisational measures, procedures, applications and training.

Reputational risk
Reputational risk is defined as "the current or prospective risk of a decline in operating result or capital should customers, counterparties, shareholders of the Bank, investors or supervisors take a negative view of the Bank." Due to its nature, this risk is not easily measurable. However, for management purposes, it may be subject to qualitative observation, assessment and mitigation processes. Consequently, management of this type of risk is based on a qualitative assessment aimed at directing the necessary prevention, mitigation and management actions. In addition to company bodies, all organisational units of both a business and operational support nature are involved in the process of managing reputational risk, each to the extent of its competence.
The first and most fundamental safeguard against reputational risk is the shared system of values, principles and rules of conduct on which to base behaviour common to all of the Bank's internal stakeholders (employees, directors, etc.). The system has been given explicit form in a Code of Ethics. The task of supervising compliance with the provisions of that Code is entrusted to the Legislative Decree 231/2001 Supervisory Board Control Committee. The internal rules and procedures concerning reputational risk were drawn up and approved by the Board of Directors as part of the activities aimed at achieving compliance with the new supervisory provisions.

Residual risk
Residual risk is the risk that the recognised techniques for mitigating credit risk used by the bank prove less effective than expected. For a more thorough discussion of residual risk, refer to the section on risk mitigation techniques.

Related–party risk
Related-party risk is the risk that the proximity of certain parties to the Bank's decision-making centres may compromise the objectivity and impartiality of decisions relating to the granting of loans and other transactions with such parties, with possible distortions of the resource-allocation process, exposure of the Bank to inadequately measured or managed risks and potential damages for depositors and shareholders.
In accordance with supervisory regulations, the Bank has adopted specific internal procedures and processes with the aim of ensuring ongoing compliance with, and monitoring of, the legal limits. There were no breaches of authorisation limits or alert levels during the year.

Property risk
This is the current or prospective risk of potential losses due to fluctuations in the value of the proprietary real-estate portfolio, or to the reduction of the income generated by that portfolio.
The Bank assumes real-estate risk to a very limited extent for the purposes of investment and protection of its credit claims.
Property, plant and equipment represent a very modest share of its total assets. In particular, the Bank's proprietary real-estate portfolio (land and buildings) represents almost all of its property, plant and equipment and is mostly used in operations.
This risk is mitigated through management and maintenance measures aimed at safeguarding the functionality and value of the assets and is partially transferred through insurance policies covering owned properties. Real-estate assets are managed by units of the Bank dedicated to this activity.

Chapter F – SHAREHOLDERS' EQUITY

Section 1 – Shareholders' equity

A. Qualitative disclosures

The capital policy adopted by Banca di Cividale S.c.p.A. is founded upon the following approaches:

a) compliance with regulatory requirements (regulatory approach);
b) appropriate monitoring of risks associated with banking operations (management approach); and
c) support for company development projects (strategic approach).

These approaches correspond to appropriate definitions of capital, specific objectives and particular corporate functions. From a regulatory point of view, the definition of capital is that set out in supervisory regulations for banks. Ongoing compliance with minimum capital requirements, which are monitored on a regular basis and considered a constraint during planning, is an essential precondition for operations.

From the point of view of risk management – one of the key functions in banking – capital is considered the main defence against possible unexpected losses generated by a variety of risks (credit, market and operational risks) that the Bank faces. The amount of capital is optimal if it is sufficient to absorb unexpected losses estimated for a specific confidence interval, thereby guaranteeing the continuity of operations over a specified time period.

From the corporate perspective, capital is a strategic factor of production that enables the Bank to pursue its entrepreneurial vocation, while at the same time preserving financial stability. As a cooperative bank with strong local roots, the Bank implements its capital policy primarily through the gradual expansion of the size and geographical spread of its shareholders.

B. Quantitative disclosures

B.1 Shareholders' equity: composition

	31/12/2018	31/12/2017	%
1. Share capital	50,913	50,913	0.0%
2. Share premium reserves	167,022	167,022	0.0%
3. Reserves	45,805	68,219	-32.9%
- Retained earnings:	41,822	68,219	-38.7%
a) legal reserve	22,392	22,317	0.3%
b) statutory reserve	41,084	40,402	1.7%
c) treasury shares	-	-	-
d) other	(21,654)	5,500	-493.7%
- other	3,983	-	-
4. Equity instruments	-	-	-
5. (Treasury shares)	(1,260)	- 792	-59.1%
6. Valuation reserves:	9,496	15,438	-38.5%
- Equities designated at fair value through other comprehensive income	10,142	16,030	-36.7%
income	-	-	-
comprehensive income	(205)	-	-
- Property and equipment	-	-	-
- Intangible assets	-	-	-
- Hedges of foreign investments	-	-	-
- Cash flow Hedges	-	-	-
- Hedging instruments (non-designated items)	-	-	-
- foreign exchange differences	-	-	-
- non-current assets held for sale and discontinued operations	-	-	-
own credit rating)	-	-	-
- Actuarial gains (losses) on defined benefit plans	(441)	(592)	25.6%
- Share of valuation reserves connected with investments carried at equity	-	-	-
- Legally-required revaluations	-	-	-
7. Net income (loss) (+/-)	2,043	753	171.3%
Total	**274,018**	**301,553**	**-9.1%**

B.2 Valuation reserves related to financial assets designated at fair value through other comprehensive income: composition

	31/12/2018		31/12/2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	479	(685)	1,149	(157)
2. Equities	10,142	0	10,079	0
3. Loans	-	-	-	-
Total	**10,621**	**(685)**	**11,228**	**(157)**

B.3 Valuation reserves related to financial assets designated at fair value through other comprehensive income: annual changes

	Debts securities	Equities	Loans
1. Opening balance	**992**	**10,079**	-
2. Increases	**628**	**1,012**	-
2.1. Fair value increases	-	1,012	-
2.2. Adjustments for credit risk	479	-	-
2.3. Reversal to the income statement of negative reserves from disposal	110	-	-
2.4. Transfer to other shareholders' equity items (equities)	-	-	-
2.5. Other increases	39	-	-
3. Decreases	**1,826**	**949**	-
3.1. Fair value decreases	1,202	949	-
3.2. Recoveries for credit risk	-	-	-
3.3. Reversal to the income statement of positive reserves from disposal	292	-	-
3.4. Transfer to other shareholders' equity items (equities)	-	-	-
3.5. Other decreases	332	-	-
4. Final balance	**(206)**	**10,142**	-

B.4 Valuation reserves related to defined-benefit plans: annual changes

Valuation reserves related to actuarial gains (losses) on defined-benefit plans amounted to a negative €441 thousand, an increase of €151 thousand.

