Factorit

GRUPPO Banca Popolare di Sondrio

Factorit

DIRECTORS' REPORT AND FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

GRUPPO Banca Popolare di Sondrio

Directors' report and Financial Statements as at and for the year ended 31 december 2018

Factorit
GRUPPO Banca Popolare di Sondrio

Factorit S.p.A.

Registered office, general management and head office
Via Cino del Duca, 12 – 20122 Milano
Telephone (02) 58150.1 – Fax (02) 58150.205
Web: www.factorit.it – E-mail: info@factorit.it

Member of **Banca Popolare di Sondrio Group**
Included in the Banking Group Register as no. 5696.0

Tax code, VAT no. and Milan company registration no. 04797080969
Registered in the General List of Financial Intermediaries as
per ex article 106 of TUB with No. 52

Share capital € 85,000,002

Member of Assifact – Italian Association of Factoring companies

FCI Member of FCI – Factors Chain International

GOVERNING AND CONTROL BODIES

Board of Directors

Chairman	Roberto Ruozi
Vice Chairman	Mario Alberto Pedranzini
Managing Director	Antonio De Martini
Directors	Fabio Bertarelli
	Massimo Bordoni
	Nicolò Melzi di Cusano
	Lino Enrico Stoppani

Board of statutory auditors

Chairman	Luca Zoani
Standing statutory	Pio Bersani
Auditors	Daniele Morelli
Alternate Statutory	Luigi Gianola
Auditors	Massimo De Buglio

Independent auditors

EY S.p.A.

SHAREHOLDERS

Banca Popolare di Sondrio S.c.p.a.	60,5%
Banco BPM S.p.A.	39,5%

BRANCHES

Milano
Via Cino del Duca, 12 – 20122 Milano
Tel. 02 581501 – Fax 02 58150205

Torino
Via XX settembre, 37 – 10121 Torino
Tel. 011 0587284 – Fax 011 0587285

Padova
Vicolo Ponte Molino, 4 – 35137 Padova
Tel. 049 663370 – Fax 049 652827

Bologna
Via Riva di Reno, 58 – 40122 Bologna
Tel. 051 6443751 – Fax. 051 6443761

Roma
Viale Cesare Pavese, 336 – 00144 Roma
Tel. 06 94359720 – Fax 06 94359735

DIRECTORS' REPORT

Dear Shareholders,

The 2018 financial statements was the fortieth year of operations of your company, recorded a profit of 7,853,504 Euro.

Your Company has tried to seize all the financial year 2018 opportunities that the factoring market has offered in a climate characterized by increasing competitiveness in compliance with a strict credit policy and socially responsible behavior.

THE INTERNATIONAL SITUATION

During the year 2018, the confident prospects for the international economy that emerged at the end of 2017 have not been fully realized, but perhaps, if the downward forecasts for the current year will occur, we will regret it as a period still positive for world trade and production systems. What is certain is that many factors have contributed to progressively slowing down the economic dynamism and weakening the fundamental solidity that 2017 has given us as a legacy. Without wishing to list them all, let us remember the uncertainties and tensions arising from the return to protectionist policies to the detriment of the freedom of international trade; the tightening of financial conditions in emerging countries, also in relation to the progressively less expansive US monetary policy; the difficulties of the Chinese giant in regulating increasingly complex financial and economic dynamics in order to avoid the unknown factor represented by the slowdown in development dynamics. All without forgetting the many areas of geopolitical tension scattered around the globe, where only apparently dormant conflicts could reignite.

In a complex scenario, the European Union, still grappling with the increasingly thorny Brexit problem, has shown a slowdown in development, which finds its reason in the decline in revolutions of its first engine, that Germany which in the third quarter of the year it has even suffered a 0.2% reduction in GDP, as it happens to be connected to the car sector. It can be said that the same basic reasons of the Union will be the subject of an important verification in the forthcoming elections of the Parliament.

As anticipated, the world economy experienced a certain slowdown during 2018, which was confirmed by the marked reduction in share prices and the decline in long-term rates in the main advanced economies. The expectations of a more gradual increase in interest rates by the FED have particularly affected the latter.

Oil prices experienced a sharp contraction in the last few months of the year, which also affected the general level of inflation, which was equal to 1.6% in the euro area. Because of this, the European Central Bank, while putting an end to the financial asset purchase program, reiterated the importance of a broad monetary stimulus in support of price dynamics over the medium term.

On the other side of the Atlantic, the FED closed the year with a rise, decided on December 19, of 25 basis points, but, as mentioned, the prospects are for a more gradual growth path in 2019.

Turning to the main players on the world scene, in the United States the growth of the Gross Domestic Product remained robust, standing at 2.9%, while inflation remained below 2%. The management of relations with the other protagonists of the global economy have been dominated by the theme of restrictive measures on trade.

For its part, China has experienced a slowdown in GDP growth, which stood at around 6.6%, a level which is very high for us, but which, according to some, comes dangerously close to the stall speed for the Asian giant.

Among the other emerging countries, India stands out, with a leap forward estimated at 7.5%, while in Brazil the economic situation has remained fragile. Russia recorded an increase of around 1.5%, in line with the previous year. The balance of the Japanese economy is close to 1%. Despite the serious unknowns about its future, the United Kingdom has nevertheless made progress of 1.3%, a slowdown compared to 1.7% in 2017.

The euro area, which in the fourth quarter achieved GDP growth close to 1.2% compared to 1.6% in the previous quarter, was affected by the substantial stagnation of exports. After all, this was the element on which German growth, which led to the growth of other partners, has been pivoting over the last decade. The weakening of the demand recorded in some important markets and the problems deriving from the protectionist measures implemented or threatened have had inevitable repercussions. Despite this, German GDP nevertheless recorded an increase of around 0.9%. Among the other main countries, there are France at 1%, Italy at 0.1%.

In 2018 the economy of the Swiss Confederation achieved a GDP growth of 2.5%. A very significant result, which benefited from the very sustained dynamics of the first half of the year, while in the second part there was a certain weakening of the economic situation. The manufacturing industry has confirmed itself as the main driver of growth, thanks to the strong demand for Swiss industrial goods at an international level, which has boosted trade abroad. Domestic demand is less dynamic, where private consumption has been slowed by the slow development of real purchasing power.

ITALY

The unexpectedly negative figure, above all in tendential terms (-2.6%), shown by the industrial production of last November, triggered downward revisions on the prospects for economic growth of our country. This could configure a physiological cyclical slowdown. However, it is premature to exclude a more serious recessionary tendency, which in the technical connotation is already decreed by a new quarterly decline in GDP (-0.2%, which limits the annual increase to 0.8%) after that of the third quarter (-0, 1%).

The pace of private consumption was halved to + 0.7%, while domestic demand was still invigorated by investments. Regarding the January-October period, the balance of trade with foreign countries remained positive, albeit down to 32 billion from almost 38 in the same period of the previous year.

As for unemployment, in the third part of 2018 the general index and the youth index returned to below 10% and 30% respectively. For the fourth part of the year, the estimate is 10.7% and 33.6%.

Inflation should have kept the starting level (1.2%) at the end of the year, but with a widened gap compared to the European figure of 1.6%.

The main public finance indicators showed an improvement compared to the 2017 values: in relation to the Product, net debt would have fallen from 2.4% to 1.9%, the debt not moving too far away from 131.2%.

The maneuver for 2019 has been the subject of fatiguing negotiations which, leading finally to lower the programmatic deficit from 2.4% to 2.04%, have allowed to avoid a European infringement procedure, moreover focused on the rule concerning the debt.

Although contextually reduced by half a point, the assumption of a GDP growth in the order of 1% still appears optimistic, also considering the composition of the maneuver.

FACTORING, THE DOMESTIC MARKET

With an increase in receivables of 8.3% in the previous year, the Italian factoring market almost doubled during the last decade.

Existing receivables and the total of advances disbursed are also on the rise: the trend of both is around + 8.5%.

Table 1. Performance of the Italian factoring sector (source Assifact)

	2015	2016	2017	2018
Turnover	184,796,669	202,402,830	221,597,438	240,038,627
Outstanding	57,493,137	61,009,983	62,343,204	67,688,862
Advances	45,838,518	49,703,046	50,400,409	54,698,096
Advances/Outstanding	*79,7%*	*81,5%*	*80,8%*	*80,8%*

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Based on the information provided by Assifact at December 31, 2018, 56.7% of the factoring companies in Italy consisted of financial intermediaries pursuant to art. 106 “albo unico” (generating 58.5% of turnover), banks account for 26.7% of operators (35.6% of turnover) and the other intermediaries are 16.6% (5.9% of turnover).

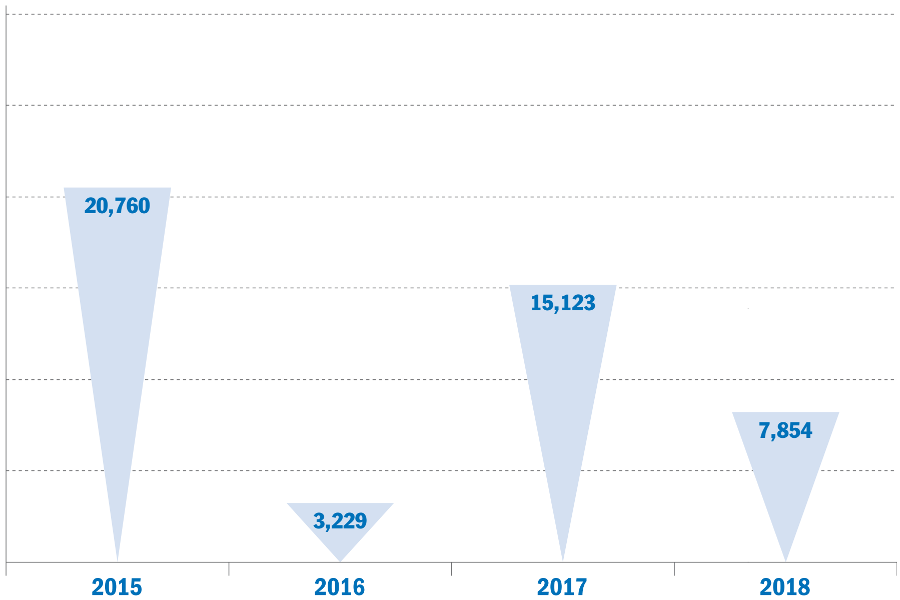
The volume of loans and receivables of the leading 5 operators (all belonging to banking groups), among which there is also Factorit (4th), is equivalent to 72.0% of the market’s total turnover.

COMPANY PERFORMANCE

Results

The company made a profit of Euro 7,9 million, after having recognized impairment losses for credit risk on financial assets measured at amortised cost for Euro 18,7 million. The write-backs were Euro 8,6 million. Therefore, the caption related to net impairment losses for credit risk equals Euro 10,1 million. Moreover, value adjustments on commitments and guarantees given for Euro 1 million, have been accounted for.

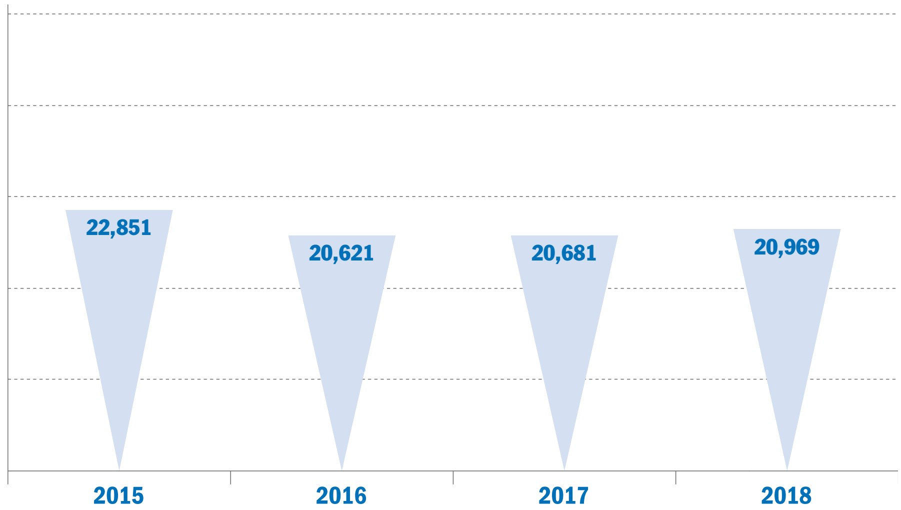
Graph 1. Profit for the year ('000)



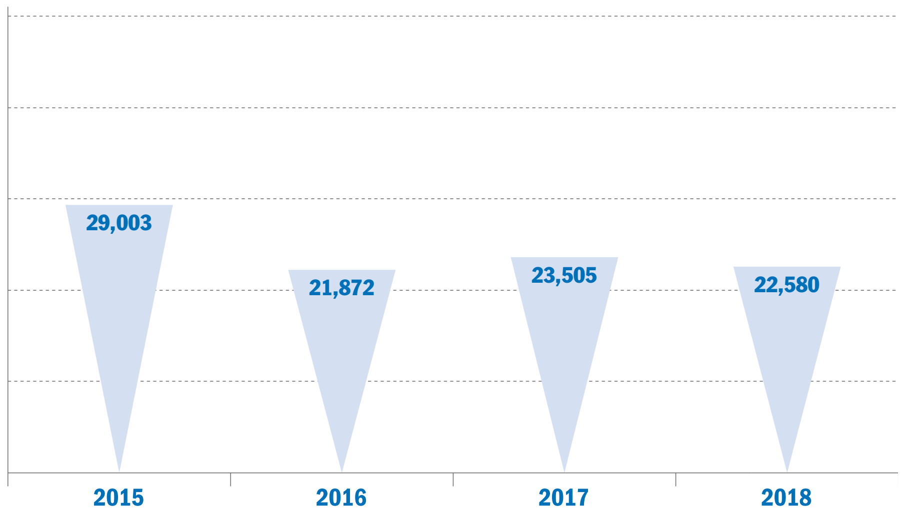
The activity generated a Total Income of 43.6 million euros, of which 22.6 million from financial income and 21 million from commissions, recording a decrease of approximately 1.4%.

Revenues from commissions for credit assignments are accounted for based on the duration of the assigned receivables. The commissions received on a periodic and postponed basis are, however, recognized on a cash basis at the time of the debit, coinciding with the relative period jurisdiction.

Graph 2. Fee and commission income ('000)



Graph 3. Net interest income ('000)



To allow a clearer and more immediate vision regarding the trend of the Company, the following table shows the results and some indicators of the year and comparison to the previous year.

Table 2. Reclassified income statement

	2017	2018
Net fee and commission income	20,681	20,969
Net interest income	23,505	22,580
Net trading income	7	6
Total income	**44,193**	**43,555**
Total net cost of risks	**-324**	**-11,725**
Total net operating expenses	**-21,452**	**-20,005**
Operating	**22,417**	**11,825**

('000)

	2017	2018
Cost/Income	48,5%	45,9%
Roe	7,1%	3,5%
Net interest income/Total income	53,2%	51,8%
Revenue from services/Total income	46,8%	48,1%

Key events of the year

During its meetings in the year, the Board of Directors has consistently analyzed and evaluated the reports provided by the Corporate Governance concerning: the Company's business performance, the exposure of large sellers and large debtors, risk positions (classified between non-performing and / or unlikely to pay loans) and the consistency provisions made against them, as well as loans impairment. Quarterly, the Board of Directors has also examined the company's financial situation as well as the documentation relating to the composition of the existing portfolio (ageing, exposures over 25 million euros, etc.), the resolutions adopted on the Trusts and litigations, own funds, liquidity risk and equity investments held in non-financial companies (associations participating in initiatives in the field of business in the cinematographic sector).

During the year, the Board of Directors also adopted, in accordance with the regulations issued by the Parent, appropriate internal rules for the proper and efficient management of the company. In accordance with the forecasts of the 15th updating of the Bank of Italy circular no. 263 of 27 December 2006, the reports prepared by the Board of Directors (Compliance, Internal Audit, Risk Management) have also been brought to the attention of the Board, in addition to the Report of the Anti-Money Laundering Policy prepared pursuant to the Bank of Italy measure of 10 March 2011, art. 7.2, D. Lgs. n. 231/2007.

More specifically:

the Board of Directors of 7 March 2018, among other resolutions, approved the draft financial statements for the year ended 31 December 2017, which closed with a net profit of 15.1 million euros, and proposed the allocation of profits.

The Ordinary Shareholders' Meeting was also convened for 13 April 2018 and the 2018 Budget was approved, approved based on the new accounting standards.

On 13 April 2018, at the headquarters of the Parent company Banca Popolare di Sondrio (Piazza Garibaldi 16, Sondrio), the Ordinary Shareholders' Meeting met, which dealt with, among others, the following items on the agenda:

- presentation of the 2017 financial statements;
- appointment of a director for the residual three-year period 2016-2018;
- adoption of the "Remuneration Policies of the Banca Popolare di Sondrio Group" and information on their implementation in 2017.
- appointment of one standing auditor and one alternate auditor for the residual three-year period 2016-2018.

At the end of the meeting, the Board of Directors met. Among other topics, it noted that the Company, in agreement with the Parent Company, proceeded to apply the transitional provisions of the Bank of Italy regarding IFRS 9.

On 8 May 2018, the alternate auditor, Dott. Mario Vitali has died. The Board of Directors of May 9, 2018, among other resolutions, has verified the existence of the requisites required for the office of Director Massimo Bordoni, appointed to replace Ambrogio Pizzamiglio, who resigned, of the standing auditor Daniele Morelli, appointed to replace the resigning Donatella Depperu and the alternate auditor Luigi Gianola, appointed to replace the outgoing Daniele Morelli, for the remainder of the 2016-2018 three-year period, pursuant to Ministerial Decree no. 516 of 30/12/1998 and of the art. 2389 C.C. and domicile election.

He acknowledged the adaptation of the Company to the new GDPR (General Data Protection Regulation) regulation, concerning the treatment and protection of personal data, and approved the outsourcing of the DPO (Data Protection Officer).

It also approved the balance sheet and income statement at March 31, 2018.

The Board of Directors of August 6, 2018 approved the economic and financial situation at June 30, 2018.

On October 29, 2018, the Board of Directors approved the economic and financial situation at September 30, 2018.