Section 2 – Own funds and regulatory ratios

Scope of application of regulations

The new prudential provisions governing banks and investment companies laid down in Regulation (EU) No 575/2013 (Capital Requirements Regulation, CRR) and Directive 2013/36/EU (Capital Requirements Directive, CRD IV), approved on 26 June 2013, transposing into the European Union the standards established by the Basel Committee on Banking Supervision (the "Basel 3 Framework"), entered into effect on 1 January 2014. As part of an overall process of revising and simplifying its prudential provisions for banks, the Bank of Italy published Circular 285, Prudential Supervisory Provisions for Banks, which replaced the previous Circular 263 of 27 December 2006 almost entirely, implementing the new Community provisions and introducing supervisory rules concerning unharmonised aspects at the EU level, and Circular 286, Instructions for the Preparation of Prudential Reports for Banks and Securities Brokerage Firms, which replaces the previous Circular 155 and the update to Circular 154 in their entirety.

Financial institutions must observe the following minimum ratio requirements with effect from 1 January 2014:

- ✓ a CET1 ratio of 4.5%;
- ✓ a Tier 1 ratio of 6%;
- ✓ a Total Capital Ratio of 8%.

These binding minimums established by the Regulation are in addition to a further requirement observed at the conclusion of the supervisory review and evaluation process (SREP). The process for 2018 was launched by notice dated 19 February 2018 and has yet to be concluded. Accordingly, account has been taken of the previous communication, which raised the minimum requirements set out below (total SREP capital requirement ratio):

- ✓ a CET1 ratio of 5.54%;
- ✓ a Tier 1 ratio of 7.39%; and
- ✓ a Total Capital Ratio of 9.85%.

The following CET1 buffers are in addition to the above binding requirements:

- ✓ a capital conservation buffer of 1.87% with effect from 1 January 2018;
- ✓ the countercyclical buffer in periods of excessive credit growth and the systemic risk buffer for global systemically important institutions or other systemically important institutions (G-SII or O-SII) (nil at the end of the year).

The sum of regulatory requirements (overall capital requirement ratio) and additional buffers result in a minimum capital conservation level for the Bank of:

- ✓ a CET1 ratio of 7.41%;
- ✓ a Tier 1 ratio of 9.26%;
- ✓ a Total Capital Ratio of 11.73%.

Failure to comply with the established minimum requirements (combined requirements) results in limitations in the distribution of profits and means that a capital conservation plan must be adopted.

At 31 December 2018, own funds have been calculated by applying the new regulations mentioned above. Those regulations provided for transitional arrangements, generally until the end of 2018, under which the new regulatory framework was to be applied gradually, through a transitional period in which certain elements are deductible or eligible for inclusion in common equity tier 1 capital in a certain percentage only, whereas the residual percentage not applicable is included in or deducted from additional tier 1 capital or tier 2 capital, or considered among risk-weighted assets. These transitional arrangements also apply to certain subordinated instruments that do not meet the requirements established by the new regulatory provisions, aimed at gradually excluding instruments no longer eligible from own funds (over a period of eight years).

The transitional period (2018-2022) for mitigating the financial impacts of the introduction of the new accounting standard IFRS 9 began on 1 January 2018. Exercising the option offered by Regulation (EU) No 2395/2017, Banca di Cividale has opted to adopt the “static” approach, which allows a progressively decreasing amount of the share of the FTA impact of IFRS 9 relating to impairment to be neutralised at the level of the CET1 ratio. In particular, the result of the comparison between the IAS 39 adjustments at 31/12/2017 and the IFRS 9 adjustments at 1/1/2018, relating to performing loans and securities (stage 1 and 2) and adjustments to NPLs (stage 3), net of taxation, is re-included in capital according to phase-in percentages of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and, finally, 25% in 2022. During the transitional period, the Bank may also choose to change this approach on a single occasion only, with authorisation from the Supervisory Authority, by moving from the “static” approach to the “dynamic” approach, or by suspending the application of the transitional treatment for the “fully-loaded” system.
In accordance with the supervisory instructions, the overall amount and composition of own funds differ from the amount and composition of statutory shareholders’ equity. The following is a brief account of the main differences:

- ✓ own funds include only the share of profit, net of all expenses and foreseeable dividends; before reaching a formal decision to confirm the final profit or loss result for the year for the entity for the year of reference, banks may only include their annual profits in their common equity tier 1 capital if they have obtained prior permission from the competent authority. Such permission requires that profits be verified by the independent persons responsible for auditing the accounts;
- ✓ goodwill, other intangible assets, deferred tax assets based on future profitability, the assets of defined-benefit pension funds included in the entity's balance sheet, net of the associated deferred tax liabilities, and the common equity tier 1 capital instruments held directly, indirectly and synthetically by the entity, are deducted from common equity tier 1 capital;
- ✓ significant investments in a financial sector entity, the net tax assets deriving from temporary differences and dependent on future profitability, and non-significant investments in financial sector entities are deducted from the elements of CET1 if they exceed certain CET1 levels provided for in Regulation 575/2013;
- ✓ tier 2 capital includes subordinated loans, which must have an original term to maturity of at least five years and may only be redeemed or repaid early only if the entity requests the prior authorisation of the competent authority, and no earlier than five years from the date of issuance, unless the bank replaces the instruments in question with other own funds instruments of equal or greater quality, under sustainable conditions in terms of the entity's income-generating capacity, and the bank demonstrates to the competent authority's full satisfaction that the minimum capital requirements imposed by the regulations have been observed.

2.1 - Own funds

A. Qualitative disclosures

The components of own funds are:

- ✓ common equity tier 1 (CET1) capital;
- ✓ additional tier 1 (AT1) capital; and
- ✓ tier 2 (T2) capital.