It also took note of the further strengthening of the Lombardy Region's commercial development, through the inclusion of a new company figure, in the role of manager, responsible for the newly established Commercial Area, called the "Corporate Area".

Finally, it is recalled that, during the year, the Company sent several communications to the Bank of Italy, among which the most significant were:

- 07/05/2018 - “Application of the transitional provisions on IFRS9 to financial intermediaries, ex. Article 106 of the Consolidated Law on Banking: concerning the adhesion of the Company to the transitional regulation in the so-called "complete" form, in compliance with the provisions of the Parent company, Banca Popolare di Sondrio.
- 11/05/2018 - “Transmission of the authentic extract of the report of the Board of Directors of 09/05/2018 ": regarding the result of the verification of the requirements of the new Director Massimo Bordoni, of the new Statutory Auditor Daniele Morelli and of the new Alternate Auditor Luigi Gianola, pursuant to Ministerial Decree no. 516/1988 and of the Art. 2389 of the Civil Code, the simultaneous election of domicile, as well as the assessments made against them, which determined the absence of situations of incompatibility for their appointment, referred to the "prohibition of interlocking", Art. 36, Law 214/2011.

Commercial performance

Loans and Receivables assigned during the period amounted to 13,787 million, an increase of 4,1% compared to 2017 (13,245 million.

Loans and receivables assigned without recourse, when payment is guaranteed, amounted to 64,7% of total turnover, while those assigned with recourse were the about 35,3%.

Active customers numbered were 1,414 at 31 December 2018, up 5,3% on the previous year end.

Table 3. Operating figures

	2017	2018	Variation
Turnover	**13,244,604**	**13,787,038**	**4,1%**
Including: without recourse	8,396,997	8,922,876	6,3%
Including: with recourse	4,847,607	4,864,162	0,3%
Net fee and commission income (%)	**0,16**	**0,15**	**-**
Advances (stock) at 31/12	**2,406,612**	**2,364,628**	**-1,7%**
Outstanding	**3,062,815**	**2,966,721**	**-3,1%**
Including: without recourse	1,777,467	1,864,276	4,9%
Including: with recourse	1,285,348	1,102,445	-14,2%
No. of dossiers processed	**1,518,061**	**1,503,474**	**- 1,0%**

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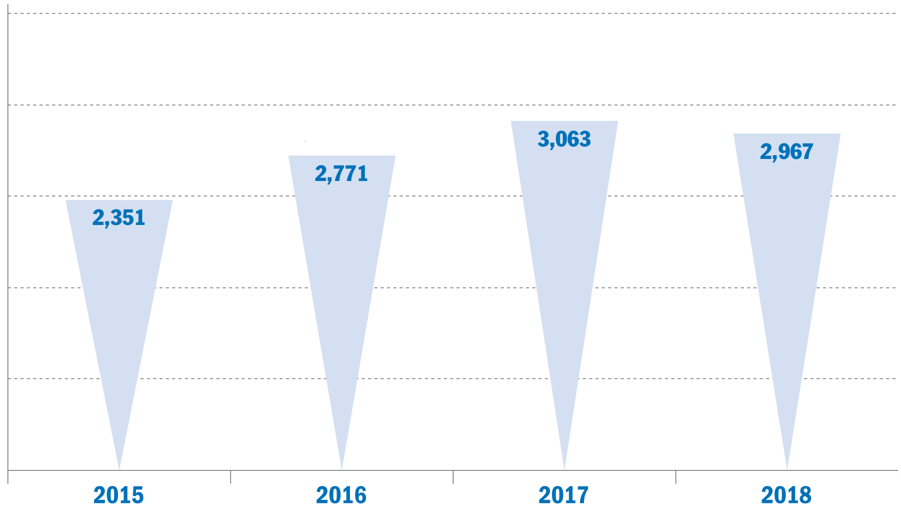
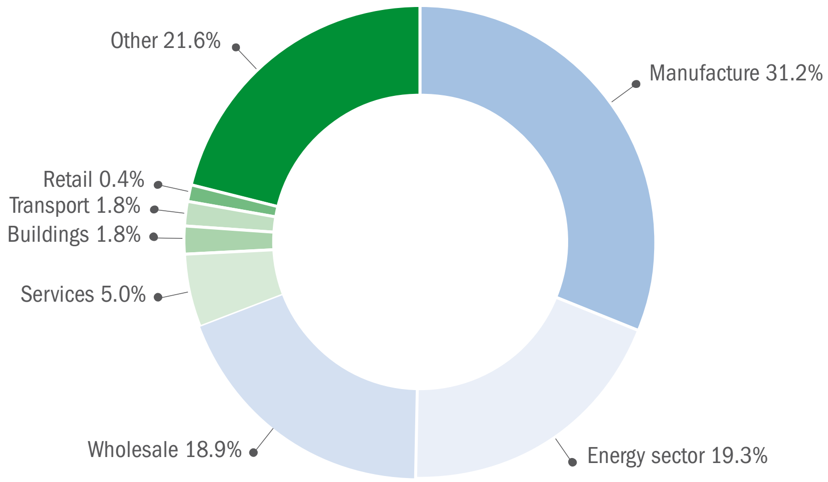
Graph 4. Outstanding Loans and Receivables (m)



The average duration of loans and receivables decreased to 79 days (it was 84 days in 2017). The decrease in the average credit rotation is mainly due to the type of customers in the portfolio and, consequently, to the related payment methods.

The distribution of turnover based on the transferor's product sector shows that most of the volumes are generated by customers belonging to the Manufacturing sector (31.2%), followed by the energy sector (19.3%), wholesale trade (18.9%), Services (5.0%), Construction (1.8%), Transportation (1.8%) and Retail (0.4%). The "Other" class covers the remaining 21.6%.

Graph 5. Breakdown of turnover by merchant sector of originator



An analysis of turnover by product shows that traditional factoring accounts for 43% of total volumes. Financing products without notification to the debtor make-up 40% of the total. The maturity factoring represent 15% of the total and guarantee products without notification to the debtor make-up 2% of the total.

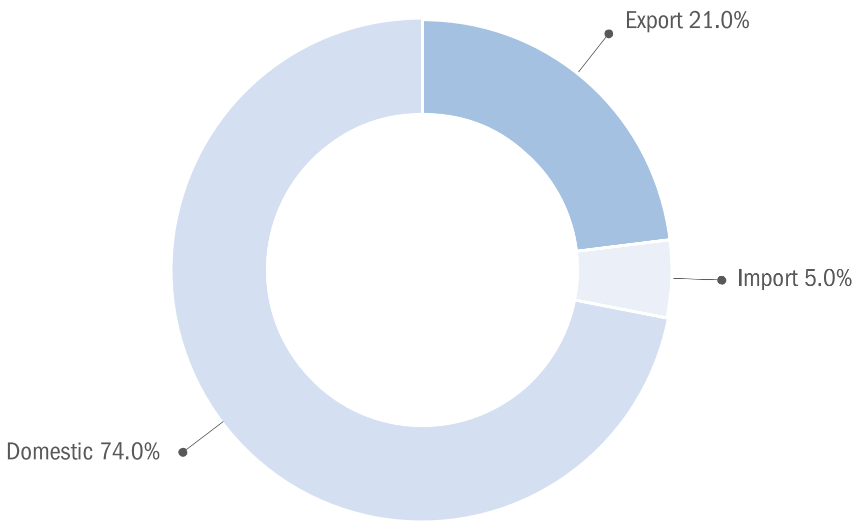
Table 4. Product segmentation (percentage of total)

	2016	2017	2018
Traditional factoring	37,7%	39,9%	43,3%
Financing products without notice	43,7%	43,0%	40,4%
Maturity factoring	16,0%	15,0%	14,5%
Guarantee only without notice	2,6%	2,1%	1,8%
Total	**100,0%**	**100,0%**	**100,0%**

(%)

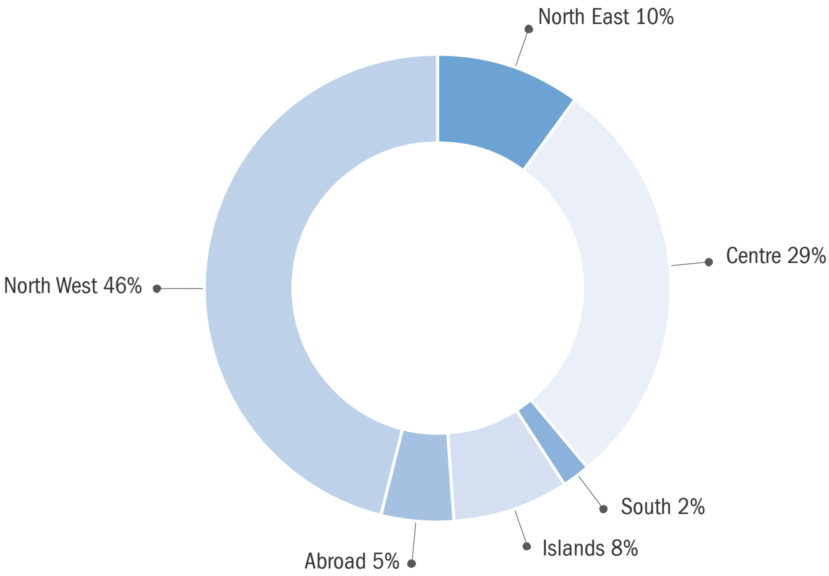
Domestic transactions made up 76% of total loans and receivables factored (turnover of Euro 10,228 million). Export factoring accounted for 19% (Euro 2,940 million) and imports factoring for 5% (Euro 619 million).

Graph 6. Breakdown of turnover by geographical segment



The company mainly works in areas where its shareholder banks have a widespread presence and the direct commercial activity is more effective. The amount of credits sold by customers based in Lazio, - which in 2018 became the first region in terms of turnover – make-up 26,0% of the total. Lombardia (24,6%) and Piemonte (19,5%) are among the most significant regions in order of volumes. Turnover contributed by customers based abroad made up 5,4% of the total.

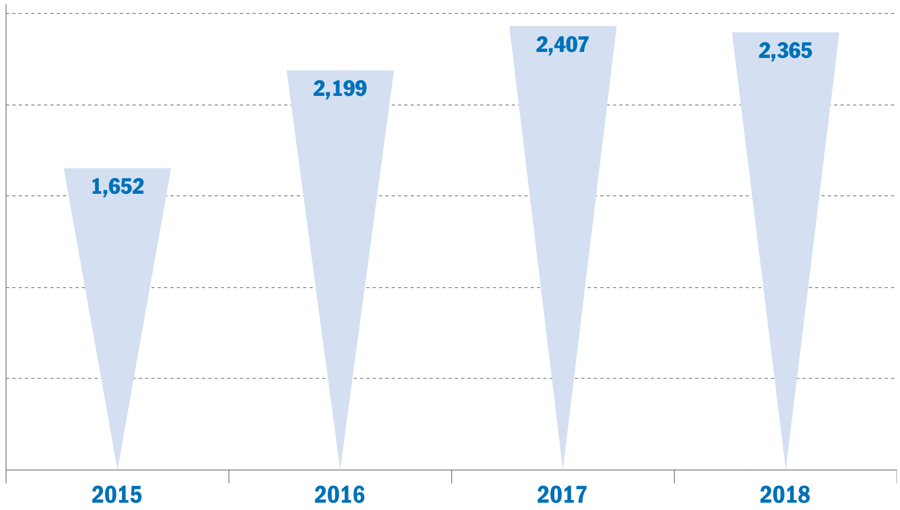
Graph 7. Breakdown of customers by macro-geographical areas



(percentages calculated considering the customers' registered office)

As at 31 December 2018, advances amounted to 2,365 million euros, equal to 79,7% of the outstanding loans and receivables.

Graph 8. Advances (m)



Distribution channels

Assignment by customers referred by shareholders banks amounted to Euro 4,820.4 million, equal to 35,0% of the total loans and receivables assigned, up 5,1% on the previous year.

Considering the banking channel, referred customers contributed to Euro 5,048 million, equal to 36,6% of the total amount of loans and receivables assigned.

Factorit has product distribution agreements with 46 banks.

Customers from the "direct" channel assigned loans and receivables amount to € 8,120.5 million, equal to 58,9% of the total and up 10,3% on the previous year.

The volume of loans and receivables for import factoring transactions, which also derive from the reports of the corresponding FCI (Factors Chain International), amounted to € 618,5 million, with an incidence of 4,5% on total loans sold and a decrease of 7,00 %.

Table 5. Breakdown of turnover by distribution channel

	2017	Weight	2018	Weight	Variation
Banca Popolare di Sondrio	*3,132,611*	*23,6%*	*2,953,359*	*21,5%*	*-5,7%*
Banco BPM	*1,944,507*	*14,7%*	*1,867,010*	*13,5%*	*-4,0%*
Total Shareholder banks	*5,077,118*	*38,3%*	*4,820,369*	*35,0%*	*-5,1%*
Total BANKS	**5,218,702**	**39,4%**	**5,048,000**	**36,6%**	**-3,3%**
Total IMPORT	**665,218**	**5,0%**	**618,550**	**4,5%**	**-7,0%**
Total DIRECT	**7,360,684**	**55,6%**	**8,120,488**	**58,9%**	**10,3%**
Total	**13,244,604**	**100,0%**	**13,787,038**	**100,0%**	**4,1%**

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Changes to regulatory framework

The company makes use of the support of the Compliance Unit (outsourced) within its scope of monitoring the risks of non-compliance with the rules, identifies changes in the regulations due to measures introduced by the legislator and the supervisory bodies which fall within its scope of competence and that would affect the company's operations, as well as to evaluate the adequacy of the procedures adopted by the same.

Particularly important, during 2018, the activities of adaptation to the EU Regulation 679/2016 (GDPR) and of the Privacy Code (Legislative Decree 196/2003, as amended by Legislative Decree 101/2018) were taken, even though the processing of personal data by the Company does not represent a significant phenomenon. The Company has made the necessary changes to its organizational structure and privacy controls, with the appointment of the outsourced DPO Data Protection Officer and the establishment of the Treatments Register, with the consequent identification of the contacts and authorized persons to treatment in different areas. The Company has completed the adaptation of the document system and information to the various types of interested parties. Security measures have been revalued and strengthened. The Company has issued the Regulation on the protection of personal data, as well as a series of related regulations (Information Security Policy, Privacy by Design, Exercise of the Rights of Data Subjects, Data Breach, etc.).

About banking transparency and complaint handling, during 2018 the Compliance Unit carried out positive checks regarding the following matters: pre-contractual advertising and disclosure, contractual documentation, periodic communications, management of customer complaints, organizational requirements and staff training. The analysis was also conducted with the examination of samples of practices, to verify the correctness of the fulfilments carried out by the sales network.

About usury, the Company has updated the internal regulations, subjected to the validation of the Compliance Unit, to incorporate both the regulatory changes and the clarifications issued by the competent Authorities and the associative guidelines. The Compliance Unit has carried out a specific check to ascertain the adequacy of the legislation and the correct application of the same, taking into consideration the process of detecting and updating the TEGM, the treatment of charges and expenses in the calculation of the TEGM, the methods of TEG calculation, advertising, the control system, the presence of training courses.

In 2018 the Company also revised the internal regulations on related party transactions, related parties and conflicts of interest, to implement the updates of the Parent company and to regulate management practices and the respective activities, also with an eye to the implementation of the suggestions of the Compliance Unit.

About Whistleblowing (internal reporting system), based on the guidelines of the parent company, the Company updated the application, accessible to employees / collaborators on the company intranet, to implement the regulatory changes in anti-money laundering and Market Abuse. Therefore, violations occurred in these areas were included in the subject of the report.

The Company has carried out a further study on the FATCA / CRS legislation, because of which the non-liability of the Company was confirmed, in relation to the specific activity performed, to the reporting obligations, neither for FACTA nor for CRS purposes.

The Compliance Unit and the DPO were involved in the project "*Portale Fattura pagata*", with the aim of assessing in advance the impacts in terms of transparency, Bank of Italy Circular 288/2015 and Privacy and the related obligations in terms of compliance with standards.

In agreement with the Parent Company's Risk Management Service, the usual analyzes of reputational risks deriving from non-compliance with the rules were conducted.

The Company has revised the General Corporate Regulations, with the aim of acknowledging the organizational innovations that have taken place.

Lastly, the Company has adjusted the contractual texts and the related forms according to the introduction of the electronic invoicing obligation.

On January 13, 2016, the IASB (International Accounting Standard Board) published the new international accounting standard IFRS 16 - Leases, subsequently incorporated into the EU legislation with EU Regulation 2017/1986 of 31 October 2017. This principle is intended to replace from 1 January 2019 IAS 17 accounting standard.

The new standard establishes new rules on the recording, valuation, presentation in the financial statements and additional information on leasing contracts by extending the definition of "Leasing" to all contracts that contain the right to use an asset for a certain period in exchange of a fee (rentals, rentals, rentals, etc.).

The application of the new IFRS 16 principle will determine a new accounting entry model for the Lessee, the entry in the financial statements of an asset for the "right of use (ROU)" of the asset and a financial liability corresponding to the current value of future fees.

During 2018, under the coordination of the Parent Company and with the support of external consultants, the Company started the project activity with the aim of continuing the impact analysis deriving from the introduction of the principle both during the transition (FTA to the date of 1.1.2019) and at regime.

Organizational structure and human resources

During the year the Corporate Commercial Service was created.

Therefore, some additions were made within this structure and the Turin sales staff was strengthened.

Table 6. Average number of employees

	2017	**2018**
Managers	7	7
Junior Managers	75	77
White collar	93	87
Total	**175**	**171**
Including: part-time	*18*	*15*

Eighteen people left the company and another eleven joined, most of whom with fixed contract term. The average number for the year (171) is not weighted, with respect to 15 part-time contracts.

At year end, the company had 170 employees: 96 men and 74 women.

Staff with fixed term contracts was taken on during the year to deal with peaks in the workload and special projects.

All employees were provided with professional training during the year in courses financed by the Banking and Insurance Funds, thus increasing their knowledge of regulatory and technical issues.

Internal training was provided for stress management, managerial training courses were carried out on the management of collaborators and courses aimed at assessing creditworthiness and managing risk were provided.

According to the new state-regions occupational safety directives, the company continued to provide the related training to all new hires and contractors.

Risks

Interest and liquidity risk

Reference should be made to section 3 of the notes - Risks and hedging policies for information on interest rate risks.

The company's liquidity risk is managed by the parent's relevant units, which ensured it received the financial resources necessary to carry out its business.

Credit risk

At December 31, 2018, on balance sheet exposures as Stage 1, gross of impairment, amounted to € 2,207 million, equal to 93.3% of total capital loans. These positions, net of adjustments, amounted to 2,205 million euros, equal to 93.25% of loans, which at December 31, 2018 amounted to 2,365 million euros.

At December 31, 2018, on balance sheet exposures as Stage 2, gross of impairment, amounted to € 119,8 million, equal to 5.1% of total loans in the capital line. These positions, net of impairment, amounted to 119,6 million euros, equal to 5.06% of loans, which at December 31, 2018 amounted to 2,365 million euros.

At December 31, 2018, non-performing on balance sheet exposures, gross of impairment, amounted to 17,1 million euros, equal to 0.73% of total capital loans. These positions, net of impairment, amounted to 0,6 million euros (0,9 million in 2017), equal to 0.03% of loans (0.04% in 2017), which at December 31, 2018 amounted to 2,365 million euros (2,407 million in 2017).

The percentage coverage of non-performing positions amounted to 96.3%.

On balance sheet exposures for the unlikely-o-pay category at December 31, 2018, gross of impairment, amounted to € 38,4 million (€ 14,7 million in 2017) and, net of impairment, amounted to € 19,9 million (7,8 million in 2017).

At December 31, 2018, losses totaled € 1,4 million (€ 22,2 million in 2017). In detail: € 0,7 million in relation to exposures due to assignees; 0,6 million with debtors; 0,1 million for lower value loans and receivables. The amount recorded was completely covered by the specific funds.

Risk concentration and regulatory capital

During 2018, the company continued the activities to ensure it complied with the ceilings set by the current relevant regulations using the applications introduced several years ago. At December 31, it had 21 "large exposures" (25 exposures in 2017).

It should be noted that, starting from the fourth quarter of 2017, for risk positions beyond the limit of 25% of the eligible capital, the Parent Company will cover the excess of the individual limit by sureties; at December 31st, 2017, three primary groups exceeded this 25%.

For the concentration of risk, for further details, please refer to Section 3 of the Explanatory Notes - Information on risks and related hedging policies and for the own Regulatory Capital Funds to Section 4 - Information on Capital.

Going concern

Following the directives of the Parent Company, the company will continue in the commercial action aiming to increase the number of customers, the volumes traded, and the profitability generated by the loans provided, always paying attention to the quality of the credit.

Given the current shareholding structure and the fact that the company does not have capitalization issues and has historically made a profit, the directors are satisfied that it can continue as a going concern.

Other information

Pursuant to article 2428.3.1 of the Italian Civil Code, it is noted that the company did not carry out any R&D activities during the year. The Other disclosures section of the notes provides the information on related party transactions required by article 2428.3.2 of the Italian Civil Code.

With respect to the disclosures as per article 2428.3.3/4 of the Italian Civil Code, the company states that it does not hold treasury shares or shares of its parent, either directly or via trustees or nominees. Moreover, it states that it did not either purchase or sell treasury shares or shares of its parent during the year, either directly or via trustees or nominees.

Part D of the notes and the previous sections of this report provide the information about risks required by article 2428.6-bis of the Italian Civil Code.

The company does not have secondary offices.

Outlook

As far as the factoring industry in Italy is concerned, surveys conducted by the association of category (Assifact's surveys) also confirmed the industry's positive expectations for the year just started, both in terms of turnover (+ 4,7%) and in terms of outstanding (+ 4,5%), in terms of average loans (+ 4,2%), as well as the general confidence of operators about the expected performance of the fiscal result for 2019 (70% of operators expect a growth in output over 2018).

Factorit's goals for 2019 have been prepared - in the light of the expectations of the Parent - on the basis of the forecasts on the performance of the Italian economy, with particular attention to GDP and considering the possible evolution of the Italian factoring market.

The company will maintain high attention on all activities aimed at the containment of risks and the constant improvement of the quality of the managed portfolio. Under the business aspect, continuing the positive trend of 2016, will pursue every opportunity for growth in terms of turnover and customer loyalty, both through partnerships with participating and contracted banks, as well as through direct business development operations. Finally, the possibilities for expanding the company's business to corporate clients, public administration and foreign companies will not be left out.

As regards operating costs, the Company will continue to maintain careful management without foreclosing development-related investments.

Significant events happened after the close of the financial year

No significant events occurred after the end of the year determine an impact on this financial statement.

Dear shareholders,

We propose you approve the financial statements as at and for the year ended 31 December 2018 and the allocation of the profit for the year as follows:

Net profit for the year	Euro	7,853,504
Profits from previous years	Euro	245,543
Profits to allocate	Euro	8,099,047
Of which:		
5% of the profit to Legal Reserve	Euro	392,675
Profits to extraordinary reserve	Euro	7,460,828
Retained profits	Euro	245,544

We invite you to approve the financial statements as they stand and the proposed allocation of the profit for the year.

We would like to take the opportunity to thank the shareholders for their services to the company during the year.

We would also like to thank the board of statutory auditors for its assistance provided during the year, to all the company's employees for their constant commitment, to the banks that use our services, the members of Factors Chain International and the bodies of Assifact.

Milan, March 6, 2019

On behalf of the Board of Directors

Chairman
(Roberto Ruozi)

FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENT OF THE FINANCIAL STATEMENTS

The financial statements of Factorit S.p.A. provide a statement of the company financial position, the income statement, the statement of comprehensive income, the statement of changes in equity and a statement of cash flows and the report of the Board of Directors. The financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission pursuant to Regulation (EC) no. 1606 of 19 July 2002, considering the interpretations issued by the International Interpretations Committee (IFRIC) applicable at the reporting date.
The financial statements are prepared according to the instructions for the preparation of “The financial statements of IFRS financial intermediaries different from the banks” issued by the Bank of Italy on 9 December 2016 as part of its powers conferred by Legislative Decree no. 136/2015 which transposes and implements the above mentioned IFRS.

The financial statements are clearly stated and give a true and fair view of the company’s financial position and financial performance.

The notes present, analyze and, in some cases, supplement the information provided in the financial statements. They include the disclosures required by the instructions for the preparation of financial statements by financial intermediaries. They also comprise all the additional information deemed necessary to give a true and fair view.

STATEMENT OF FINANCIAL POSITION

(Euro)

IFRS 9	IAS 39	Assets	31/12/2018	31/12/2017
10.	10.	Cash and cash equivalents	1,457	1,557
30.		Financial assets measured at fair value through OCI	65,076	
	40.	Available-for-sale financial assets		21,803
40.		Financial assets measured at amortised cost	2,345,326,438	
		a) with banks	58,509,174	
		b) with financial institutions	16,829,715	
		c) with customers	2,269,987,549	
	60.	Loans and Receivables		2,390,951,101
80.	100.	Property and Equipment	405,172	469,338
90.	110.	Intangible assets	210,798	101,919
100.	120.	Tax assets	29,669,026	33,283,383
		a) current	5,259,024	9,114,380
		b) deferred	24,410,002	24,169,003
120.	140.	Other assets	6,071,450	5,665,395
TOTAL ASSETS			**2,381,749,417**	**2,430,494,496**

IFRS 9	IAS 39	Liabilities and Equity	31/12/2018	31/12/2017
10.		Financial liabilities measured at amortised cost	2,114,653,287	
		a) debts	2,114,653,287	
	10.	Financial liabilities		2,175,251,227
60.	70.	Tax liabilities	8,210,947	6,232,634
		a) current	6,171,717	4,193,219
		b) deferred	2,039,230	2,039,415
80.	90.	Other liabilities	16,750,314	13,984,466
90.	100.	Post-employment benefits	2,324,050	2,430,284
100.		Provisions for risk and charges	4,281,700	3,261,433
		a) commitments and gurantees given	1,185,397	-
a)		b) pension and similar provisions	-	-
b)		c) other provisions for risks and charges	3,096,303	3,261,433
110.	120.	Share Capital	85,000,002	85,000,002
140.	150.	Share premium	11,030,364	11,030,364
150.	160.	Reserves	131,888,245	118,499,935
160.	170.	Valuation reserves	- 242,996	- 318,667
170.	180.	Profit (Loss) for the year	7,853,504	15,122,818
TOTAL LIABILITIES AND EQUITY			**2,381,749,417**	**2,430,494,496**

INCOME STATEMENT

(Euro)

IFRS 9	IAS 39		31/12/2018	31/12/2017
10.	10.	Interests and similar income	25,938,813	27,044,473
		of which: interest income calculated using the effective interest method	-	
20.	20.	Interest and similar expense	-3,359,005	-3,539,245
30.		**NET INTEREST INCOME**	**22,579,808**	**23,505,228**
40.	30.	Fee and commission income	24,205,622	23,746,543
50.	40.	Fee and commission expense	-3,236,864	-3,065,641
60.		**NET FEE AND COMMISSION INCOME**	**20,968,758**	**20,680,902**
80.	60.	Net trading income	5,927	7,013
120.		**TOTAL INCOME**	**43,554,493**	**44,193,143**
130.	100.	Net impairment losses for credit risk on:	-10,096,367	520,412
		a) financial assets measured at amortised cost	-10,096,367	520,412
		b) financial assets measured at fair value through OCI	-	
150.		**NET RESULT OF FINANCIAL MANAGEMENT**	**33,458,126**	**44,713,555**
160.	110.	Administrative expenses:	-21,449,688	-22,563,756
		a) personnel expenses	-13,937,270	-13,825,845
		b) other administrative expenses	-7,512,418	-8,737,911
170.	150.	Net accruals to provisions for risks and charges	-1,628,586	-844,408
		a) commitments and guarantees given	-1,004,885	80,785
		b) Other net accruals	-623,701	-925,193
180.	120.	Depreciation and net impairment losses on property and equipment	-188,703	-182,602
190.	130.	Amortisation and net impairment losses on intangible assets	-87,186	-42,602
200.	160.	Other operating income, net	1,720,914	1,336,778
210.		**OPERATING PROFIT**	**-21,633,249**	**-22,416,965**
250.	180.	Net gain on the sale of investments	4,801	4,827
260.		**PRE-TAX PROFIT FROM CONTINUING OPERATIONS**	**11,829,678**	**22,421,792**
270.	190.	Income taxes	-3,976,174	-7,298,974
280.		**POST-TAX PROFIT FROM CONTINUING OPERATIONS**	**7,853,504**	**15,122,818**
300.		**PROFIT (LOSS) FOR THE YEAR**	**7,853,504**	**15,122,818**

STATEMENT OF COMPREHENSIVE INCOME

(Euro)

		31/12/2018	31/12/2017
10.	**Profit (loss) for the year**	**7,853,504**	**15,122,818**
	Other comprehensive income (expense), net of tax, that will not be reclassified to profit or loss		
20.	Equity instruments designated at fair value through OCI	31,374	
30.	Financial liabilities designated at fair value through profit or loss (change in own credit rating)		
40.	Hedging of equity instruments designated at fair value through OCI		
50.	Property and equipment		
60.	Intangible assets		
70.	Defined benefit plans	44,297	(83,638)
80.	Non-current assets held for sale and disposal groups		
90.	Share of valuation reserves of equity-accounted investees		
	Other comprehensive income (expense), net of tax, that will be reclassified to profit or loss		
100.	Hedge of investments in foreign operations		
110.	Exchange rate gains (losses)		
120.	Cash Flow hedges		
130.	Hedging instruments (not designed elements)		
140.	Financial assets (other than equities) measured at fair value through OCI		
150.	Non-current assets held for sale and disposal groups		
160.	Share of valuation reserves of equity-accounted investees		
170.	Total other comprehensive income (expense), net of tax	**75,671**	**(83,638)**
180.	**Comprehensive income (Captions 10+170)**	**7,929,175**	**15,039,180**

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Euro)

	Balance of 31/12/2017	Changes to opening balances	Balance at 01/01/2018	Allocation of prior year profit		Changes of the year								Comprehensive income 31/12/2018	Equity at 31/12/2018
							Equity transactions						
				Reserves	Dividends and other allocations	Change in reserves	Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Other changes		
Share Capital	85,000,002	-	85,000,002	-	-	-	-	-	-	-	-	-	85,000,002
Share Premium	11,030,364	-	11,030,364	-	-	-	-	-	-	-	-	-	11,030,364
Reserves:													
a) income-related	113,546,225	-	113,546,225	9,172,818	-	-	-	-	-	-	-	-	122,719,043
b) other	4,953,710	4,215,492	9,169,202	-	-	-	-	-	-	-	-	-	9,169,202
Valuation reserves	(318,667)	-	(318,667)	-	-	-	-	-	-	-	-	75,671	(242,996)
Equity instruments	-	-		-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-		-	-	-	-	-	-	-	-	-	-
Profit (Loss) for the year	15,122,818	-	15,122,818	(9,172,818)	(5,950,000)	-	-	-	-	-	-	7,853,504	7,853,504
Equity	229,334,452	4,215,492	233,549,944	-	(5,950,000)	-	-	-	-	-	-	7,929,175	235,529,119

The table shows that the opening balance related to the item “other reserves” was changed as a result of the accounting of the FTA as the difference between the credit risk provision at 31/12/2017 IAS39 and the new fund calculated by adopting the new IFRS 9, net of the tax impact.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(Euro)

	Balance of 31/12/2016	Changes to opening balances	Balance at 01/01/2017	Allocation of prior year profit		Changes of the year							Comprehensive income 31/12/2017	Equity at 31/12/2017
							Equity transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Other changes			
Share Capital	85,000,002	-	85,000,002	-	-	-	-	-	-	-	-		-	85,000,002
Share Premium	11,030,364	-	11,030,364	-	-	-	-	-	-	-	-		-	11,030,364
Reserves:														
a) income-related	110,316,839	-	110,316,839	3,229,386	-	-	-	-	-	-	-		-	113,546,225
b) other	4,953,710	-	4,953,710	-	-	-	-	-	-	-	-		-	4,953,710
Valuation reserves	(235,029)	-	(235,029)	-	-	-	-	-	-	-	-		(83,638)	(318,667)
Equity instruments	-	-		-	-	-	-	-	-	-	-		-	-
Treasury shares	-	-		-	-	-	-	-	-	-	-		-	-
Profit (Loss) for the year	3,229,386	-	3,229,386	(3,229,386)	-	-	-	-	-	-	-		15,122,818	15,122,818
Equity	214,295,272	-	214,295,272	-	-	-	-	-	-	-	-		15,039,180	229,334,452

STATEMENT OF CASH FLOWS

(Euro)

A. OPERATING ACTIVITIES	Amount 31/12/2018	Amount 31/12/2017
1. OPERATIONS	**20,119,811**	**18,047,584**
- profit or loss for the year (+/-)	7,853,504	15,122,818
- net losses on financial assets held for trading and on financial assets/liabilities at fair value through profit and loss (+/-)	(5,927)	(7,013)
- capital gains/losses on hedged assets (+/-)	0	0
- net impairment losses (+/-)	10,096,367	(601,197)
- net impairment losses on property and equipment and intangible assets (+/-)	275,889	225,204
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	(1,628,586)	(925,193)
- unsettled taxes and tax assets (+/-)	4,077,118	4,193,219
- other adjustments (+/-)	(548,554)	39,746
2. CASH FLOWS GENERATED BY FINANCIAL ASSETS	**53,894,544**	**(226,480,045)**
- financial assets held for trading	0	0
- financial assets designated at fair value	0	0
- other assets mandatorily measured at fair value	0	0
- financial assets measured at fair value through OCI	(43,273)	328,197
- financial assets measured at amortised cost	54,584,871	(230,071,023)
- other assets	(647,054)	3,262,781
3. CASH FLOWS USED FOR FINANCIAL LIABILITIES	**(58,778,474)**	**208,740,427**
- financial liabilities measured at amortised cost	(60,597,940)	206,524,171
- financial liabilities held for trading	0	0
- financia liabilities designated at fair value	0	0
- other liabilities	1,819,466	2,216,256
Net cash flows generated by operating activities	**15,235,881**	**307,966**
B. INVESTING ACTIVITIES		
1. CASH GENERATED BY	**0**	**285**
- sales of property and equipment	0	285
- sales of intangible assets	0	0
- sales of business units	0	0
2. CASH FLOWS USED TO ACQUIRE	**(325,773)**	**(193,416)**
- property and equipment	(129,708)	(138,040)
- intangible assets	(196,065)	(55,376)
- business units	0	0
Net cash flows used in investing activities	**(325,773)**	**(193,131)**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	0	0
- issue/repurchase of equity instruments	0	0
- dividend and other distributions	(5,950,000)	0
Net cash flows used by financing activities	**(5,950,000)**	**0**
TOTAL NET CASH FLOWS FOR THE YEAR	**8,960,108**	**114,835**

RECONCILIATION	Amount 31/12/2018	Amount 31/12/2017
Opening cash and cash equivalents	**7,538,376**	**7,423,541**
Total net cash flows for the year	8,960,108	114,835
Closing cash and cash equivalents	**16,498,484**	**7,538,376**

EXPLANATORY NOTES

Statement of restatement of balance sheet balances as at 31 December 2017 (pursuant to IAS 39) in the new balance sheet items (IFRS 9) envisaged by the 5th update of the Bank of Italy Circular 262/05.

The following table provides a reconciliation between assets and liabilities reported in the Financial Statements as at 31 December 2017, and the items introduced by the 5th update of the Bank of Italy Circular no. 262/05 while showing the results following the adoption of IFRS 9 for the classification of financial instruments. Assets and liabilities classification and measurement according to IAS 39 are re-presented according to the Business Model identified by Factorit S.p.A pursuant to the new international accounting standard IFRS 9 (where the so called SPPI test represents an integral part of the classification phase). The amounts reported are expressed in Euros.