CET1 and AT1 make up total tier 1 capital, which, along with tier 2 capital, comprises total own funds.

1. Common equity tier 1 (CET1) capital

Total common equity tier 1 (CET1) capital, calculated excluding the net income for the year ended 31 December 2018, amounted to €287,730 thousand. The changes in tier 1 capital compared to 31/12/2017 may primarily be attributed to the derecognition of the carrying amount of goodwill (increase) due to impairment and the decrease in the value of reserves for HTCS and OCI securities. Reserves also decreased due to the impact of the first-time adoption of IFRS 9 as a consequence of the different measurement of loans with effect from 1/1/2018. This impact is mitigated by Regulation (EU) No 2395/2017, amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds.

The main CET1 instruments include:

- ✓ capital instruments of €50,913 thousand;
- ✓ share premium reserves of €167,022 thousand;
- ✓ other reserves of €45,805 thousand;
- ✓ other comprehensive income attributable to reserves on securities available for sale of €9,937 thousand.

Among deductions, the following should be noted:

- ✓ own common equity capital instruments, or common equity instruments for which the Bank has a real purchase obligation, of €2,792 thousand;
- ✓ supervisory adjustments of €58 thousand;
- ✓ goodwill, net of the associated tax liabilities, of €352 thousand;
- ✓ other intangible assets of €153 thousand;
- ✓ deferred tax assets that are based on future profitability and not on temporary differences of €4,735 thousand; other negative valuation reserves of €441 thousand.

The significant investments in common equity tier 1 instruments of financial sector entities and tax assets derived from temporary differences and dependent on future profitability are far below the established limits. Non-significant investments in the common equity tier 1 instruments of financial sector entities do not exceed the limit.

With respect to the transitional rules, the item in question includes the following adjustments:

- ✓ a positive filter for the transitional arrangements as a result of the impact of IFRS 9 of €22,525 thousand.

2. Additional tier 1 (AT1) capital

At 31 December 2018, Banca di Cividale S.c.p.A. had not issued any AT1 instruments.

3. Tier 2 (T2) capital

Considering the effects of the transitional rules, tier 2 capital amounted to €4,321 thousand.

The main T2 instruments include:

- ✓ eligible subordinated liabilities of €4,321 thousand;

In particular, it should be remarked that:

- ✓ the notional amortisation of the loans was calculated daily, in accordance with the provisions of Regulation EU No 575/2013.

With specific regard to this component of regulatory capital, the following is the list of the subordinated liabilities issued by Banca di Cividale and included in tier 2 capital:

Issuer	Identification Number	Interest rate	Issue date	Expiry date	Early redemption as of	Currency	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital
Banca Popolare di Cividale Scpa	IT0005072852	Fixed rate 2.75%	19/12/2014	19/12/2019		Euro	N	22,350,000	4,320,674
Total									

B. Quantitative disclosures

	31/12/2018	31/12/2017	%
A. Tier 1 capital before the application of prudential filters	270,534	299,629	-9.7%
of which instruments of CET1 subject to transitional provisions			
B. CET 1 prudential filters (+/-)			
CET1 gross of elements to be deducted and of the effects of the transitional regime (A+/-B)	270,534	299,629	-9.7%
D. Elements to be deducted from CET1	(5,329)	(6,664)	-20.0%
E. Transitional regime - Impact on CET1 (+/-)	22,525	(6,172)	-465.0%
F. Total Common Equity Tier 1 capital (CET1) (C-D+/-E)	287,730	286,793	0.3%
G. Additional Tier 1 capital (AT1) gross of elements to be deducted and of the effects of the transitional regime			
of which instruments of AT1 subject to transitional provision			
H. Elements to be deducted from AT1			
I. Transitional regime - Impact on AT1 (+/-)			
L. Total Additional Tier 1 capital (Additional Tier 1) (G-H+/-I)			
M. Tier 2 capital (T2) gross of elements to be deducted and of the effects of transitional regime	4,321	9,186	-53.0%
of which instruments of T2 subject to transitional provisions	-	398	-100.0%
N. Elements to be deducted from T2	-	**(393)**	**-100.0%**
O. Transitional regime - Impact on T2 (+/-)	-	**1,124**	**-100.0%**
P. Total Tier 2 capital (T2) (M-N+/-O)	**4,321**	**9,917**	**-56.4%**
Q. Total own funds (F+L+P)	**292,051**	**296,710**	**-1.6%**

2.2 Capital adequacy

A. Qualitative disclosures

As at 31/12/2018, the ratio of common equity tier 1 capital to risk-weighted assets stood at 13.37%, whereas the ratio of own funds to risk-weighted assets came to 13.57%. Both values comply with the limits established by the supervisory regulations cited in the previous section.

In determining its capital requirements for credit risk, the Bank uses the standardised approach. This method involves separating exposures into different classes (portfolios) according to the nature of the counterparty or the technical characteristics of the transaction or the manner in which it is carried out and the application of different risk weights to each portfolio.

For the Bank, the most significant segments are as follows: exposures to or guaranteed by central governments and central banks, exposures to or guaranteed by businesses, exposures guaranteed by real properties and retail exposures. In this regard, it should be noted that in accordance with Regulation (EU) No 575/2013, different weighting coefficients are applied to each class of exposures in relation to the various levels of risk identified in supervisory regulations.

The new regulations for the prudential supervision of banks permit financial institutions to determine the weighting coefficients for calculating the capital requirement for credit risk under the standardised approach based on credit assessments by third-party rating agencies (External Credit Assessment Institutions or ECAIs) recognised by the Bank of Italy. With effect from October 2017, the Bank has availed itself of the agency Moody's in respect of the following portfolios:

- ✓ exposures to or guaranteed by central governments and banks;
- ✓ exposures to or guaranteed by international organisations;
- ✓ exposures to or guaranteed by multilateral development banks.

To determine its capital requirement for market risk, the Bank has elected to use the standardised approach, while the basic indicator approach has been used for operational risk.