Circular no. 262/2005 4° update ASSETS	31.12.2017 IAS 39	10. Cash and cash equivalents	30. Financial assets measured at fair value through OCI	40. Financial assets measured at amortised cost a) with banks	40. Financial assets measured at amortised cost b) with financial institutions	40. Financial assets measured at amortised cost c) with customers	80. Property and Equipment	90. Intangible assets	100. Tax assets a) current	100. Tax assets b) deferred	120. Other assets
10. Cash and cash equivalents	1,557	1,557	-	-	-	-	-	-		-	-
40. Available-for-sale financial assets	21,803	-	21,803	-	-	-	-	-		-	-
60. Loans and receivables	2,390,951,101	-	-	15,229,675	28,922,386	2,346,799,040	-	-		-	-
100. Property and Equipment	469,338	-	-	-	-	-	469,338	-		-	-
110. Intangible assets	101,919	-	-	-	-	-	-	101,919		-	-
120. Tax assets	33,283,383	-	-	-	-	-	-	-		-	-
a) current	9,114,380	-	-	-	-	-	-	-	9,114,380	-	-
b) deferred	24,169,003	-	-	-	-	-	-	-	-	24,169,003	-
140. Other assets	5,665,395	-	-	-	-	-	-	-	-		5,665,395
Total assets	**2,430,494,496**	**1,557**	**21,803**	**15,229,675**	**28,922,386**	**2,346,799,040**	**469,338**	**101,919**	**9,114,380**	**24,169,003**	**5,665,395**

It should be noted that, followingthe adoption of the new accounting standard the financial assets previously classified in caption 60 "Loans" have been entirely reallocated in the caption "40 Financial assets measured at amortised cost".

Liabilities and equity	Circular no. 262/2005 5° update LIABILITIES					
	31.12.2017	10. Financial liabilities measured at amortised cost	60. Tax liabilities		80. Other liabilities	100. Post-employment benefits
	IAS 39	a) debts	a) current	b) deferred		
10. Financial liabilities	2,175,251,227	2,175,251,227	-	-	-	-
70. Tax liabilities	6,232,634	-	-	-	-	-
a) current	4,193,219	-	4,193,219	-	-	-
b) deferred	2,039,415	-	-	2,039,415	-	-
90. Other liabilities	13,984,466	-	-	-	13,944,936	-
100. Post-employment benefits	2,430,284	-	-	-	-	2,430,284
110. Provisions for risks and charges	3,261,433	-	-	-	-	-
a) pension and similar provisions	0	-	-	-	-	-
b) other provisions	3,261,433	-	-	-	-	-
120. Share Capital	85,000,002	-	-	-	-	-
150. Share premium	11,030,364	-	-	-	-	-
160. Reserves	118,499,935	-	-	-	-	-
170. Valuation reserves	-318,667	-	-	-	-	-
180. Profit for the year	15,122,818	-	-	-	-	-
Total liabilities and equity	**2,430,494,496**	**2,175,251,227**	**4,193,219**	**2,039,415**	**13,944,936**	**2,430,284**

Liabilities and equity	Circular no. 262/2005 5° update LIABILITIES							
	100. Provisions for risks and charges			110. Share capital	140.Share premium	150. Reserves	160. Valuation reserves	170. Profit for the year
	a) commitments and guarantees given	b) pension and similar provisions	c) other provisions for risks and charges					
10. Financial liabilities	-	-	-	-	-	-	-	-
70. Tax liabilities	-	-	-	-	-	-	-	-
a) current	-	-	-	-	-	-	-	-
b) deferred	-	-	-	-	-	-	-	-
90. Other liabilities	39,530	-	-	-	-	-	-	-
100. Post-employment benefits	-	-	-	-	-	-	-	-
110. Provisions for risks and charges	-	-	-	-	-	-	-	-
a) pension and similar provisions	-	-	-	-	-	-	-	-
b) other provisions	-	-	3,261,433	-	-	-	-	-
120. Share Capital	-	-	-	85,000,002	-	-	-	-
150. Share premium	-	-	-	-	11,030,364	-	-	-
160. Reserves	-	-	-	-	-	118,499,935	-	-
170. Valuation reserves	-	-	-	-	-	-	-318,667	-
180. Profit for the year	-	-	-	-	-	-	-	15,122,818
Total liabilities and equity	**39,530**	**0**	**3,261,433**	**85,000,002**	**11,030,364**	**118,499,935**	**-318,667**	**15,122,818**

It should be noted that following the adoption of the new accounting standard the caption “90. Other liabilities”, that records a decrease equal to 39,530 relating to the provision for guarantees given and commitments on exposures classified as Unlikely to Pay was reclassified under caption 100. Provisions for risks and charges a) commitments and guarantees given”.

Statement of reconciliation between the balance sheet balances as at 31 December 2017 (pursuant to IAS 39) and the new balance sheet figures as at 1 January 2018 (IFRS 9)

The table shows, for the individual items of the assets and liabilities in the Balance Sheet of the 5th update of the Bank of Italy Circular no. 262/2005, the impact arising from the adoption of the IFRS 9 accounting standard, in terms of «classification» and «impairment» and tax impacts.

In particular:
Column named "Impairment" shows the changes in value, for the individual balance sheet items, due to the adoption of the new impairment model introduced by IFRS 9.
The column named «Tax impacts» shows the tax effects arising from the First Time Adoption of IFRS 9 accounting standard.
Column named «1.1.2018» shows the values of assets, liabilities and shareholders' equity, determined following the adoption of IFRS 9 accounting standard and resulting from the sum of the values shown in the other columns.

CAPTIONS	31/12/2017	Impairment	Tax impacts	01/01/2018
10. Cash and cash equivalents	1,557			1,557
30. Financial assets measured at fair value through OCI	21,803			21,803
40. Financial assets measured at amortised cost	2,390,951,101	6,451,069		2,397,402,170
a) With banks	15,229,675	0		15,229,675
b) With financial institutions	28,922,386	-3,480		28,918,906
c) With customers	2,346,799,040	6,454,549		2,353,253,589
80. Property and Equipment	469,338			469,338
90. Intangible assets	101,919			101,919
100. Tax assets	33,283,383			33,283,383
a) current	9,114,380			9,114,380
b) deferred	24,169,003			24,169,003
120. Other assets	5,665,395			5,665,395
Total assets	**2,430,494,496**	**6,451,069**		**2,436,945,565**

CAPTIONS	31/12/2017	Classification	Impairment	Tax impacts	01/01/2018
10. Financial liabilities measured at amortised cost	2,175,251,227				2,175,251,227
a) Debts	2,175,251,227				2,175,251,227
60. Tax liabilities	6,232,634				8,327,231
a) current	4,193,219			2,094,597	6,287,816
b) deferred	2,039,415				2,039,415
80. Other liabilities	13,984,466	-39,530			13,944,936
90. Post-employment benefits	2,430,284				2,430,284
100. Provisions for risks and charges	3,261,433				3,441,945
a) commitments and guarantees given	0	39,530	140,982		180,512
b) pension and similar provisions	0				0
c) other provisions for risks and charges	3,261,433				3,261,433
110. Share capital	85,000,002				85,000,002
140. Share premium	11,030,364				11,030,364
150. Reserves	118,499,935		4,215,490		122,715,425
160. Valuation reserves	-318,67				-318,67
170. Profit for the year	15,122,818				15,122,818
Total Liabilities and Equity	**2,430,494,496**	**0**	**4,356,472**	**2,094,597**	**2,436,945,565**

Statement of reconciliation of loan adjustment and off-balance sheet positions at 31/12/2017 (pursuant to IAS 39) and 01/01/2018 (IFRS 9)

The introduction of IFRS 9 led to a decrease in write-downs on receivables in comparison to to IAS 39. Such decrease is due to the different calculation method of the expected credit loss introduced by IFRS9 and to an average duration of receivables lower than the year.
The table below shows the reconciliation of loan adjustment funds.

IAS 39					40. Financial assets measured at amortised cost - Banks					
IAS 39 Category		Nominal exposure	Cumulated adjustments	Net exposure	Stage 1			Stage 2		
					Nominal exposure	Cumulated adjustments	Net exposure	Nominal exposure	Cumulated adjustments	Net exposure
60. Loans and receivables	Not-impaired	2,389,815,597	9,970,122	2,379,845,475	15,229,675	-	15,229,675	-	-	-
	Impaired	35,894,419	24,788,793	11,105,626	-	-	-	-	-	-

IAS 39		40. Financial assets measured at amortised cost - Financial Institutions								
IAS 39 Category		Stage 1			Stage 2			Stage 3		
		Nominal exposure	Cumulated adjustments	Net exposure	Nominal exposure	Cumulated adjustments	Net exposure	Nominal exposure	Cumulated adjustments	Net exposure
60. Loans and receivables	Not-impaired	28,948,757	54,620	28,894,137	-	-	-	-	-	-
	Impaired	-	-	-	-	-	-	295,812	267,564	28,248

IAS 39		40. Financial assets measured at amortised cost - Customers								
IAS 39 Category		Stage 1			Stage 2			Stage 3		
		Nominal exposure	Cumulated adjustments	Net exposure	Nominal exposure	Cumulated adjustments	Net exposure	Nominal exposure	Cumulated adjustments	Net exposure
60. Loans and receivables	Not-impaired	2,242,602,575	9,354,871	2,233,247,704	103,034,591	560,632	102,473,959	-	-	-
	Impaired	-	-	-	-	-	-	35,598,608	24,521,230	11,077,378

With the introduction of the new international accounting standard IFRS 9, the scope of "off-balance sheet" exposures has changed. From January 1, 2018, the revocable commitments are also included in these items, thus expanding the perimeter with respect to the one pursuant to IAS 39. The following table shows the comparison of the IFRS 9 and IAS 39 impairment figures detailed by stage and type of data (gross exposure, adjustment and net exposure).

IAS 39					IFRS 9								
					Stage 1			Stage 2			Stage 3		
Categoria IAS 39		Nominal exposure	Cumulated adjustments	Net exposure	Nominal exposure	Cumulated adjustments	Net exposure	Nominal exposure	Cumulated adjustments	Net exposure	Nominal exposure	Cumulated adjustments	Net exposure
Commitments	Not-impaired	251,886.770	0	251,886,770	247,990,542	-	247,990,542	3,896,228	-	3,896,228	-	-	-
	Impaired	71,201	39,530	31,671	-	-	-	-	-	-	-	-	-
Total		251,957,971	39,530	251,918,441	247,990,542	-	247,990,542	3,896,228	-	3,896,228	-	-	-

Statement of reconciliation between the profit for the period and the profit that contributes to the calculation of own funds

	Amounts
Profit for the year	7,853,504
Dividends	0
Profit or maximum level of allowable loss	7,853,504

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

PART A *Accounting policies*

A.1 – GENERAL PART

Section 1 *Statement of compliance with IFRS*

Factorit S.p.A., a subsidiary of Banca Popolare di Sondrio S.C.p.A., states that the financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), applicable at 31 December 2018, endorsed by the European Union as per the procedure set out by Regulation (EC) no. 1606/2002, integrated by the "Instructions for the preparation of the financial statements of IFRS financial intermediaries different from the banks" issued by Bank of Italy in its measure of 9 December 2016.

Section 2 *Bases of preparation*

The financial statements are clearly stated and give a true and fair view of the company's financial position and financial performance.
These notes, expressed in Euros, are based on the following general principles set out in IAS 1:

1) Going concern: The financial statements have been prepared assuming that the company will continue as a going concern; therefore, assets, liabilities and offstatement of financial position transactions are measured according to a going concern approach.
2) Accruals basis of accounting: Expenses and revenues are recognised on an accruals and matching basis, regardless of when they are actually settled.
3) Consistency of presentation: The presentation and classification criteria of the captions are consistent from one period to another to ensure comparable information, unless their modification is required by a standard or an interpretation or an improvement in the relevance and reliability of the caption's presentation becomes necessary. In the case of a change in accounting policy, the new policy is applied retroactively, as far as possible, and the nature, reason for and amount of the captions affected by the change are indicated as well as the effects on the company's financial position, financial performance and cash flows. Captions are presented and classified in line with the formats established by Bank of Italy for financial intermediaries.
4) Materiality and aggregation: the various classes of similar items are presented separately, if material. Different items, if materials, are presented separately.
5) Offsetting: assets,liabilities,expenses and revenue are not offset except when required or allowed by a standard or interpretation or by Bank of Italy's instructions

for the financial statements of financial intermediaries included in the special list,.

6) Comparative information: comparative information in respect of the previous year for all amounts reported in the current year's financial statements is disclosed, except when a standard or the interpretations permits a different approach or requires otherwise. Qualitative information or comments are included when this is useful to understand the financial statements captions.

Display of comparative balances

In consideration of the first application of the standards IFRS 9 and IFRS 15, whose related impacts have been reflected through an adjustment of the opening shareholders' equity balances as at 1 January 2018, it should be noted that Factorit S.p.A has made use of the option provided for in the provisions of the above-mentioned principles of not restating comparative data. Therefore, the Balance Sheet and Income Statement balances of the previous year, as drawn up with specific reference to financial instruments in compliance with the previously applicable IAS 39 principle (or to the accounting standards in force at 31 December 2017 and used for the purposes of preparing the Financial Statements for the same date, to which reference is made), are not fully comparable with the new accounting categories and with the relative valuation criteria introduced by the new standard.

Other IAS of reference

IFRS 9 – The new accounting standard on financial instruments

From 1 January 2018, the new accounting standard IFRS 9 came into force. Its purpose is to define rules for financial reporting of financial assets and liabilities, which are pertinent and useful to users of the financial statements so that they can make their assessments about the amount, timing and uncertainty of the future cash flows of the Entity.
IFRS 9 largely reflects the scope of application of IAS 39. Most of the financial instruments falling within the scope of IAS 39 also fall within the scope of application of IFRS 9, even if the latter also includes other instruments, for which the application of the Standard is limited only to certain requirements.

The following table summarizes the financial instruments to which IFRS 9 applies and the main changes introduced by the same Standard.

Area	Financial Instruments – Range of application
Classification and Measurement	• Financial assets and financial liabilities as defined by IAS 32 and regarding IAS 39 application area; • Derivatives as defined by IAS 39; • Contracts subject to "Own use Exemption"[1] • Financial guarantees measured at fair value through profit or loss; • Underwriting positions measured at fair value trough profit or loss.
Impairment	• Financial assets measured at amortised cost regarding IAS 39 application area and financial assets measured at fair value through OCI; • Lease contracts regulated by IAS 17; • Trade receivables and contract assets[2] that result from transactions as defined by "*IFRS 15 Revenue from contracts with customers*"; • Financial guarantees not measured at fair value trhough profit or loss; • Underwriting positions not measured at fair value through profit or loss.
Hedge Accounting	• Financial assets and financial liabilities as defined by IAS 32 and regulated by IAS 39; • Derivatives as defined by IAS 39, apart from some written-options; • Signing commitments, future transactions or net investments in foreign transactions as defined by IAS 39.

[1]"Own-Use Exemption": a contract to purchase or sell a non-financial item that may be terminated by cash or in another financial instrument is excluded from the scope of IAS 39, if the contract has been concluded, and continues to be held, for the purposes of receipt or delivery of a non-financial item according to the needs of the purchase, sale, or use of the company. Although IFRS 9 retains the exemption, it allows an entity to irrevocably designate that contract, at the time of the constitution, to fair value through profit or loss. The designation can be made only in case of deletion or significant reduction of an accounting mismatch that would otherwise arise (IFRS 9 2.4-5).[2]
[2]"IFRS 15 defines as a "contract assets" the right of the entity to receive the consideration in exchange for the goods and services which it transferred to the customer, when this right is conditioned by something different from the passage of time (eg. future performance of the entity).

Main new features of the accounting standard

Classification and measurement

Classification of financial assets
The new classification and measurement rules establish that the Entity classifies the financial instruments based on both the following criteria *(IFRS 9 4.1.1)*:

a) business model defined by the Entity for the management of financial instruments;
b) characteristics of the contractual cash flows of the financial instruments.

Modification&Derecognition
The IFRS9 principle confirms the rules for the derecognition of financial assets already envisaged by IAS 39. However, the Standard includes a new guidance on:

a) Write-off of financial assets;
b) Change in contractual cash flows.

Purchased or originated credit impaired financial assets
IFRS 9 defines as purchased assets or originated credit-impaired (hereinafter POCI or written as) those financial assets that fall within the definition of impaired credit, at the time of initial recognition, maintaining the POCI attribute until cancellation. The above-mentioned category includes:

- the purchase of non-performing loans;
- the provision of non-performing loans, which concerns both contractual

modifications that involve a cancellation of the old credit (*derecognition* event) and the recording of an impaired loan, and the provision of new loans to default customers.

Impairment

The IFRS 9 Principle replaces the concept of "verified" losses, with that of expected losses that envisages the recognition in the Financial Statements of the loss before it occurs; therefore, in general, all financial assets will have a bad debt provision.
The Principle also introduces changes in terms of scope of application, holding period used for estimating expected losses and introduces changes to valuation models that will have to consider *forward looking* and macroeconomic information.
The new Impairment model requires the classification into three *stages* of the financial instruments included in the scope of application of IFRS9. The three *stages* reflect the degree of deterioration in terms of credit quality.
On the date of initial recognition, the Entity identifies the classification of the financial asset into one of the three *stages*. If the performing asset does not show a significant increase in terms of credit risk it is classified into *stage* 1, otherwise it is classified into *stage* 2, the impaired assets are classified into *stage* 3. In the case of new disbursements on subjects classified as impaired status, these activities are classified into *stage* 3 as POCI.

Hedge Accounting

The IFRS 9 Principle presents the new Hedge Accounting model respect to the one envisaged by IAS 39.
The objective of the new Principle is that of obtaining a better alignment among:
- Risk management strategies;
- hedging logic;
- accounting and financial statement impacts determined by existing hedges.

With respect to this argument, no impacts were detected as the Banca Popolare di Sondrio Group decided to take advantage of the possibility, in compliance with IFRS 9, to continue to apply the Hedge Accounting requirements pursuant to IAS 39.

IFRS 15 – Revenue generated by contracts with customers

IFRS 15, applicable starting from 1 January 2018, was endorsed by the European Union with EU Regulation 2016/1905 of 22 September 2016 (published on 29 October 2016) and it modifies the current set of international accounting standards and revenue recognition interpretations and IAS 18, by introducing a single model for the recognition of revenues deriving from contracts with customers. The entity is required to recognize revenues based on the compensation that is expected to be received for products or services rendered, which is calculated on the basis of five steps: the identification of the contract, the identification of the individual obligations inherent in the same one, the determination of the transaction price, the allocation of the price to each of the individual obligations and the recognition of the revenues at the time the customer obtains control of the product or service.
The activities carried out to analyze the effects resulting from the adoption of the accounting standard and to ensure compliance with the same did not reveal impacts that will affect the Company's Financial Statements starting from 2018.