B. Quantitative disclosures

	Unweighted amounts		Weighted amounts / requirements	
	31/12/18	31/12/17	31/12/18	31/12/17
A. RISK ASSETS				
A.1 CREDIT AND COUNTERPARTY RISK	**4,789,731**	**4,731,601**	**1,973,008**	**2,012,651**
1. Standard methodology	**4,789,731**	**4,731,601**	**1,973,008**	**2,012,651**
2. Methodology based on internal ratings				
2.1 Base				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			157,841	161,047
B.2 CREDIT VALUATION ADJUSTMENT RISK			8	-
B.3 SETTLEMENT RISK			-	-
B.4 MARKET RISK			308	462
1. Standard methodology			308	462
2. Internal models			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			14,024	13,624
1. Base methodology			14,024	13,624
2. Standard methodology			-	-
3. Advanced methodology			-	-
B.6 Other calculation elements			-	-
B.7 Total capital requirements			172,181	175,133
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,152,267	2,189,164
C.2 Common Equity Tier 1 / Risk-weighted assets (CET 1 capital ratio)			13.4%	13.1%
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)			13.4%	13.1%
C.4 Total own funds / Risk weighted assets (Total capital ratio)			13.6%	13.6%

Chapter G – BUSINESS COMBINATIONS

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Chapter H – TRANSACTIONS WITH RELATED PARTIES

1. Information concerning the compensation of key management personnel

The following table reports the compensation of the directors, executives and other key management personnel of the Bank. The compensation paid to directors and statutory auditors is set by specific resolutions of the shareholders' meeting.

	Amount
a) Short-term benefits *	2,551
b) Post-employement benefits	102
c) Other	-
Total	**2,653**

(*) The amount indicated includes the remuneration paid to directors of €449 thousand, to the Board of Statutory Auditors of €101 thousand and to the Supervisory Body of €26 thousand (including VAT and contributions).

2. Information on transactions with related parties

In accordance with IAS 24, as applied to the organisational and governance structures of Banca di Cividale S.c.p.A., the following natural persons and legal entities are considered to be related parties:

- ✓ subsidiaries, companies over which Banca di Cividale S.c.p.A. directly or indirectly exercises control, as defined in IAS 27;
- ✓ associated companies, companies over which Banca di Cividale S.c.p.A directly or indirectly exercises a significant influence, as defined in IAS 28;
- ✓ joint ventures, companies over which Banca di Cividale S.c.p.A. directly or indirectly exercises joint control, as defined in IAS 31;
- ✓ managers with strategic responsibilities and control bodies: the Directors, Statutory Auditors and General Manager of Banca di Cividale S.c.p.A.;
- ✓ other related parties, including:
- ✓ immediate family members (cohabitants, children, cohabitants' children, dependants of the person concerned or cohabitant) of Directors, Statutory Auditors or the General Manager of Banca di Cividale S.c.p.A.; and
- ✓ subsidiaries, joint ventures and companies subject to significant influence by the Directors, Statutory Auditors, and General Manager of Banca di Cividale S.c.p.A., in addition to their immediate family members, as defined above.

The effects of transactions with related parties as defined above on the balance sheet are presented in the following summary table.

	COMPANIES UNDER EXCLUSIVE CONTROL	ASSOCIATED COMPANIES	EXECUTIVES AND CONTROL BODIES	OTHER RELATED PARTIES	% incidence
Assets					
Loans to customers	***14***	***797***	***575***	***875***	***0.08%***
Board of Directors			72	357	0.02%
Board of Statutory Auditors			102	262	0.01%
Managers with strategic responsibilities			401	256	0.02%
Liabilities					
Due to customers	***-***	***1,141***	***1,244***	***1,932***	***0.17%***
Board of Directors			583	1,180	0.07%
Board of Statutory Auditors			63	223	0.01%
Managers with strategic responsibilities			598	529	0.04%
Income statement					
Net interest income	***-***	***4***	***(2)***	***8***	***0.02%***
Board of Directors			(1)	1	*0.00%*
Board of Statutory Auditors			2	5	*0.01%*
Managers with strategic responsibilities			(3)	2	***0.00%***
Net commission income	***-***	***5***	***17***	***19***	***0.14%***
Board of Directors			13	8	*0.07%*
Board of Statutory Auditors			1	6	*0.02%*
Managers with strategic responsibilities			3	5	*0.03%*
Administrative expenses	***-***	***-***	***-***	***-***	***0.00%***
Board of Directors (*)			449	-	-0.62%
Board of Statutory Auditors			126	-	-0.17%
Managers with strategic responsibilities			884	-	-1.22%
Guarantees and commitments	**-**	**-**	**-**	**-**	***0.00%***
Board of Directors			-	-	*0.00%*
Board of Statutory Auditors			-	-	*0.00%*
Managers with strategic responsibilities			-	-	*0.00%*
Indirect funding	**-**	**-**	***1,551***	***1,533***	***0.30%***
Board of Directors			1,087	688	*0.17%*
Board of Statutory Auditors			27	53	*0.01%*
Managers with strategic responsibilities			437	792	*0.12%*

Transactions with other related parties fall within the course of normal banking operations and are ordinarily settled at arm's-length conditions for specific transactions or offered on any more favourable terms for which employees are eligible.

Banking transactions with groups controlled by the directors of the Company are approved in accordance with Article 136 of the Consolidated Banking Act and settled at arm's-length conditions for such transactions.

It should be noted that no transactions with related parties considered major transactions pursuant to the Procedures for Related-Party Transactions cited above were undertaken during the reporting period.

Chapter I – SHARE-BASED PAYMENTS

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Chapter L – SEGMENT REPORTING

Criteria for identifying and aggregating operating segments

In application of IFRS 8, operating segments for the purposes of segment reporting were identified on the basis of the following business segments:

- ✓ Retail and Corporate Bank, the segment dedicated to banking activity;
- ✓ Leasing, the segment dedicated to leasing activity.

The figures from the comparative period have been restated as appropriate.