Section 3 *Events after the reporting date*

Pursuant to IAS 10, the Board of Directors authorized the publication of the Financial Statements on 6th March 2019.

No significant events have occurred that could significantly alter the company's financial and equity situation so that their omission could affect the economic decisions of the users of the financial statements.

Section 4 *Other issues*

The company does not participate in the domestic tax consolidation scheme as its parent has not exercised the option under articles 117 to 129 of the Consolidated Income Tax Act.

Reference should be made to the sections on risks for the disclosures required by IAS 1.125. Specifically, with respect to the estimated recoverability of deferred tax assets, impairment losses on loans and receivables and legal and tax risks, the assumptions and uncertainty of estimates mean that there is a risk that significant adjustments to the carrying amount of assets and liabilities may need to be made, including within the next year, as also noted in the Bank of Italy/Consob/Isvap document of 6 February 2009.

In the preparation of the financial statements, we have taken into consideration the changes to the current accounting principles.

It is confirmed that Factorit, in coordination with the Parent company and with the support of external consultants, started a project with the aim to analyse the impacts stemming from the introduction of the new international accounting principle IFRS 16 (it replaces the accountin principle IAS 17) both during the transition (F.T.A. on 1.1.2019) and at regime.

The independent auditor in charge is EY S.p.A., as decided by the Shareholders' Meeting of 20 September 2017. EY S.p.A. term of engagement expires with the approval of the company's financial statements at 31 December 2025.

Information on public payments pursuant to art. 1, paragraph 125 of the Law of 4 August 2017, n. 124 (Annual market and competition law)

The law introduced some measures aimed at ensuring transparency in the public payment system. This law provides that companies must provide in the notes to the financial statements at 31 December 2018 information relating to "grants, contributions, paid offices and anyway economic advantages of any kind". Failure to comply with the publication obligation involves the return of the sums received to the lenders.
Given the above, the amounts collected during the 2018 financial year are provided below.

In the specific case, these amounts result in aid to staff training (inter-professional funds for continuous training) provided by the Banks and Insurance Fund and structured as follows:

Lending Institution	Beneficiary Institution	Grant Date	Required amount	Amount disbursed
Banks and Insurance Fund	Factorit S.p.a	26/10/2017	75,920	69,000
Banks and Insurance Fund	Factorit S.p.a	23/03/2018	2,543	-
Banks and Insurance Fund	Factorit S.p.a	07/03/2018	1,543	-
Banks and Insurance Fund	Factorit S.p.a	14/12/2018	52,200	-

A.2 – MAIN BALANCE SHEET ITEMS

ASSETS

Section 3 *Financial assets measured at fair value through OCI*

3.1 Classification criteria

This item includes financial assets (equity securities) classified in the portfolio measured at *fair value* with impact on the overall profitability.
The classification within the portfolio measured at *fair value* with impact on the overall profitability requires:

- for the equity securities, that the fair value through OCI option it is irrevocably executed when subscripted.

3.2 Recognition criteria

The assets included under this caption are entered on the date of settlement. The financial assets measured at *fair value* are initially registerd based on the fair value that normally correspond to the current value of the fee paid to acquire it, including, for credits and for securities longer than the short term, any transaction costs or revenues attributable specifically to each credit or title. About debt securities and funds, any business model changes attributable to the lack of consistency between portfolio management and the chosen business model, or due to significant changes in strategic choices, will be decided by the Board of directors and in this place will be defined any reclassification.
Regarding equity securtities there is no possibility of reclassification. The execution of the fair value through OCI option, that is, the option provided for by the Principle that allows when it comes to initial recognition, to define the equity instruments at *fair value* at total Equity, is indeed irrevocable.

3.3 Measurement criteria

With regard to equity securities, it its not necessary to carry out the *impairment Test* at the end of every financial year because the *fair value* changes due to a deterioration of the credit status are attributable to an Equity Reserve, denominated “Valuation Reserves”.

3.4 Recognition of costs and revenue criteria

The other operating income, deriving from a change in the fair value, net of the related deferred tax effect, are recorded in a specific equity reserve, denominated “Valuation Reserves”.

3.5 Derecognition criteria

The financial assets measured at fair value are deleted when the contractual rights on the financial flows deriving from the assets themselves expire or when the financial asset is sold, essentially transferring all the risks and benefits connected to it.

Section 4 ***Financial assets measured at amortised cost***

4.1 Classification criteria

Under this caption can be visualized debt securities and loans allocated in the portfolio measured at amortised cost. A financial asset that is included in the afore-mentioned portfolio must be managed through an HTC business model and be compliant with the SPPI Test.
For the execution of the SPPI Test, the Company, in accordance with the Guidelines of the Parent Company, adopts a differentiated approach (massive or analytical) according to the level of standardization of the contracts, distinguishing between:

- Standard Products (funds with common contractual characteristics for macro product categories).
- Non-standard Contracts (funds with contractual characteristics negotiated with individual counterparties).

Therefore, for standard products it is possible to assign a test result at the product category level, analyzing the common contractual characteristics; the result of the Test will therefore be valid for all the funds related to standard products. Non-standard contracts, having particular contractual characteristics, require to be individually verified. The Test must therefore be performed for a single contract, which will be assigned a valid outcome only for the same one.
The following are therefore subject to detection: receivables from banks, from financial companies and from customers, as well as unlisted debt securities that the Company does not intend to sell in the short term.

4.2 Recognition criteria

The financial activities measured at amortised cost are entered on settlement date based on their fair value that correspond to the normal consideration paid and that could include also transaction fees.

Among the financial activities measured at amortised cost can be included advances paid out against the assignment of receivables with recourse, or without recourse without substantial transfer of risks and benefits. Receivables assigned to the Company against the assigned debtor are also included, for which the substantial transfer of risks and benefits to the assignee company has been noted through analytical assessment of the contractual clauses.
Wheter transferred to third parties, receivables and securities are derecognised only if, and to the extent that, all risks and rewards are substantially transferred. Any changes in the business model attributable to the lack of coherence between the management of the portfolio and the chosen business model, or due to significant changes in the strategic choices, are decided by the Board of Directors and the eventual reclassification will be defined.

4.3 Measurement criteria

IFRS 9 replaces the concept of credit losses, with the expected loss approach. Based on this new approach, it will no longer be necessary for a loss to occur before it is recognized in the balance sheet and therefore, generally, all financial assets will lead to the creation of a bad debt provision. IFRS 9 defines several changes in terms of scope of application, holding period used to estimate expected losses. It introduces changes to valuation models that will have to consider, for example, macroeconomic and forward-looking information.
The new impairment model requires the classification into three stages of the financial instruments included in the scope of application of IFRS 9. The three stages reflect the degree of deterioration in terms of credit quality:

stage 1: financial instruments that did not have a significant augment of the credit risk since the initial registration or with a low credit risk at the balance sheet date.
stage 2: financial instruments that had a significant augment of the credit risk since the initial registration (unless they have low credit risk at the balance sheet date), but they have no objective evidence of impairment;
stage 3: financial assets with objective evidence of loss at the balance sheet date.

At each balance sheet date, the Entity assesses whether there has been a significant change in credit risk with respect to the initial recognition (refer to the information in section 3 "Information on risks and related hedging policies"). In this case there will be a transfer between stages: this model is symmetrical, and the activities can move between the different stages.
The valuation of the financial assets measured at amortised cost takes place on the bases of the expected credit loss computation (“expected credit loss”), that is defined as an estimate of the weighted probabilities of credit losses over the expected life of the financial instrument weighted by the probability of occurrence, where it is calculated based on the stage classification defined above.
In particular:

- Expected loss at 12 months, for the activities classified into stage 1. The expected losses at 12 months are those deriving from default events that are possible in the next 12 months (or in a shorter period if the expected life is less than 12 months), weighted by the probability that the default event will occur.
- Expected loss "Lifetime", for activities classified into stage 2 and into stage 3. Expected lifetime losses are those deriving from default events that are possible throughout the expected life of the financial instrument, weighted by the probability of default.

With reference to performing loans, the valuation takes place on a flat-rate basis, considering the risk parameters of Probability of Default (PD) and Loss Given Default (LGD), as well as the exposure at the time of default (EAD).
With reference to the collective valuations of performing loans, the qualitative expiry of debtors (deteriorated or impaired portfolios) occurs in the presence of increases in the relative "PD proxy" and the LGD (parameter representing the loss rate in the event of default) of the credits belonging to the same portfolio.

The collective testing of performing exposures included:

a) segmenting the portfolio of performing exposures on the basis of the guidelines set out in the supervisory regulations;
b) estimating the probability of transfer of the performing exposures to unlikely to pay/non-performing exposure categories (default rates) on a statistical basis;
c) calculating the LGD on a historical-statistical basis, using an historical database of non-performing and unlikely to pay exposures.

At the time of disbursement or purchasing, receivables or securities are accounted for at fair value, which normally coincides with the amount disbursed, or at the purchase price, also including, for receivables and for securities longer than the short term, any transaction costs or revenues attributable specifically to each credit or security.

After the initial recognition, valuations base on the amortised cost principle, subjecting the receivables and securities to an impairment test if symptomatic evidence of the state of deterioration of the solvency of debtors or issuers is present. The amortised cost method is not used for short-term receivables, for which the effect of the discounting logic is negligible.

With reference to deteriorated status positions, the assessment can be made on a flat-rate or analytical basis. Specifically, they are defined, based on the criteria established by the Bank of Italy and in force as of December 31, 2018:

a) Non-performing exposures;
b) Unlikely-to-pay exposures;
c) Exposures that are past due more than 90 days.

Impairment losses on each impaired exposure equal the difference between their recoverable amount and the related amortised cost. The recoverable amount is the present value of expected future cash flows calculated on the following basis:

a) contractual cash flows net of expected losses, estimated considering the debtor's ability to meet its commitments and the realisable value of any collateral or personal guarantees given;
b) the expected recovery time, estimated considering the procedures in place to recover the exposure;
c) the internal rate of return.

The following calculation parameters are used for non-performing and unlikely to pay exposures:

a) recovery forecasts made by the relevant managers;
b) expected recovery times, based on historical and statistical data;
c) "historical" discount rates, being the contractual rates at the time the individual exposure is classified as "under dispute".

Pursuant to the ruling regulations, the company identifies exposures that are impaired past due, the so called “scaduto deteriorato”.
In 2013, the company reviewed the methods used to calculate the expected recovery times for non-performing and unlikely to pay exposures. Specifically, if the managers do not specify an exact recovery date, the recovery time is estimated to be four years for both nonperforming and unlikely to pay exposures, in line with the timeframes adopted by the parent. Section 8.1 of these notes shows the effects of application of these methods.
With respect to the collective testing of performing exposures for impairment, the debtor’s credit standing is taken to have deteriorated when there is an increase in the related proxy PD and the LGD (loss given default) of exposures in the same portfolio.

4.4 Recognition of costs and revenue criteria

Costs and revenue are recognised in the income statement on the following basis:

a) interest income from loans and receivables is recognised in “interest and similar income”;
b) impairment losses and reversals of impairment losses are recognised in “impairment losses/reversals of impairment losses on loans and receivables”.

It should be noted that for financial assets classified as stage 3 and for purchased or originated credit-impaired (POCI), for which according to IFRS 9 the interest is calculated using the net interest method, the portion of non-recoverable interest is reversed from the item «interest income and similar income» with the balancing entry «Financial assets measured at amortised cost».

4.5 Derecognition criteria

These financial assets are derecognised when their sale entails the substantial transfer of all the related risks and rewards and no control over them is maintained.
IFRS 9 confirms the *derecognition* rules of financial assets already provided for by IAS 39.

However, the Principle includes a new *guidance* on:
- Write-off of financial assets: when the Entity has no reasonable expectations of recovering the contractual cash flows on the financial asset, either entirely or partially, it must directly reduce the gross carrying amount of the financial asset. This write-down constitutes a case of partial or total accounting elimination of the asset.
- Change in contractual cash flows: when a change occurs on the contractual cash flows, the Entity must assess whether this change entails or does not involve derecognition, therefore if this change is significant.

When the change in the contractual cash flows of the financial asset does not result in the *derecognition* of the financial asset in accordance with this Standard, the Entity must recalculate the gross carrying amount of the financial asset and recognize a profit or loss in the income statement because of the change.
When the change in the contractual cash flows of the financial asset determines the *derecognition* of the financial asset in accordance with this Standard, the Entity proceeds with the accounting elimination of the existing financial asset and the subsequent recognition of the modified financial asset: the modified asset is considered as a "new" financial asset for the purposes of this Standard (IFRS 9 B5.5.25).

The following are the accounting policies adopted when preparing comparative figures as at 31 December 2017, relating to the "Loans and receivables" item, as they were drawn up in accordance with the previously in force IAS 39 (that is, the accounting principles in force at that date) principle:

Classification criteria

This category includes all non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. It comprises loans and receivables with banks, financial institutions and customers and unquoted debt instruments that the company does not intend to sell in the short term.

Recognition and derecognition criteria

Loans, receivables and instruments are recognised in this category when disbursed or purchased and they cannot be transferred to another portfolio. Nor can financial instruments of other portfolios be transferred thereto, except for that allowed by the amendment to IAS 39 and IFRS 7 issued by the IASB in 2008.
The category includes advances made against the factoring of loans and receivables with recourse or without recourse without the substantial transfer of the related risks and rewards.
It also comprises loans and receivables assigned to the company and recognised as due from the original debtor when the risks and rewards are substantially transferred by the assignor as per an analytical valuation of the contractual clauses.
If assigned to third parties, the loans, receivables and instruments are only derecognised if and to the limits to which all the risks and rewards are substantially transferred.

Measurement criteria

Loans and receivables or instruments are initially recognised at fair value when disbursed or purchased, which is usually equal to the amount disbursed or the purchase price, including any transaction costs or revenue that are specifically attributable to each loan and receivable or instrument in the case of assets with a maturity that is more than short term.
After initial recognition, they are measured at amortised cost and are tested for impairment whenever there is an indication that the debtor's or issuer's solvency has deteriorated. The amortised cost method is not used for short-term loans and receivables, as their discounting has no material impact.

The impairment test for loans and receivables consists of two stages:

1) individual tests, to test individual impaired loans and receivables and to calculate the impairment loss;
2) collective tests to identify portfolios of impaired loans and receivables using the incurred losses model and to identify any unrecognised losses on a lump sum basis.

According to Bank of Italy's criteria, applicable at the reporting date, impaired loans and receivables tested individually for impairment are:

a) Non performing exposures;
b) Unlikely to pay exposures;
c) Exposures that are past due by more than 90 days.

Pursuant to the ruling regulations, the company identifies exposures that are impaired past due, the so called “scaduto deteriorato”.
Starting from 2013, the company has tested this category individually while using the same basis as that used for collective impairment, applying the same impairment percentage to each exposure for debtors in the same situation. It calculates this percentage using internal management statistics. The “scaduto deteriorato” category is not discounted.

Impairment losses on each impaired exposure equal the difference between their recoverable amount and the related amortised cost. The recoverable amount is the present value of expected future cash flows calculated on the following basis:

a) contractual cash flows net of expected losses, estimated considering the debtor’s ability to meet its commitments and the realisable value of any collateral or personal guarantees given;
b) the expected recovery time, estimated considering the procedures in place to recover the exposure;
c) the internal rate of return.

The individual impairment loss is calculated in accordance with IAS 39 by discounting the exposure’s recoverable amount over the estimated recovery period.

The following calculation parameters are used for non-performing and unlikely to pay exposures:

a) recovery forecasts made by the relevant managers;
b) expected recovery times, based on historical and statistical data;
c) “historical” discount rates, being the contractual rates at the time the individual exposure is classified as “under dispute”.

In 2013, the company reviewed the methods used to calculate the expected recovery times for non-performing and unlikely to pay exposures. Specifically, if the managers do not specify an exact recovery date, the recovery time is estimated to be four years for both nonperforming and unlikely to pay exposures, in line with the timeframes adopted by the parent. Section 8.1 of these notes shows the effects of application of these methods.

With respect to the collective testing of performing exposures for impairment, the debtor’s credit standing is taken to have deteriorated when there is an increase in the related *proxy PD* and the LGD (loss given default) of exposures in the same portfolio.

The collective testing of performing exposures included:

a) segmenting the portfolio of performing exposures on the basis of the guidelines set out in the supervisory regulations;
b) estimating the probability of transfer of the performing exposures to unlikely to pay/non-performing exposure categories (default rates) on a statistical basis;
c) calculating the LGD on a historical-statistical basis, using an historical database of non-performing and unlikely to pay exposures.

Recognition of costs and revenue criteria

Costs and revenue are recognised in the income statement on the following basis:
a) interest income from loans and receivables is recognised in "interest and similar income";
b) impairment losses and reversals of impairment losses are recognised in "impairment losses/reversals of impairment losses on loans and receivables".

Section 8 Property and Equipment

8.1 Classification

The caption includes assets used in the company's operations (furniture, fittings, systems, hardware and cars).

8.2 Recognition and derecognition criteria

Property and equipment are originally recognised at cost, including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Ordinary maintenance costs are expensed on an accruals basis.
These assets are derecognised on disposal and no future economic benefits are expected from their use.

8.3 Measurement criteria

The assets are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged over the asset's estimated useful life. The company checks at least once a year to see if there have been substantial changes in the asset's original conditions that would require the initial depreciation pattern to be changed. When there is indication of impairment, the assets are tested for impairment. Any reversals of impairment losses cannot exceed the previously recorded impairment losses.

8.4 Recognition of costs and revenues

Costs and revenues are recognised in the income statement on the following basis:
a) depreciation, impairment losses and reversals of impairment losses are recognized in "Depreciation and net impairment losses on property and equipment";
b) gains and losses on the sale of these assets are recognised in "Gains/losses on the sale of investments".

Section 9 Intangible assets

9.1 Classification criteria

This caption includes intangible assets held for production to be used over more than one year, whose cost can be measured reliably when they are:
- identifiable, i.e., arise from legal rights or are separable;

- under the company's control;
- able to generate future economic benefits.

The caption solely comprises software.

9.2 Recognition and derecognition criteria

Intangible assets are recognised at cost, including related charges and costs incurred to increase their value and initial production capacity.
Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use.

9.3 Measurement criteria

They are recognised at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged over the assets' useful life on a straight-line basis. The company regularly checks to see if there have been substantial changes in the asset's original conditions that would require the initial amortisation pattern to be changed.
When there is indication of impairment, the assets are tested for impairment. Any reversals of impairment losses cannot exceed the previously recorded impairment losses.

9.4 Recognition of costs and revenues

Costs and revenue are recognised in the income statement on the following basis:

a) amortisation, impairment losses and reversals of impairment losses are recognized in "Amortisation and net impairment losses on intangible assets";
b) gains and losses on the sale of these assets are recognised in "Gains/losses on the sale of investments".

Section 10 ***Tax assets and liabilities***

10.1 Classification criteria

These captions include current and deferred tax assets and liabilities.
Current tax assets include withholdings and advances paid during the year while current tax liabilities comprise taxes to be paid for the year.
Deferred taxes refer to income taxes recoverable in future periods in respect of deductible temporary differences (deferred tax assets) and income taxes payable in future periods in respect of taxable temporary differences (deferred tax liabilities).

10.2 Recognition, derecognition and measurement criteria

Deferred tax assets are recognised under the balance sheet liability method only when it is probable that the company will have sufficient taxable profit in the same period as the reversal of the deductible temporary differences while deferred tax liabilities are always recognized with the exeptions provided for by IAS12. The carrying amount of a deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be realizable to allow the use of part or all of that deferred tax asset. Any reduction will subsequently be reversed to the extent that it becomes probable that sufficient taxable income can be realized.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to be

applicable in the year in which the asset will be realized or the liability will be settled, based on the tax rates (and tax legislation) in force or substantially in force at the balance sheet date.

10.3 Recognition of costs and revenues

Tax income and expense are recognised in the income statement as "Income taxes" unless they arise on transactions, the effects of which are recognised directly in equity.

LIABILITIES

Section 1 ***Financial liabilities measured at amortised cost***

1.1 Classification criteria

Due to banks include all financial liabilities, other than financial liabilities held for trading, financial liabilities at fair value through profit or loss and securities issued which form part of the company's normal financing operations.
Due to financial institutions and customers includes the consideration to be paid to the assignor as part of the assignment of loans and receivables that substantially transfer all the risks and rewards by the factor.

1.2 Recognition criteria

These liabilities are recognised at their settlement date at their present value which is usually equal to the amount collected by the company, for amounts due to banks, and to the amount of the liability, in the case of financial institutions and customers, given the short-term nature of the related transactions.

1.3 Measurement criteria

After initial recognition, financial liabilities are measured at the amount collected or their original amount, given their short-term nature.

1.4 Recognition of costs and revenue

Costs and revenue are recognised as follows in the income statement:

- interest expense is recognized in “interest and similar expense”

1.5 Derecognition criteria

Financial liabilities are derecognised when the related contractual rights expire or are extinguished.

Section 9 ***Post-employment benefits***

9.1 Classification criteria

Italian post-employment benefits (TFR) are the benefits due by the company to all its employees when they resign.

9.2 Measurement criteria

Post-employment benefits and the internal supplementary defined-benefit pension plan are calculated by third party actuaries using the projected unit credit method, as required by IAS 19 for defined benefit plans, as these benefits fall into this category.
The calculation solely considers the benefits' carrying amount and not accruals made

during the year to external supplementary pension funds.
Pursuant to the revised IAS 19 - Employee benefits, actuarial gains and losses are recognised directly in equity.

9.3 Recognition of costs and revenue

Costs and revenue are recognised in the income statement on the following basis:

a) accruals for post-employment benefits, seniority bonuses and the supplementary pension fund, as well as the payments to the defined contribution plan, are recognised in “Administrative expenses - personnel expense”;
b) actuarial gains and losses are recognised directly in equity.

Section 10 *Provisions for risks and charges*

10.1 Classification criteria

The caption includes the following provisions:
- Within the sub-caption "commitments and guarantees given", the funds for credit risk must be indicated against commitments to grant funds and financial guarantees issued that are subject to the rules of devaluation of IFRS 9 and funds on other commitments and other guarantees that are not subject to the IFRS 9 write-down rules. These provisions also refer to the financial guarantees issued and the commitments to grant funds which are measured at the initial registration value net of the total revenues recognized in accordance with IFRS 15.
- The sub-caption "Other provisions - personnel expenses" includes the charge deriving from the payment of the bonus to employees of an uncertain amount or expiry that can be recognized in the financial statements when there is a probable obligation, with a reliable estimate of the amount, and that to fulfill the obligation it will be necessary to use economic resources.
- The sub-caption "Other funds - legal disputes" includes, subject to the rules of IAS 37, the funds set aside for liabilities of uncertain amount or maturity, which can be recognized in the financial statements when the following contextual conditions are met: or the company has a present obligation (legal or implicit), that is to say ongoing at the balance sheet date, as a result of a past event; o it is probable that the use of economic resources will be necessary to fulfill the obligation; or a reliable estimate can be made of the amount necessary to fulfill the obligation.

10.2 Recognition, measurement and derecognition criteria

Where the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.
Provisions are derecognised when used or the conditions for their continued existence cease to exist.

10.3 Recognition of costs and revenue

Accruals to provisions are recognised in “Net accruals to provisions for risks and charges”.

Foreign currency transactions

Classification
Foreign current transactions include all those assets and liabilities in currencies other than the Euro.

Recognition and derecognition
Foreign currency assets and liabilities are initially translated into Euros using the spot rate ruling at the transaction date.

Measurement
They are subsequently retranslated using the spot rate ruling at the reporting date.

Recognition of costs and revenue
Foreign currency transactions are minimal. Moreover, the company usually hedges foreign currency loans with funding in the same currency to avoid currency risk.
Any exchange rate gains or losses (which are immaterial) are recognised in "Net trading income".

Revenues and costs

Revenues and costs are recognised and presented on an accruals basis. Revenues are recognised when it is probable that the economic benefits arising from the transactions will flow to the company and these benefits can be measured reliably. They are measured at the fair value of the consideration due.
In particular:
- revenue from one-off fees and commissions on the assignment of loans and receivables are recognised over the term of the assigned receivables. Periodic and deferred fees and commissions are recognised when received on an accrual's basis;
- default interest is recognized in profit or loss solely when collected;
- interest on considerations received from the assignors, and on payment extensions granted to the assigned debtors, is recognised on an accrual's basis;

Costs are recognised when there is a decrease in the future economic benefits that leads to a decrease in the assets or an increase in the liabilities that can be measured reliably.

A.3 – DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

The company has not transferred financial assets from one portfolio to another.

A.4 – FAIR VALUE DISCLOSURE

Qualitative information

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants. It is not an actual price but an amount of money that the two parties involved in the transaction can agree on and as such is not affected by subjective factors.
Moreover, fair value is not the current market value but includes all those factors that

contribute to making the potential transaction happen: additional costs, probable changes to the price at the transaction date, future company performance.
The IFRS classify fair value of financial instruments using a three-level hierarchy based on market input.
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).
Level 3: inputs for the asset or liability that are not based on observable market data. An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data.

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

The company's assets mainly consist of trade receivables assigned without recourse and advances granted against trade receivables assigned as part of factoring transactions.
There is no observable market data about the value of the receivables assigned as the price is based solely on specific private agreements between the parties.
Accordingly, the company classifies the trade receivables in level 3 given the lack of external inputs.
The most appropriate method to measure the fair value of the receivables assigned and the advances granted is to calculate their present value by discounting future cash flows using the effective interest rate agreed with the assignor. This rate also considers the other transaction costs.
The receivables assigned and the advances granted usually have a short-term nature and the interest rate also tends to be floating. For these reasons, it can be said that the fair value of the receivables is equal to the value of the transaction, being the nominal amount of the receivables assigned in the case of factoring without recourse, or the amount of the advances granted.
Financial liabilities mostly consist of bank loans and borrowings, whose fair value is equal to the amounts or funds received by the company, given the short-term nature of the liability.
These captions are categorised as third level as they are regulated by private agreements agreed from time to time with the counterparties and, therefore, are not reflected in quotations or parameters observable on the market.

QUANTITATIVE DISCLOSURE

A.4.5 Fair value hierarchy

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

Assets and liabilities measured at fair value	Level 1	Level 2	Level 3	TOTAL
1. Financial assets measured at fair value through profit or loss	-	-	-	-
a) financial assets held for trading	-	-	-	-
b) financial assets designated at fair value				
c) other financial assets mandatorily valued at fair value	-	-	-	-
2. Financial assets measured at fair value through OCI	-	-	65,076	65,076
3. Hedging derivatives	-	-	-	-
4. Property and equipment	-	-	-	-
5. Intangible assets	-	-	-	-
Total	-	-	**65,076**	**65,076**
1. Financial liabilities held for trading	-	-	-	-
2. Financial liabilities designated at fair value	-	-	-	-
3. Hedging derivatives	-	-	-	-
Total	-	-	-	-

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through OCI	Hedging derivatives	Property and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balance					**21,803**			
2. Increases					**43,273**			
2.1. Purchases								
2.2. Profits charged to:								
2.2.1 Income statement								
of which: Profit								
2.2.2 Equity					43,273			
2.3. Changes from other levels llevels								
2.4. Other changes in increase								
3. Decreases								
3.1. Sales								
3.2. Refunds								
3.3. Losses charged to:								
3.3.1 Income Statement								
of which: Loss								
3.3.2 Equity								
3.4. Changes from other levels								
3.5. Other changes in decrease								
4. Closing balance					**65,076**			

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

Assets/Liabilities not mieasured at fair value or measured on a recurring basis	31/12/2018				31/12/2017			
	VB	L1	L2	L3	VB	L1	L2	L3
1. Financial assets measured at amortised cost	2,345,326,438			2,345,326,438				
2. Tangible assets held for investments								
3. Non-current assets held for trade and disposal groups								
Total	**2,345,326,438**			**2,345,326,438**				
1. Financial liabilities measured at amortised cost	2,114,653,287			2,114,653,287				
2. Liabilities associated to assets disposal								
Total	**2,114,653,287**			**2,114,653,287**				

A.5 – DISCLOSURE ON "DAY ONE PROFIT/LOSS"

The *day one profit/loss*, regulated by IFRS 7, is the difference between the initial recognition of the transaction price of a financial instrument and its *fair value*.
This difference exists for financial instruments that do not have an active market and it is recognised in profit or loss over the financial instrument's useful life.
The company has not engaged transactions that would have entailed the recognition of significant *day one profit/loss*.

PART B Notes to the statement of financial position

ASSETS

Section 1 Cash and cash equivalents – Caption 10

	31/12/2018	31/12/2017
a) Cash	1,457	1,557
b) Demand deposits with Central Banks	-	-
Total	**1,457**	**1,557**

Section 3 Financial assets measured at fair value through OCI – Caption 30

3.1 Financial assets measured at fair value through OCI: breakdown by product

Captions/Amounts	31/12/2018			31/12/2017		
	L1	L2	L3	L1	L2	L3
1. Debt instruments						
1.1. Structured						
1.2. Other						
2. Equity instruments			65,076			21,803
3. Financing						
Total			**65,076**			**21,803**

Equity securities are represented exclusively by participation in the Compagnia Aerea Italiana spa since, from July 4, 2017, the company has converted the receivable in compliance with the restructuring agreement of December 22, 2014. In particular, in relation to a fully impaired receivable of € 8,644,250.59 the company received n. 824,833,073 class 1 shares.

3.2 Financial assets measured at fair value through OCI: breakdown by debtor/issuer

	31/12/2018	31/12/2017
1. Debt instruments		
a) Public administrations		
b) Banks		
c) Other financial institutions of which: insurance institutions		
d) Non-financial institutions		
2. Equity instruments	65,076	21,803
a) Public administrations		
b) Banks		
c) Other financial institutions of which: insurance institutions		
d) Non-financial institutions	65,076	21,803
3. Financing		
a) Public administrations		
b) Banks		
c) Other financial institutions		
of which: insurance institutions		
d) Non-financial institutions		
e) Households		
Total	**65,076**	**21,803**

Section 4 *Financial assets measured at amortised cost – Caption 40*

4.1 Financial assets measured at amortised cost: breakdown by product of loans and receivables with banks

Composition	31/12/2018						31/12/2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit impaired financial assets	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit impaired financial assets	L1	L2	L3
1. Deposits and current accounts	**16,497,027**	-	-	-	-	**16,497,027**	**7,536,819**	-	-	-	-	**7,536,819**
2. Financing	**39,916,723**	-	-	-	-	**39,916,723**	**1,978**	-	-	-	-	**1,978**
2.1 Reverse repurchase agreement	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Financial Leases	-	-	-	-	-	-	-	-	-	-	-	-
2.3 Factoring	39,792,548	-	-	-	-	39,792,548	-	-	-	-	-	-
- with recourse	39,792,548	-	-	-	-	39,792,548	-	-	-	-	-	-
- without recourse	-	-	-	-	-	-	-	-	-	-	-	-
2.4 Other financing	124,175	-	-	-	-	124,175	1,978	-	-	-	-	1,978
3. Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
3.1 structured	-	-	-	-	-	-	-	-	-	-	-	-
3.2 other	-	-	-	-	-	-	-	-	-	-	-	-
4. Other assets	**2,095,424**	-	-	-	-	**2,095,424**	**7,690,878**	-	-	-	-	**7,690,878**
Total	**58,509,174**	-	-	-	-	**58,509,174**	**15,229,675**	-	-	-	-	**15,229,675**

The fair value of loans and receivables with banks equals their carrying amount, as they are on demand, short-term financial assets.

“Deposits and current accounts” of Euro 16,497,027 consists of temporary liquidity deposited with banks, mainly originating from large cash inflows at year end.

Caption 4 “Other assets” includes:

- Euro 316 from Foreign Correspondents.
- Euro 558.823 from Banco BpM (ex Banca Italease S.p.a) for the IRES reimbursement claim due to the non-deduction of IRAP on personnel expense as per Law decree no. 185/2008 for the years 2006 e 2007 (324,891) and per law no. 201/2011 for the years 2007, 2008 e 2009 (233,932,441) and given that Factorit was part of the domestic tax consolidation scheme of that company’s group up until 2009.
- During the month of December 2018, at oure request, Banco BPM informed us that the reimbursement of these requests had not yet been received.
- Euro 1,536,285 for amounts advanced to loans on behalf of banks, as part of factoring operations managed in pools, in which Factorit assumes the role of leader.

4.2 Financial assets measured at amortised cost: breakdown by products of loans and receivables with financial institutions

Composition	31/12/2018						31/12/2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit impaired financial assets	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit impaired financial assets	L1	L2	L3
1. Financing	**16,798,050**	**28,248**	-	-	-	**16,826,298**	**28,887,671**	**28,248**		-	-	**28,915,919**
1.1 Reverse repurchase agreement	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
1.3 Factoring	1,676,743	433	-	-	-	1,677,176	17,804,180	434	-	-	-	17,804,614
- with recourse	1,676,743	433	-	-	-	1,677,176	17,804,180	434	-	-	-	17,804,614
- without recourse	-	-	-	-	-	-	-	-	-	-	-	-
1.4 Other financing	15,121,307	27,815	-	-	-	15,149,122	11,083,491	27,814	-	-	-	11,111,305
2. Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-	-	-	-	-
3. Other assets	**3,417**	-	-	-	-	**3,417**	**6,467**	-	-	-	-	**6,467**
Total	**16,801,467**	**28,248**	-	-	-	**16,829,715**	**29,894,138**	**28,248**	-	-	-	**28,922,386**

The fair value of loans and receivables with financial institutions is their carrying amount, as these financial assets are mostly on demand or short term, net of impairment losses.

Caption 1.4 “Other financing” includes advances for assignments of receivables that do not fall within the scope of Law no. 52/91.

4.3 Financial assets measured at amortised cost: breakdown by products of loans and receivables with customers

Composition	31/12/2018						31/12/2017					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: purchased or originated credit impaired financial assets	L1	L2	L3	First and secondstage	Third stage	of which: purchased or originated credit impaired financial assets	L1	L2	L3
1. Finanancing	**2,249,493,603**	**20,481,523**	-	-	-	**2,269,975,126**	**2,335,678,157**	**11,077,378**	-	-	-	**2,346,755,535**
1.1 Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
of which: without purchase option	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Factoring	2,134,973,252	20,474,218	-	-	-	2,155,447,470	2,243,175,167	10,442,897	-	-	-	2,253,617,645
- with recourse	1,617,597,170	20,135,518	-	-	-	1,637,732,688	1,751,468,688	10,044,897	-	-	-	1,761,513,585
- without recourse	517,376,082	338,700	-	-	-	517,714,782	491,706,479	397,581	-	-	-	492,104,060
1.3 Consumer credit	-	-	-	-	-	-	-	-	-	-	-	-
1.4 Credit cards	-	-	-	-	-	-	-	-	-	-	-	-
1.5 Pawn loans	-	-	-	-	-	-	-	-	-	-	-	-
1.6 Financing granted in relation to payment services provided	-	-	-	-	-	-	-	-	-	-	-	-
1.7 Other financing	114,520,351	7,305	-	-	-	114,527,656	92,502,990	634,900	-	-	-	93,137,890
of which: from the enforcement of guarantees and commitments	-	-	-	-	-	-	-	-	-	-	-	-
2. Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-	-	-	-	-
3. Other assets	**12,423**	-	-	-	-	**12,423**	**43,505**	-	-	-	-	**43,505**
Total	**2,249,506,026**	**20,481,523**	-	-	-	**2,269.987,549**	**2.335,721,662**	**11,077,378**	-	-	-	**2,346,799,040**

The *fair value* of loans to customers is assumed to be equal to the book value, since it is essentially on-demand and short-term financial assets, net of adjustments.
Impaired assets are recognizied at their estimated recoverable amount.

The performing “Other financing” includes:
- Euro 604,624 of accrued charges due from assigned debtors on payment extensions granted to them;
- Euro 95,845,914 of advances for assignments for loans and receivables that do not fall under the scope of Law no. 52/91;
- Euro 18,069,813 related to other financing.

The impaired ”Other financing” includes accrued charges due from assigned debtors.