Segment results – Income-statement data

RECLASSIFIED INCOME STATEMENT	31/12/2018			31/12/2017		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Net interest income	5,515	54,915	60,430	5,551	57,288	62,839
Net commissions	(85)	30,107	30,022	(85)	29,101	29,016
Dividends	-	10,538	10,538	-	733	733
Net trading income	-	(739)	(739)	-	10,262	10,262
Other operating income (expenses)	316	341	657	297	746	1,043
Operating income	**5,746**	**95,162**	**100,907**	**5,763**	**98,131**	**103,894**
Personnel expenses	(401)	(40,756)	(41,157)	(631)	(40,563)	(41,194)
Other administrative expenses	(601)	(19,459)	(20,060)	(1,721)	(24,398)	(26,119)
Net impairment/write backs on property, plant and equipment and intangible assets	(278)	(2,427)	(2,705)	(296)	(2,074)	(2,370)
Operating cost	**(1,280)**	**(62,642)**	**(63,922)**	**(2,648)**	**(67,035)**	**(69,683)**
Income (loss) from operating	**4,466**	**32,520**	**36,985**	**3,116**	**31,095**	**34,211**
Charges/write-backs on impairment of loans	(2,737)	(21,299)	(24,036)	(2,290)	(21,230)	(23,521)
Charges/write-backs on impairment of other financial assets	-	(1,030)	(1,030)	-	(2,572)	(2,572)
Charges/write-backs on impairment of goodwill and equity investments	-	(2,190)	(2,190)	-	(1,606)	(1,606)
Goodwill impairment	-	67	67	-	-	-
Net provisions for risks and charges	-	(5,653)	(5,653)	98	43	141
Income (loss) before tax from continuing operations	**1,729**	**2,415**	**4,144**	**923**	**5,730**	**6,653**
Tax on income from continuing operations	(552)	919	367	(297)	(2,412)	(2,709)
Levies and other charges concerning the banking industry after tax	-	(2,468)	(2,468)	-	(3,191)	(3,191)
Net income	**1,177**	**866**	**2,043**	**626**	**128**	**753**

Segment results – Balance-sheet data

ASSETS	31/12/2018			31/12/2017		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Financial assets measured at fair value through profit or loss	-	29,710	29,710		36,577	36,577
Financial assets measured at fair value through other comprehensive income	-	318,469	318,469		353,549	353,549
Financial assets measured at amortised cost	237,240	3,053,726	3,290,966	245,203	3,023,800	3,269,003
Due from banks	-	53,774	53,774		33,327	33,327
Loans to customers	237,240	2,421,631	2,658,871	245,203	2,364,757	2,609,960
Other financial assets	-	578,320	578,320		625,716	625,716

LIABILITIES	31/12/2018			31/12/2017		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Financial liabilities measured at amortised cost	-	3,507,783	3,507,783	1,812	3,526,305	3,528,117
Due to banks	-	928,844	928,844	-	965,700	965,700
Due to customers	-	2,509,157	2,509,157	1,812	2,415,610	2,417,422
Securities issued	-	69,782	69,782	-	144,996	144,996

Cividale del Friuli, 13 March 2019
Banca di Cividale S.c.p.A.
The Board of Directors

Appendices

Information on government grants pursuant to Art. 1, paragraph 125, of Law No. 124 of 4 August 2017 ("Annual market and competition law")

It should firstly be stated that Art. 1, paragraphs 125 to 129, of Law No. 124 of 4 August 2017 (the "Annual Market and Competition Law", hereinafter also Law No. 124/2017), introduced various measures aimed at ensuring transparency in the public grant system.

In particular, the said Law provides, inter alia, that in the notes to their financial statements at and for the year ended 31 December 2018 – and in the consolidated notes, where applicable – enterprises must provide information regarding "subsidies, grants, paid positions and other economic advantages of any kind" (hereinafter, in the interest of brevity, "government grants") received from the government and other entities listed in Art. 1, paragraph 125 of the said Law. Failure to comply with this publication obligation entails the return of the sums received from the grantor.

In order to avoid the accumulation of irrelevant information, the publication obligation does not apply when the amount of the government grants is below the threshold of €10,000.

Despite the clarification provided by the Council of State in its opinion no. 1149 of 1 June 2018, the law in question raises some doubts as to interpretation and application, with particular regard to the scope of its application, for which reference has also been made to guidelines issued by the trade associations (Assonime).

In particular, in view of the criteria that inspire the law and the established guidelines, the disclosure obligations are not believed to extend to the following cases:

- ✓ consideration for services rendered by the enterprise within the framework of the provision of professional or other services or goods, or other activities constituting the enterprise's core business. In fact, such amounts are not related to public grants or support policies;
- ✓ tax relief available to all enterprises that meet certain conditions, on the basis of predetermined general criteria, which are also subject to specific declarations;
- ✓ the granting of loans with special terms to the enterprise's customers, since this involves the disbursement of third-party funds (e.g., grants towards the payment of interest by the government) and not the own resources of the bank, which acts as intermediary.

In addition, it should be noted that the National Register of Government Aid has been available from the Directorate General for Business Incentives of Italy's Ministry of Economic Development since August 2017. State aid and de minimis aid for all enterprises must be published in this Register by the entities that grant or manage the aid money in question. For the individual aid received by the Bank, see the section "Transparency of the Register", access to which is publicly available.

In consideration of the above, and in accordance with Art. 1, paragraph 125, of Law No. 124 of 4 August 2017, the following is an account of the amounts collected by the Bank during 2018 by way of "subsidies, grants, paid positions and other economic advantages of any kind".

(in euro)

Tipologia di contributi	Autorità concedente	Importi incassati nell'esercizio 2018
Aiuti alla formazione del personale (*)	FBA (Fondo Banche e Assicurazioni)	208.341
Sgravi contributivi	INPS	18.728
	Totale	**227.069**

(*) This refers to aid for training applied for in previous years and paid in 2018. It should be noted that the grants listed in the National Register refer to grants with a grant date in or after October 2017, for which no disbursements were made in 2018.

It should also be noted that in accordance with the provisions of the law in question, the above table does not include economic advantages below the threshold of €10,000; this threshold is to be understood to refer to the total advantages received by the Bank from the same authority in 2018, regardless of whether the benefit was paid in a single act or a series of acts.