4.4 Financial assets measured at amortised cost: breakdown by debtors/issuers of loans and receivables with customers

Type of operations/Amounts	31/12/2018			31/12/2017		
	First and second stage	Third stage	of which: purchased or originated credit impaired financial assets	First and second stage	Third stage	of which: purchased or originated credit impaired financial assets
1. Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**
a) Public administrations	-	-	-	-	-	-
b) Other financial institutions	-	-	-	-	-	-
of which: insurance institutions	-	-	-	-	-	-
c) Non-financial institutions	-	-	-	-	-	-
2. Financing to:	**2,266,307,492**	**20,509,772**	-	-	-	-
a) Public administrations	-	263,503	-	-	-	-
b) Other financial institutions	16,801,467	28,248	-	-	-	-
of which: insurance institutions	-	-	-	-	-	-
c) Non-financial institutions	2,245,064,085	20,204,075	-	-	-	-
d) Households	4,441,940	13,946	-	-	-	-
3. Other assets	-	-	-	-	-	-
Total	**2,266,307,492**	**20,509,772**	-	-	-	-

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

	Gross amount				Total gross impairment losses			Total partial Write-off *
	First stage	Of which: Instruments with low credit risk	Second stage	Third stage	First stage	Secondo stage	Third stage	
Debt instruments	-	-	-	-	-	-	-	-
Financing	2,207,814,600		119,801,302	55,620,262	2,556,387	242,849	35,110,490	55,639,602
Other assets	-	-	-	-	-	-	-	-
Total 31/12/2018	**2,207,814,600**		**119,801,302**	**55,620,262**	**2,556,387**	**242,849**	**35,110,490**	**55,639,602**
Total 31/12/2017	-	-	-	-	-	-	-	-
Of which: purchased or originated credit impaired financial assets				18,925			18,925	

4.6 Financial assets measured at amortised cost: guaranteed assets

		31/12/2018						31/12/2017					
		Loans and receivables with banks		Loans and receivables with financial institutions		Loans and receivables with customers		Loans and receivables with banks		Loans and receivable with financial institutions		Loand and receivables with customers	
		CA	FV	CA	FV	CA	FV	CA	FV	CA	FV	CA	FV
1.	**Performing assets guaranteed by:**	**39,792,549**	**39,792,549**	**1,634,615**	**1,634,615**	**1,645,065,330**	**1,644,968,922**			**17,762,123**	**17,762,123**	**1,772,744,321**	**1,733,215,380**
	– Assets under finance lease												
	– Factoring receivables	39,792,549	39,792,549	232,415	232,415	1,536,217,000	1,536,217,000			17,477,123	17,477,123	1,632,495,643	1,632,495,643
	– Mortgages												
	– Pledges												
	– Collateral			1,402,200	1,402,200	108,848,330	108,751,922			285,000	285,000	140,248,678	100,719,737
	– Credit derivatives												
2.	**Impaired assets guaranteed by:**					**12,987,336**	**12,987,336**					**7,074,109**	**7,074,109**
	– Assets under financial lease												
	– Factoring receivables					12,662,192	12,662,192					6,114,163	6,114,163
	– Mortgages					272,735	272,735					346,878	346,878
	– Pledges												
	– Collateral					52,409	52,409					613,068	613,068
	– Credit derivatives												
	Total	**39,792,549**	**39,792,549**	**1,634,615**	**1,634,615**	**1,658,052,666**	**1,657,956,258**			**17,762,123**	**17,762,123**	**1,779,818,430**	**1,779,818,430**

CA = carrying amounts of assets
FV = fair value of guarantees

The table shows the guarantees received for performing and impaired assets.

Pursuant to the regulations about assignment disposals (receivables) that do not fall under the Law no. 52/91, the "factoring receivables" do not include "other disposals". The amounts are classified by type of guarantee and the guaranteed party's business sector. The "FV" column shows the value of the guaranteed asset in the case of guarantees with a value that exceeds the guaranteed asset.

Loans and receivables acquired through without recourse factoring transactions are shown in the relevant guarantee line, if they are guaranteed.

When more than one underlying guarantee has been given, the advances paid to assignors in transactions with recourse and the underlying assets acquired in transactions without recourse are recognised in the following order of priority:

1) mortgages;
2) pledges;
3) factoring receivables;
4) collateral;

Section 8 *Property and equipment – Caption 80*

8.1 Property and equipment: assets measured at cost

Assets/Amounts	31/12/2018	31/12/2017
1. Owned	**405,172**	**469,338**
a) land		-
b) buildings		-
c) furniture	79,830	108,346
d) electronic system	59,758	59,867
e) other	265,584	301,125
2. Under finance lease		**-**
a) land		-
b) buildings		-
c) furniture		-
d) electronic system		-
e) other		**-**
Total	**405,172**	**469,338**
Of which: obtained trough the enforcement of guarantees received		

8.6 Property and equipment: changes

	Land	Buildings	Furniture	Electronic system	Other	Total
A. Gross opening balance			**401,317**	**2,225,166**	**681,440**	**3,307,923**
A.1 Total net impairment losses			292,971	2,165,299	380,315	2,838,585
A.2 Net opening balance			**108,346**	**59,867**	**301,125**	**469,338**
B. Increases			**9,685**	**21,594**	**98,429**	**129,708**
B.1 Purchase			9,685	21,594	98,429	129,708
B.2 Capitalised improvement costs			-	-	-	-
B.3 Reversal of impairment losses			-	-	-	-
B.4 Fair value gains recognized in:			-	-	-	-
a) equity			-	-	-	-
b) profit &loss			-	-	-	-
B.5 Exchange rate gains			-	-	-	-
B.6 Transfers from investment property			-	-	-	-
B.7 Other increases			-	-	-	-
C. Decreases			**38,201**	**21,703**	**133,970**	**193,874**
C.1 Sales			-	-	-	-
C.2 Depreciation			33,030	21,703	133,970	188,703
C.3 Impairment losses recognized in:			-	-	-	-
a) equity			-	-	-	-
b) profit & loss			-	-	-	-
C.4 Fair value losses recognized in:			-	-	-	-
a) equity			-	-	-	-
b) profit & loss			-	-	-	-
C.5 Exchange rate losses			-	-	-	-
C.6 Trasfers to:			-	-	-	-
a)investment property			-	-	-	-
b) disposal groups			-	-	-	-
C.7 Other decreases			5,171	-	-	5,171
D. Net closing balance			**79,830**	**59,758**	**265,584**	**405,172**
D.1 Total net impairment losses			319,075	1,133,919	461,292	1,914,286
D.2 Gross closing balance			**398,905**	**1,193,677**	**726,876**	**2,319,458**
E. Measurement at cost			**79,830**	**59,758**	**265,584**	**405,172**

Section 9 *Intangible assets – Caption 90*

9.1 "Intangible assets": composition

Captions/Amounts	31/12/2018		31/12/2017	
	Assets measured at cost	Assets measured at FV	Assets measured at cost	Assets measured at FV
1. Goodwill	**-**	**-**	**-**	**-**
2. Other intangible assets				
2.1 Owned	210,798	-	101,919	-
- internally developed assets	-	-	-	-
- other	210,798	-	101,919	-
2.2 Under finance lease	-	-	-	-
Total 2	**210,798**	**-**	**101,919**	**-**
3. Assets under finance lease				
3.1 Unopted assets	-	-	-	-
3.2 Withdraw due to termination lease	-	-	-	-
3.3 Other assets	-	-	-	-
Total 3	**-**	**-**	**-**	**-**
4. Assets under operating lease	**-**	**-**	**-**	**-**
Total (1+2+3+4)	**210,798**	**-**	**101,919**	**-**

9.2 Intangible assets: changes

	Total
A. Opening balance	**101,919**
B. Increases	**196,065**
B.1 Purchases	196,065
B.2 Reversal of impairment losses	-
B.3 Fair value gains recognized in:	-
- equity	-
- profit & loss	-
B.4 Other increases	-
C. Decreases	**87,186**
C.1 Sales	-
C.2 Amortisation	87,186
C.3 Impairment losses recognized in:	-
- equity	-
- profit & loss	-
C.4 Fair value losses recognized in:	-
- equity	-
- profit & loss	-
C.5 Other decreases	-
D. Closing balance	**210,798**

Section 10 *Tax assets and liabilities*

Article 16 of Law decree no. 83/2015, enacted on 27 June 2015, subsequently converted by Law no. 132/2015 of 6 August 2015, and amended the provisions of article 106 of the Consolidated Income Tax Act about the deductibility of impairment losses and losses on loans and receivables of banks and financial institutions.

Deferred tax assets and liabilities are recognised using the liability method pursuant to IAS 12 and Bank of Italy's specific instructions.

10.1 "Tax assets: current and deferred": composition

Captations	Total 31/12/2018	Total 31/12/2017
Current tax assets	5,259,024	9,114,380
Deferred tax assets (through equity)	119,312	148,015
Deferred tax assets (through profit & loss)	24,290,690	24,020,988
Total	**29,669,026**	**33,283,383**

Deferred tax assets refer to taxes on costs recognised in profit or loss and equity, which are deductible in future years in accordance with the current tax regulations and which mainly relate to impairment losses on loans and receivables, accruals to the provisions for risks, changes in actuarial gains and losses on pension plans which arose during the year and application of the provisions set out in Law decree no. 83/2015 referred to the deductibility of impairment losses and losses on loans and receivables.
By 2015, the immediate deductibility of losses and write-downs of loans to customers was expected to align the Italian banking system with tax criteria already in place in several EU countries and effectively eliminating a distortion of the competition.
For the sole financial year 2015, for the protection of the income tax, the deductibility has been reduced to 75% with the other 25% has been added to write downs and losses for the previous years which were not recovered as of 31 December 2014.
Pursuant the 2019 Italian Budge Law the total amount non-deducted in this format will now be recovered taxably in a 11-year timeframe – from 2016 to 2026 according to annual percentages modified from last with the Art. 1, paragraph 1056, of Law no. 145/2018. More specifically, the percentages are 5% for 2016, 8% for 2017, 10% for 2018, 12% from 2019 and 5% for 2025 and 10% for 2026.
Conversely, from the fiscal year 2016 exercise there is full and immediate deductibility.
The amendment described above also influences the IRAP regional tax.
Moreover, about the ACE (Aiuto alla crescita economica) facilitationit, it has been applied during the current balance sheet year, considering the notional return of 1.5% against the 1.6% percentage considered for the determination of the 2017 taxable income.
The ACE facility was also abolished starting from the 2019 tax period by Law no. 145/2018.

10.2 "Tax liabilities: current and deferred": composition

Captations	Total 31/12/2018	Total 31/12/2017
Current tax liabilities	6,171,717	4,193,219
Deferred tax liabilities (through equity)	2,039,162	2,039,162
Deferred tax liabilities (through profit & loss)	68	253
Total	**8,210,947**	**6,232,634**

Within the caption "Current tax liabilities" is also included the amount due at the first application of the new accounting standard IFRS9, as the company recorded a recovery in value of the provision for bad debts.
Deferred tax liabilities are mainly represented by the tax arising from the different valuation of receivables according to IAS, when first applied, which is deferred to subsequent years.

The deferred tax rates are: 27,5% (24,0 + 3,5%) for IRES (Art. 77 del D.P.R. n. 917/86) and 5,57% for IRAP.

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

	31/12/2018	31/12/2017
1. Opening balance	**24,020,988**	**27,126,657**
2. Increases	**269,702**	**-**
2.1 Deferred tax assets recognized in the year	269,702	-
a) related to previous year	-	-
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	269,702	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**3,105,669**
3.1 Deferred tax assets recognized in the year	-	3,105,669
a) reversals	-	3,105,669
b) impairment due to non-recoverability	-	-
c) due to changes in accountin policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
a) convertion into tax assets including: as per Law no. 214/2011	-	-
b) Other	-	-
4. Closing balance	**24,290,690**	**24,020,988**

10.3.1 Changes in deferred tax assets as per Law no. 214/2011 (recognized in profit or loss)

	31/12/2018	31/12/2017
1. Opening balance	**23,113,222**	**25,238,577**
2. Increases	**-**	**-**
3. Decreases	**-**	**2,125,355**
3.1 Reversals	-	2,125,355
3.2 Convertion into tax assets	-	-
a) arising on the loss of the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**23,113,222**	**23,113,222**

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

	31/12/2018	31/12/2017
1. Opening balance	**253**	**167**
2. Increases	**-**	**86**
2.1 Deferred tax liabilities recognized in the year	-	-
a) related to previous year	-	-
b) due to changes in accounting policies	-	-
c) other	-	86
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**185**	**-**
3.1 Deferred tax liabilities derecognized in the year	185	-
a) reversals	185	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**68**	**253**

10.5 Changes in deferred tax assets (recognized in equity)

	31/12/2018	31/12/2017
1. Opening balance	**148,015**	**116,290**
2. Increases	**-**	**31,725**
2.1 Deferred tax assets recognized in the year	-	31,725
a) related to previous year	-	-
b) due to changes in accounting policies	-	-
c) other	-	31,725
2.2 Nuove imposte o incrementi di aliquote fiscali	-	-
2.3 Other increases	-	-
3. Decreases	**28,703**	**-**
3.1 Deferred tax assets derecognized in the year	28,703	-
a) reversals	-	-
b) impairment due to recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	28,703	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**119,312**	**148,015**

The table shown is substantially composed by deferred tax on actuarial gain/loss from valuation on post-employment fund.

10.6 Changes in deferred tax liabilities (recognized in equity)

	31/12/2018	31/12/2017
1. Opening balance	**2,039,162**	**2,039,162**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities recognized in the year	-	-
a) related to previous year	-	-
b) due to change in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	
3.1 Deferred tax liabilities recognized in the year	-	-
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**2,039,162**	**2,039,162**

Section 12 *Other assets – Caption 120*

12.1 "Other assets": composition

	31/12/2018	31/12/2017
Tax credits (not classifiable as tax assets)	430.335	462.306
Items in transit not yet posted to destination accounts	4.771.965	4.394.384
Guarantee deposits	19.100	23.621
Advances to suppliers	186.109	71
Prepayments and accrued income not recognisable under a specific caption	512.194	498.795
Other items	151.747	286.218
Total	**6.071.450**	**5.665.395**

The captation "Tax credits" includes the amounts of Euro 381.354 relating to the virtual stamp duty.

The captation "Items in transit not yet posted to destination accounts" refers almost entirely to Bank Receipts and SDD awaiting collection.

LIABILITIES AND EQUITY

Section 1 *Financial liabilities measured at amortised cost – Caption 10*

1.1 Financial liabilities measured at amortised cost: breakdown by products of debts

Captions	31/12/2018			31/12/2017		
	With banks	With financial institutions	With customers	With banks	With financial institutions	With customers
1. Financing	2,096,167,685			2,160,601,284		
1.1 repurchase agreements						
1.2 other financing	2,096,167,685			2,160,601,284		
2. Debt instruments	1,889,791	902,136	15,693,676	3,247,022	3,765	11,399,156
Total	**2,098,057,476**	**902,136**	**15,693,676**	**2,163,848,306**	**3,765**	**11,399,156**
Fair value – level 1						
Fair value – level 2						
Fair value – level 3	2,098,057,476	902,136	15,693,676	2,163,848,306	3,765	11,399,156
Total fair value	**2,098,057,476**	**902,136**	**15,693,676**	**2,163,848,306**	**3,765**	**11,399,156**

The fair value of amounts due to banks, financial institutions and customers is their nominal amount as they are on demand or short-term financial liabilities.
Due to banks include:

Description	Amount
On demand current account exposures	90,728,384
Advances under reserve on cash orders or direct debits	63,867,529
Hot money at maturity	49,500,000
Commissions to be paid	412,399
Foreign currency advances	110,805,045
Supplier invoices received and to be received	344,826
Due to parent	1,781,802,109
Accrued expenses on hot money	175
Accrued under reserve on cash orders or direct debits	4,757
Accrued expenses on foreign currency advances	390,235
Due to principals	202,017
Total	**2,098,057,476**

“Other loans and borrowings” from financial institutions entirely consists of invoices received and to be received for syndicated transactions.

“Other loans and borrowings” from customers comprises factoring liabilities for receivables from assigned debtors recognised in the financial statements.

Section 6 *Tax liabilities – Caption 60*

For any details see section 10 of Assets section.

Section 8 *Other liabilities – Caption 80*

8.1 "Other liabilities": composition

	31/12/2018	31/12/2017
Taxes payable	605,825	576,449
Personnel	234,939	188,600
Social security institutions	598,728	590,330
Suppliers	608,927	953,175
Invoices to be received	553,021	1,279,643
Amounts to be credited under processing	8,633,748	6,177,579
Provisions for guarantees and commitments	0	39,530
Directors and Statutory auditors	23,504	43,566
Other	5,491,622	4,135,594
Total	**16,750,314**	**13,984,466**

The caption "Amounts to be credited under processing" includes:

- Euro 8.623.337 for remittances received but not yet allocated to the relevant captions;
- Euro 10.411 for bills after collections.

The caption "Other" comprises:

- Euro 3.250.943 for deferred income due to attribution on an accrual basis in relation to the duration of the underlying credit of the commissions invoiced to customers;
- Euro 1.780.125 for unallocated deferred income, Euro 318.286 for items awaiting settlement and Euro 142.268 for residual items.

Section 9 *Post-employment benefits – Caption 90*

9.1 Post-employment benefits: changes

	31/12/2018	31/12/2017
A. Opening balance	**2,430,284**	**2,363,578**
B. Increases	**23,517**	**155,109**
B.1 Accruals	23,517	39,746
B.2 Other increases		115,363
C. Decreases	**129,751**	**88,403**
C.1 Payments	60,665	81,199
C.2 Other decreases	69,086	7,204
D. Closing balance	**2,324,050**	**2,430,284**

The amount, calculated according to the national legislation, amounts to Euro 2,135,170. The actuarial simulations were performed according to the expected benefits method using the *projected unit credit method.*
The expected unit credit provides that the costs to be incurred during the year for the establishment of the TFR are determined on the basis of the share of the benefits accrued in the same year. According to the accrued benefit method, the employee's obligation is determined on the basis of the work already provided at the valuation date.

The following assumptions were adopted in the actuarial calculation:

	31/12/2018	31/12/2017
Technical discount rate	1,14%	0.87%
Annual inflation rate	1,50%	1,50%

Regarding the average discount rate, the value of the I-Boxx Corporates EUR AA 7-10 index taken on 14 December 2014 was taken as a reference.