Shareholders and share performance: historical information

FINANCIAL YEAR	YEAR	BALANCE AT END OF YEAR						INCOME ALLOCATED TO THE SHAREHOLDERS	SHARES		
		SHAREHOLDERS	SHARES	SHARE CAPITAL AND RESERVES			NET INCOME		DIVIDENDS	NOMINAL VALUE	PRICE
				SHARE CAPITAL	RESERVES	TOTAL					
1	1887	216	1,357	33,925	110	34,035	1,276	-	-	25	-
5	1891	468	1,607	40,175	2,451	42,626	4,734	2,410	1.50	25	-
10	1896	798	1,936	48,400	19,456	67,856	6,131	2,904	1.50	25	-
15	1901	767	1,995	49,875	36,631	86,506	11,717	3,990	2.00	25	-
20	1906	649	5,347	133,675	16,209	149,884	14,330	6,683	1.25	25	-
25	1911	623	5,434	135,850	69,771	205,621	29,391	10,868	2.00	25	-
30	1916	606	5,458	136,450	96,491	232,941	20,669	9,551	1.75	25	-
35	1921	116	6,440	161,000	197,162	358,162	166,236	19,320	3.00	25	-
40	1926	190	6,753	338	267,251	604,901	82,155	20,259	3.00	50	-
45	1931	1,095	6,755	337,750	1,500,472	1,838,472	85,117	47,285	7.00	50	-
50	1936	1,022	6,755	337,750	1,310,436	1,648,186	60,626	33,775	5.00	50	-
55	1941	985	6,755	337,750	1,332,931	1,670,681	75,230	35,463	5.25	50	-
60	1946	1,008	6,755	337,750	1,711,204	2,048,954	76,164	40,530	6.00	50	-
65	1951	564	4,084	2,042,000	5,564,395	7,606,395	562,026	408,400	100.00	500	1,500
70	1956	685	17,991	8,995,500	27,481,784	36,477,284	4,179,478	2,518,740	140.00	500	2,000
75	1961	766	28,862	14,313,000	50,948,418	65,261,418	6,162,724	4,580,160	160.00	500	2,500
80	1966	811	52,210	26,105,000	109,282,367	135,387,367	11,034,445	8,353,600	160.00	500	3,000
85	1971	1,099	191,737	95,869,500	471,327,686	567,196,186	45,537,000	34,512,660	180.00	500	3,500
86	1972	1,141	26,875	108,437,500	552,843,506	661,281,006	53,674,995	40,831,000	190.00	500	3,500
87	1973	1,349	269,556	134,778,000	731,735,552	866,513,552	73,791,120	56,606,760	210.00	500	3,500
88	1974	1,415	394,255	197,127,500	1,176,987,612	1,374,115,112	132,757,890	102,506,300	260.00	500	4,000
89	1975	1,426	405,366	202,683,000	1,162,047,211	1,364,730,211	182,552,600	113,502,480	280.00	500	5,000
90	1976	1,373	471,195	235,597,500	1,754,649,114	1,990,247,114	257,662,700	169,630,200	360.00	500	6,000
91	1977	1,436	534,846	267,423,000	2,452,631,055	2,720,054,055	348,185,700	224,635,320	420.00	500	7,000
92	1978	1,477	594,676	297,338,000	3,004,937,110	3,302,275,110	445,773,800	303,284,760	510.00	500	8,500
93	1979	1,636	747,084	373,542,000	4,905,540,410	5,279,082,410	785,347,580	537,900,480	720.00	500	12,000
94	1980	1,990	1,028,417	514,208,500	9,061,346,120	9,575,554,620	1,355,743,850	863,870,280	840.00	500	14,000
95	1981	2,174	1,027,102	513,551,000	9,386,487,005	9,900,038,005	1,898,540,250	1,109,270,160	1,080.00	500	18,000
96	1982	2,427	2,065,656	1,032,828,000	16,846,160,124	17,878,988,124	2,885,151,000	1,735,151,040	840.00	500	14,000
97	1983	2,570	2,072,454	1,036,227,000	17,672,620,254	18,708,847,254	3,302,500,000	1,958,469,030	945.00	500	15,750
98	1984	2,674	2,062,142	1,031,071,000	18,379,150,754	19,410,221,754	3,807,750,000	2,165,249,100	1,050.00	500	17,500
99	1985	2,828	5,182,775	2,591,387,500	27,581,878,254	30,173,265,754	4,130,537,500	2,720,956,875	525.00	500	8,750
100	1986	3,137	5,186,519	2,593,259,500	28,567,413,919	31,160,673,419	6,018,402,100	3,215,641,780	620.00	500	9,500
101	1987	3,660	5,391,402	2,695,701,000	33,036,039,552	35,731,740,552	6,050,859,000	3,180,927,180	590.00	500	10,150
102	1988	4,242	5,742,967	2,871,483,500	39,272,308,522	42,143,792,022	6,890,919,945	3,618,069,210	630.00	500	10,850
103	1989	4,767	6,078,404	3,039,202,000	45,975,098,284	49,014,300,284	7,900,114,293	4,133,314,720	680.00	500	11,500
104	1990	5,290	6,420,059	3,210,029,500	53,490,059,950	56,700,089,450	8,700,000,000	4,686,643,070	730.00	500	12,200
105	1991	5,777	7,069,673	3,534,836,500	70,169,883,285	73,704,719,785	9,400,000,000	5,443,648,210	770.00	500	12,900
106	1992	5,870	7,245,997	3,622,998,500	75,999,169,935	79,622,168,435	6,700,000,000	5,579,417,690	770.00	500	13,500
Amounts in thousands of Lire											
107	1993	6,295	4,972,532	24,863	79,484	104,347	7,150	5,967	1,200	5,000	25,200
108	1994	6,880	5,493,731	27,469	91,586	119,054	6,300	4,944	900	5,000	26,000
109	1995	6,928	5,550,567	27,753	95,428	123,181	8,500	5,828	1,050	5,000	26,500
110	1996	6,896	5,619,808	28,099	101,450	129,549	9,000	6,463	1,150	5,000	27,500
111	1997	6,925	5,658,775	28,294	106,750	135,044	9,050	5,659	1,000	5,000	28,250
112	1998	7,274	5,792,802	28,964	116,158	145,122	12,050	6,951	1,200	5,000	29,000
113	1999	7,228	5,792,802	28,964	110,307	139,271	27,090	110,063	19,000	5,000	30,500
114	2000	7,167	5,792,802	28,964	28,814	57,778	16,900	5,793	1,000	5,000	30,500
115	2001	8,653	6,362,711	36,960	51,744	88,704	7,670	6,160	968	5,809	35,008
Amounts in thousands of Euro											
116	2002	9,257	8,284,320	24,853	62,815	87,668	5,200	4,275	0.516	3.00	18.50
117	2003	9,357	8,331,320	24,994	65,162	90,156	5,930	4,299	0.516	3.00	18.75
118	2004	9,277	8,331,320	24,994	67,316	92,310	6,825	4,582	0.550	3.00	19.25
119	2005	9,748	9,400,000	28,200	93,366	121,566	12,127	5,170	0.700	3.00	20.00
First time adoption of the new international accounting standards IAS-IFRS											
120	2006	9,766	11,750,000	35,250	120,525	155,775	7,448	5,758	0.600	3.00	20.25
121	2007	10,223	14,934,824	44,804	182,336	227,140	9,650	7,972	0.600	3.00	21.75
122	2008	10,070	14,934,824	44,804	183,846	228,650	11,640	8,961	0.600	3.00	23.00
123	2009	10,574	15,484,145	46,452	197,608	244,060	10,500	6,968	0.450	3.00	23.50
124	2010	11,719	16,634,078	49,902	225,217	275,119	10,100	7,485	0.450	3.00	24.00
125	2011	11,905	16,929,341	50,788	223,549	274,337	11,630	7,618	0.450	3.00	24.50
126	2012	12,309	16,927,763	50,783	244,885	295,668	14,103	5,925	0.350	3.00	24.50
127	2013	12,994	17,022,649	51,068	249,959	301,027	(33,850)	-	-	3.00	24.50
128	2014	14,544	16,971,085	50,913	221,070	271,983	5,803	-	-	3.00	24.50
129	2015	15,250	16,971,085	50,913	238,604	289,517	24,053	5,091	0.300	3.00	19.60
130	2016	15,106	16,971,085	50,913	251,354	302,267	1,233	-	-	3.00	19.60
131	2017	14,916	16,971,085	50,913	249,886	300,799	753	-	-	3.00	15.00
132	2018	14,727	16,971,085	50,913	221,062	271,975	2,043	-	-	3.00	14.00

Statement of property, plant and equipment subject to monetary revaluation

Site	Historical cost	Currency revaluations	Impairments	Carrying amount
ATTIMIS - Via Cividale	224	305	351	178
BUTTRIO - Via Div. Julia	125	871	571	425
CIVIDALE - Piazza Duomo	1734	10,233	5,588	6,378
CIVIDALE - Via Cavour	261	762	483	540
GORIZIA - Corso verdi	914	133	379	668
GRADO - Via Marina	399	89	202	286
MANZANO - Via della Stazione	929	53	347	635
PALMANOVA - Piazza Grande	547	73	252	368
PAVIA DI UDINE - Via Persereano	264	203	197	270
PORDENONE - Corso Garibaldi	717	92	314	495
POVOLETTO - Piazza Libertà	393	623	552	464
PRATA DI PORDENONE - Fraz. Puja - Via Dante	208	10	77	141
REMANZACCO - Piazza P. Diacono	402	1,199	729	872
S. GIOVANNI AL NATISONE - Via L. Da Vinci	486	1,872	1,164	1,194
S. LEONARDO - Via Scrutto	181	218	255	144
S. VITO AL TAGLIAMENTO - Viale del Mattino	635	17	199	453
SACILE - Viale Lacchin	497	66	157	406
SAN GIORGIO DI NOGARO - Via Europa Unita	276	21	98	199
SPILIMBERGO - Corso Roma	320	73	163	230
TAVAGNACCO - Via Udine	1048	360	680	728
UDINE - Piazzale XXIV Luglio	1293	173	601	865
UDINE - Via Marsala	545	9	239	315
CIVIDALE - Corso Mazzini 10/12	858	72	407	523

Fees for services rendered by the independent auditors pursuant to Article 149-duodecies of Consob Regulation No. 11971/1999

Type of service	Fees paid in 2018
Services provided to the Banca Popolare di Cividale Scpa	**205**
Independent auditors: Reconta Ernest & Young	
- Auditing services	202
- Inspection services for the purpose of issuing certification	3
- Other services	-

Reconciliation of the income statement and reclassified income statement

Recalssified income statement	Income Statement	31/12/2018	31/12/2017
Net interest income	30 - Net interest income	60,430	62,839
	90 - Fair value adjustments in hedge accounting	-	-
Total Net interest income		**60,430**	**62,839**
Net commisions	**60 - Net commissions**	**30,022**	**29,016**
Dividends	70 - Dividends and similar income	10,538	818
	220 - Profit (loss) on equity investments		(84)
Total Dividends and net income (loss) of equity investments accounted for using equity method		**10,538**	**733**
Net trading income	80 - Net trading income	564	182
	100 - Profit (loss) on disposal or repurchase of:	**(143)**	**9,984**
	a) financial assets measured at amortised cost	(823)	4,180
	b) financial assets measured at fair value through other comprehensive income	569	5,799
	c) financial liabilities	111	5
	110 - Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	**(1,160)**	**96**
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	(1,160)	96
Total Gains (losses) from purchase/sale of loans and financial assets		**(739)**	**10,262**
Other operating income/expenses (net of recovered expenses)	200 - Other operating income (expenses)	8,040	8,468
	200 (partial) - Other operating income (expenses) - Recovery of indirect taxes	(7,383)	(7,426)
Total Other operating income/expenses (net of recovered expenses)		**657**	**1,043**
Income (loss) from operating		**100,907**	**103,893**
Personnel expenses	160 a) personnel expenses	(41,157)	(41,194)
Other administrative expenses (net of recovered expenses)	160 b) other administrative expenses	(31,081)	(37,212)
	of which: Levies and other charges concerning the banking industry	3,637	3,667
	200 (partial) - Other operating income (expenses) - Recovery of indirect taxes	7,383	7,426
Total other administrative expenses (net of recovered expenses)		**(20,060)**	**(26,119)**
Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)	180 - Net impairment/write-backs on property, plant and equipment	(2,646)	(2,322)
	190 - Net impairment/write-backs on intangible assets	(58)	(48)
Total Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)		**(2,705)**	**(2,370)**
OPERATING COST		**(63,922)**	**(69,683)**
INCOME (LOSS) FROM OPERATING		**36,985**	**34,210**
Charges/write-backs on impairment of loans	130 - Charges/write-backs on impairment of loans	**(24,036)**	**(23,521)**
a) measured at amortised cost	a) measured at amortised cost	(24,036)	(23,521)
Charges/write-backs on impairment of other financial assets	130 - Charges/write-backs on impairment of other financial assets	**(1,030)**	**(2,572)**
a) measured at amortised cost	a) measured at amortised cost	(1,019)	
b) measured at fair value through other comprehensive income	b) measured at fair value through other comprehensive income	(11)	(2,572)
Goodwill impairment	240 - Goodwill impairment	**(2,190)**	**(1,606)**
Profit (loss) on equity investments	220 - Profit (loss) on equity investments	**67**	-
Net provisions for risks and charges	170 - Net provisions for risks and charges	**(5,653)**	**141**
	a) commitments and guarantees given	(21)	783
	b) other net provisions	(5,632)	(642)
Income (loss) before tax from continuing operations		**4,144**	**6,652**
Tax on income from continuing operations	270 - Tax on income from continuing operations	**1,537**	**(2,232)**
	of which: taxes on levies and other charges concerning the banking industry	(1,169)	(476)
Levies and other charges concerning the banking industry after tax	160 b) other administrative expenses - Charges concerning the banking industry	(3,637)	(3,667)
	of which: taxes on levies and other charges concerning the banking industry	1,169	476
Net income		**2,043**	**753**

Reconciliation of the balance sheet and reclassified balance sheet

RECLASSIFIED BALANCE SHEET - Assets	Balance sheet - Assets	31/12/2018	31/12/2017
Cash and cash equivalents	10 - Cash and cash equivalents	**29,747**	**23,944**
Financial assets measured at fair value through profit or loss	20 - Financial assets measured at fair value through profit or loss	**29,710**	**36,577**
	a) financial assets held for trading	300	4,980
	b) financial assets designated at fair value	-	-
	c) other financial assets mandatorily measured at fair value	29,410	31,597
Financial assets measured at fair value through other comprehensive income	30 - Financial assets measured at fair value through other comprehensive income	**318,469**	**353,549**
Financial assets measured at amortised cost	40 - Financial assets measured at amortised cost	**3,290,966**	**3,269,003**
a) Due from banks	a) due from banks	75,226	77,732
b) Loans to customers	b) loans to customers	3,215,740	3,191,271
Investments in associates and companies subject to joint	Equity investments	**3,769**	**3,780**
Property, plant and equipment and intangible assets		**76,612**	**81,531**
	80 - Property and equipment	76,459	79,218
	80 - Intangible assets	153	2,314
Other assets		**130,122**	**135,544**
	100 - Tax assets	74,706	73,564
	120 - Other assets	55,416	61,981
Total assets		**3,879,397**	**3,903,929**

RECLASSIFIED BALANCE SHEET - Liabilities	Balance sheet - Liabilities and shareholders' equity	31/12/2018	31/12/2017
Financial liabilities measured at amortised cost	10 - Financial liabilities measured at amortised cost	**3,507,783**	**3,528,117**
a) Due to banks	a) Due to banks	672,401	674,119
b) Due to customers	b) Due to customers	2,765,600	2,709,002
c) Securities issued	c) Securities issued	69,782	144,996
Financial liabilities held for trading	20 - Financial liabilities held for trading	**168**	**765**
Other liabilities		**84,836**	**66,099**
	60 - Tax liabilities	3,544	5,148
	a) current	2,286	1,590
	b) deferred	1,259	3,559
	80 - Other liabilities	81,292	60,950
Specific provisions		**12,591**	**7,395**
	90 - Employee termination benefits	4,794	5,073
	100 - Provisions for risk and charges:	7,797	2,322
	a) commitments and guarantees given	1,381	632
	c) other provisions for risks and charges	6,416	1,690
Shareholders' equity		**222,322**	**250,678**
	100 - Valuation reserves	9,496	15,438
	140 - Reserves	45,805	68,219
	150 - Share premiums	167,022	167,022
	160 - Share capital	50,913	50,913
	170 - Treasury shares (-)	(1,260)	(792)
	180 - Net income (loss) (+/-)	2,043	753
Total liabilities		**3,879,397**	**3,903,929**

Country-by-country reporting
In accordance with Circular No. 285 of 17 December 2013 (Supervisory Provisions for Banks), fourth update of 17 June 2014, Banca di Cividale publishes the following information concerning its place of business in Italy:

a) Name of the local company and nature of its business

Name:
Banca di Cividale S.c.p.A., with office in Cividale del Friuli at Via Sen. Guglielmo Pelizzo n. 8/1, tax code and Udine Companies Register no. 0249360306, registration in the Bank of Italy register no. 5758.8.0, Register of Banking Groups no. 05484.1

Nature of its business:
Financial intermediation (financial services for businesses, trading and sale, retail intermediation, commercial banking services, retail banking services, payment and settlement, fiduciary management, asset management and leasing)
The Bank's customers traditionally consist of families, craftsmen, professionals and small and medium enterprises.

Amounts as at 31/12/2018	
b) Sales (1)	100,261
c) Number of full-time equivalents (2)	581
d) Profit or loss before taxes (3)	506
e) Income taxes (4)	1,537
f) Public grants received (5)	7

(1) "Sales" are defined as operating revenues (item 120 of the consolidated income statement) (cf. Circular 262).
(2) "Number of full-time equivalents" is determined as the total hours worked overall by all employees, excluding overtime, divided by the total annual number of hours to be worked by a full-time employee by contract.
(3) "Profit or loss before taxes" refers to item 260 of the income statement, pursuant to Circular 262;
(4) "Income taxes" are defined as the sum of the taxes presented in item 270 of the income statement, pursuant to Circular 262;
(5) The item "Public grants received" must include grants received directly from public administrations. This item does not include transactions undertaken by central banks for financial stability purposes or transactions with the aim of facilitating the monetary policy transmission mechanism. Similarly, any transactions part of government aid schemes approved by the European Commission are not to be taken into consideration;

CiviBank

Sede Sociale e Direzione Generale
Cividale del Friuli

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