Section 10 *Provisions for risks and charges – Caption 100*

10.1 Provisions for risks and charges: composition

	Voci/Valori	31/12/2018	31/12/2017
1.	Provisions for credit risk relating to financial commitments and guarantees given	1,185,397	
2.	Provisions for other commitments and other guarantees given		
3.	Provisions for pensions		
4.	Other provisions for risks and charges	3,096,303	3,261,433
	4.1. legal disputes	2,101,701	2,278,000
	4.2. personnel expense	994,602	983,433
	4.3. other		
	Total	**4,281,700**	**3,261,433**

With the introduction of the new IFRS 9 Standard, the scope of «off-balance sheet» exposures has changed. From 1 January 2018, the commitments and guarantees given are also included in these items, thus expanding the perimeter with respect to that of IAS 39.
Following the introduction of IFRS 9, the ECL is also calculated on non-impaired positions (stage 1 and stage 2) while for adjustments relating to impaired positions the devaluations continued to be applied analytically.

The sub-caption “Legal disputes” is comprised of:
- Passive lawsuits for Euro 2,064,000;
- Revocatory lawsuits for Euro 37,701;

The sub-caption “Personnel expense” is comprised of:
- Personnel training for Euro 61,168;
- Other personnel expense for Euro 933,434;

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees given	Pension funds	Other provisions	Total
A. Opening balance	**180,512**	**-**	**3,261,433**	**3,441,945**
B. Increases	**1,043,959**	**-**	**1,206,126**	**2,250,085**
B.1 Accruals	1,043,959	-	1,206,126	2,250,085
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to variations in discount rate	-	-	-	-
B.4 Other increases	-	-	-	-
C. Decreases	**39,074**	**-**	**1,371,256**	**1,410,330**
C.1 Utilisations	-	-	1,371,256	1,371,256
C.2 Changes due to variations in discount rate	-	-	-	-
C.3 Other decreases	39,074	-	-	39,074
D. Closing balance	**1,185,397**	**-**	**3,096,303**	**4,281,700**

For the sub-caption inherent to “commitments and other guarantees given”, it should be noted that the changes occurred during the year are essentially due to provisions for exposures classified in the "third stage".

10.3 Provisions for credit risk relating to financial commitments and guarantees given

	Provisions for credit risk relating to financial commitments and guarantees given			
	First stage	Second stage	Third stage	Total
1. Commitments to grant funds	101,085	823	1,083,489	1,185,397
2. Financial guarantees given				
Total	**101,085**	**823**	**1,083,489**	**1,185,397**

Section 11 *Equity – Captions 110, 120, 130, 140, 150, 160 e 170*

11.1 Share capital: composition

Types	31/12/2018
1. Share capital	85,000,002
1.1 Ordinary shares	85,000,002
1.2 Other shares	-

The share capital consists of 85,000,002 shares with a nominal amount of 1 Euro.

11.2 Treasury shares: composition

The company did not hold treasury shares either at 31 December 2018 or at 31 Dicembre 2017.

11.3 Equity instruments: composition

The company had not issued equity instruments either at 31 December 2018 or at 31 December 2017.

11.4 Share premium: composition

This reserve amounts to Euro 11,030,364.

11.5 Other information

Availability and distributability of the equity captions.

Nature	Amount	Utilisation	Available portion	Summary of use in the previous years	
				To cover losses	For other reasons
Share capital	85,000,002	-	-	-	-
Equity-related reserves	-	-	-	-	-
Income-related reserves					
Legal reserve	11,790,989	B	-	-	-
Share premium	11,030,364	A-B	5,209,011	-	-
Share premium	-	A-B-C	5,821,353	-	-
Other reserves	119,608,716	A-B-C	114,228,480	-	-
Other reserves	-	A-B	5,380,236		
Retained earnings	245,544	A-B-C	245,544	-	-
Total	**227,675,615**		**130,884,624**	**-**	**-**
Non-distributable portion	**-**	**-**	**10,589,247**	**-**	**-**
Remaining distributable portion	**-**	**-**	**120,295,377**	**-**	**-**

Key: A – capital increases; B – to cover losses; C – dividend distribution.

Other reserves include: FTA reserve equal to Euro 5,350,212; the reserve for unexercised *stock option* equal to Euro 304,394; - Euro 274,370 for the non-distributable post-employment benefit / loss reserve, for € 31,374 to the valuation, for balance sheet data as at 31.12.2017, of the investment in Compagnia Aerea Italiana appraised using the equity method and € 4,215,490 relating to the reserve deriving from first impact of IFRS9.

According to the Article 2427, comma 1, n. 22-septies of the Italian Civil Law the proposal for the allocation of the profit of year ended 31 December 2018 is hereby shown:

Net profit for the year	Euro	7,853,504
Profits from previous years	Euro	245,543
Profits to allocate	Euro	8,099,047
of which:		
5% of the profit to Legal reserve	Euro	392,675
Profits to Extraordinary reserve	Euro	7,460,828
Retained profits	Euro	245,544

11.6 Composition of caption 160 “Valuation reserves”

The caption Valuation reserves amounts to Euro -242,996, of which Euro -274,370 referred to actuarial gains/losses relating post-employment benefits and for Euro 31.374 to valuation, for financial statement data as at 31.12.2017, of the investment in Compagnia Aerea Italiana appraised using the equity method.

Other information

1. Financial commitments and guarantees given (other than those designated at fair value)

	Nominal value on financial commitments and guarantees given			31/12/2018	31/12/2017
	First stage	Second stage	Third stage		
1. Commitments to grant funds	**1,527,707,679**	**6,443,177**	**25,873,029**	**1.560,023,885**	**251,957,970**
a) Public administrations	2,412,839	258,112		2,670,951	8,356,580
b) Banks	9,360	-	-	9,360	-
c) Other financial institutions	3,357,922	-	-	3,357,922	2,603,726
d) Non-financial institutions	1,479,192,344	6,119,895	10,872,221	1.496,184,460	239,821,540
e) Households	42,735,214	65,170	15,000,808	57,801,192	1,176,124
2. Financial guarantees given	-	-	-	-	
a) Public administrations	-	-	-	-	
b) Banks	-	-	-	-	
c) Other financial institutions	-	-	-	-	
d) Non-financial institutions	-	-	-	-	
e) Households	-	-	-	-	

The values expressed in the table represent the nominal value net of the amounts already paid and gross of the total provisions.

PART C Notes to the income statement

Section 1 Interests – Captions 10 and 20

1.1 Interest and similar income: composition

Captions	Debt instruments	Financing	Other transactions	31/12/2018	31/12/2017
1. Financial assets measured at fair value through profit or loss:					
1.1. Financial assets held for trading	-	-	-	-	-
1.2. Financial assets designated at fair value	-	-	-	-	-
1.3. Other financial assets mandatorily valued at fair value	-	-	-	-	-
2. Financial assets measured at fair value through OCI	-	-	-	-	-
3. Financial assets measured at amortised cost:	-	25,925,446	-	25,925,446	27,043,892
3.1 with banks	-	41,327	-	41,327	7,592
3.2 with financial institutions	-	2,435,932	-	2,435,932	1,976,508
3.3 with customers	-	23,448,187	-	23,448,187	25,059,792
4. Hedging derivatives	-	-	-	-	-
5. Other assets	-		13,367	13.367	581
6. Financial liabilities	-	-			
Total	**-**	**25,925,446**	**13,367**	**25,938,813**	**27,044,473**
Of which: interest income on impaired financial assets	**-**	**1,467,044**	**-**	**1,467,044**	**-**

1.2 Interest and similar income: other disclosure

Foreign currency interest income on loans and receivables with customers and financial institutions amounts at Euro 2,477,910 (2017: Euro 1,685,225).

1.3 Interest and similar expense: composition

Captions	Financing	Securities	Other transactions	31/12/2018	31/12/2017
1. Financial liabilities measured at amortised cost					
1.1 Due to banks	(3,320,816)	-	-	(3,320,816)	(3,537,837)
1.2 Due to financial institutions	-	-	-	-	-
1.3 Due to customers	-	-	-	-	-
1.4 Securities issued	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
3. Financia liabilities at fair value through profit or loss	-	-	-	-	-
4. Other liabilities	-	-	(75)	(75)	(1,408)
5. Hedging derivatives	-	-	-	-	-
6. Financial assets	-	-	-	(38,114)	-
Total	**(3,320,816)**	-	**(75)**	**(3,359,005)**	**(3,539,245)**

Section 2 *Fee and commissions – Captions 40 and 50*

2.1 Fee and commission income: composition

Breakdown	31/12/2018	31/12/2017
A. Financial leasing	**-**	**-**
B. Factoring	**22,381,376**	**22,334,284**
C. Consumer credit	**-**	**-**
D. Merchant banking	**-**	**-**
E. Services	**-**	**-**
- fund management on behalf of third parties	-	-
- currency trading	-	-
- product distribution	-	-
- other	-	-
F. Collection and payment services	**-**	**-**
G. Servicing for securitisations	**-**	**-**
H. Other fees and commissions	**1,824,246**	**1,412,259**
Total	**24,205,622**	**23,746,543**

Starting from 2013, the company has used an IT tool for its factoring transactions to allocate one-off fees and commissions over the related term of the loans and receivables assigned.
At the reporting date, Euro 3,250,943 had been referred. Other fees and commissions include fees for transactions that do not fall under the scope of Law no. 52/91 (other financing, other sales, etc.).

2.2 Fee and commission expense: composition

Breakdown/Sector	31/12/2018	31/12/2017
A. Guarantees received	**(497,426)**	**(308,735)**
B. Distribution of third-party services	**-**	**-**
C. Collection and payment services	**-**	**-**
D. Other fee and commissions	**(2,739,438)**	**(2,756,906)**
d.1 factoring	(1,521,840)	(1,499,736)
d.2 other	(1,217,598)	(1,257,170)
Total	**(3,236,864)**	**(3,065,641)**

As per caption 40, fee and commission expense based on one-off fee and commission income are treated similarly. At the reporting date, the deferred amount was Euro 111,690.

Section 4 *Net trading income – Caption 80*

4.1 Net trading income: composition

Operations/Income components	Capital gains	Realised gains	Capital losses	Perdite da negoziazione	Net result
	(A)	(B)	(C)	(D)	[(A+B)(C+D)]
1. Financial assets held for trading					
1.1 Debt instruments					
1.2 Equity instruments					
1.3 Units/shares of open-end CIUs					
1.4 Financing					
1.5 Other					
2. Financial liabilities held for trading					
2.1 Debt instruments					
2.2 Debts					
2.3 Other					
3. Other financial assets and liabilities: exchange differences					**5.927**
4. Hedging instruments					
4.1 Financial derivatives					
4.2 Credit derivatives of which: natural hedges with the fair value option					
Total					**5.927**

Section 8 *Net impairment losses - Caption 130*

8.1 Net impairment losses for credit risk on financial assets measured at amortised cost: composition

Operations/Income components	Impairment losses 1			Reversals of impairment 2		31/12/2018	31/12/2017
	First and second stage	Third stage: Write-off	Third stage: Other	First and second stage	Third stage		
1. Loans and receivables with banks	**(18,908)**					**(18,908)**	**89**
Impaired loans and receivables purchased							
– leases							
– factoring							
– other							
Other	(18,908)					(18,908)	89
– leases							
– factoring	(18,857)					(18,857)	
– other	(51)					(51)	89
2. Loans and receivables with financial institutions	**(99)**			**8,413**		**8,314**	**21,152**
Impaired loans and receivables purchased							
– leases							
– factoring							
– other							
Other	(99)			8,413		8,314	21,152
– leases							
– factoring				8		8	22,925
– other	(99)			8,405		8,306	(1,773)
3. Loans and receivables with customers	**(2,876,794)**		**(15,802,126)**	**3,433,215**	**5,159,932**	**(10,085,773)**	**499,171**
Impaired loans and receivables purchased							
– leases							
– factoring							
– consumer credit							
– other							
Other	(2,876,794)		(15,802,126)	3,433,215	5,159,932	(10,085,773)	499,171
– leases							
– factoring	(2,351,321)		(15,727,705)	3,079,654	3,630,373	(11,368,999)	762,014
– consumer credit							
– pawn loans							
– other	(525,473)		(74,421)	353,561	1,529,559	1,283,226	(262,843)
Total	**(2,895,801)**		**(15,802,126)**	**3,441,628**	**5,159,932**	**(10,096,367)**	**520,412**

The table shows the effects of measuring the company's loans and receivables on the income statement.

Section 10 *Administrative expenses – Caption 160*

10.1 Administrative expenses: composition

Breakdown	31/12/2018	31/12/2017
1. Employees	**(13,771,293)**	**(13,601,277)**
a) Wages and salaries	(9,606,160)	(9,458,701)
b) Social security contributions	(2,699,073)	(2,663,309)
c) Post-employment benefits		-
d) Pension costs		-
e) Accrual for post-employment benefits	(23,517)	(39,746)
f) Accrual for pension and similar provisions:		-
- defined contribution plans		-
- defined benefit plans		-
g) Payments to external supplementary pension:	(818,837)	(806,057)
- defined contribution plans	(818,837)	(806,057)
- defined benefit plans		-
h) Other costs	(623,706)	(633,464)
2. Other personnel	**(13,920)**	**(14,720)**
3. Directors and statutory auditors	**(308,518)**	**(321,648)**
4. Retired personnel		**-**
5. Cost recoveries for personnel seconded to other companies	**156,461**	**131,814**
6. Cost reimbursements for personnel seconded to the company		**(20,014)**
Total	**(13,937,270)**	**(13,825,845)**

10.2 Average number of employees by category

Breakdown	31/12/2018		31/12/2017	
	Average	Reporting date	Average	Reporting date
Personale dipendente	**171**	**170**	**175**	**178**
a) Managers	7	8	7	7
b) Junior managers	77	78	75	77
including 3rd and 4^{th} level	41	43	40	41
c) Other employees	87	84	93	94
Other personnel	**4**	**6**	**2**	**1**

The average employee number does not include weighing for part-time contracts.

10.3 Other administrative expenses: composition

	31/12/2018	31/12/2017
Building costs:	(1,537,433)	(1,556,280)
- leases and maintenance	(1,494,728)	(1,510,643)
- utilities	(42,705)	(45,637)
Indirect taxes and duties	(1,489,663)	(1.647,682)
Postal, telephone, printing and other office expenses	(391,811)	(423,432)
Maintenance and charges for furniture, equipment and systems	(412,799)	(473,957)
Professional services and consultancy	(570,291)	(682,333)
Legal fees	(896,516)	(1.754,014)
Advertising, entertainment and gifts	(99,282)	(104,925)
Insurance premiums	(72,719)	(65,140)
Trasport, rentals and business trips	(494,940)	(490,261)
Outsourcing	(830,113)	(742,998)
Data registration by third parties	(201,122)	(273,940)
Membership fees	(61,446)	(57,715)
Outsourcing within Group	(90,000)	(90,000)
Outsourcing outside the Group	(43,130)	(41,883)
Other	(321,153)	(333,351)
Total	**(7,512,418)**	**(8,737,911)**

Section 11 Net accruals to provisions for risks and charges – Caption 170

11.1 Net accruals for credit risk inherent commitments to grant funds and given financial guarantees: composition

	Accruals	Re-allocations of surpluses	31/12/2018	31/12/2017
Net accruals for credit risk inherent commitments to grant funds and given financial guarantees	(1,043,959)	39,074	(1,004,885)	-

The table shows the value of the accruals / write-backs occurred during the year on the commitments to disburse only the “without recourse approved” operations (formal without recourse), i.e. the difference between the total approved receivables and the related advances (the lattest is represented in the balance sheet assets in the name of the transferor).

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

	Accruals	Re-allocations of surpluses	31/12/2018	31/12/2017
Net accruals to other provisions for risks and charges: composition	**(623,701)**	**-**	**(623,701)**	**(925,193)**
a) legal disputes	(623,701)	-	(623,701)	(1,182,168)
b) other	-	-	-	256,975

The provision is mainly attributable to a single dispute.

Section 12 *Depreciation and net impairment losses on property and equipment – Caption 180*

12.1 Depreciation and net impairment losses on property and equipment: composition

Asset/Income components	Depreciation (a)	Impairment Losses (b)	Reversals of impairment losses (c)	Carrying amount (a+b-c)
A. Property and equipment	**(188,703)**	**-**	**-**	**(188,703)**
A.1 Owned	(188,703)	-	-	(188,703)
a) buildings	(188,703)	-	-	(188,703)
b) for investment	-	-	-	-
c) inventory	-	-	-	-
A.2 Under finance lease	-	-	-	-
a) ad uso funzionale	-	-	-	-
b) for investment	-	-	-	-
A.3 Under operating lease	-	-	-	-
Total	**(188,703)**	**-**	**-**	**(188,703)**

Section 13 *Amortisation and net impairment losses on intangible assets – Caption 190*

13.1 Amortisation and net impairment losses on intangible assets: composition

Asset/Income component	Ammortisation (a)	Impairment Losses (b)	Reversals of impairment losses (c)	Carrying amount (a+b-c)
1. Other intangible assets	**(87,186)**	**-**	**-**	**(87,186)**
1.1 owned	(87,186)	-	-	(87,186)
1.2 under finance lease	-	-	-	-
2. Assets under finance lease	-	-	-	-
3. Assets under operating lease	-	-	-	-
Total	**(87,186)**	**-**	**-**	**(87,186)**

Section 14 *Other operating income, net – Caption 200*

14.1 Other operating expenses: composition

	31/12/2018	31/12/2017
- contingent liabilities	(59,874)	(182,077)
- other	(1,877)	(26,540)
Total	**(61,751)**	**(208,617)**

The caption “contingent liabilities” principally referred to interests, of previous reporting dates, recognized to a “participant” regarding a pool operation.

14.2 Other operating income: composition

	31/12/2018	31/12/2017
- recovery of taxes	161,217	236,646
- recovery of costs	364,751	453,556
- income for IT services rendered	268,142	233,912
- other	988,555	621,281
Total	**1,782,665**	**1,545,395**

The caption “Other includes” Euro 69.386 for factoring activities and other assignments.

Section 18 *Net gain on the sale of investments – Caption 250*

18.1 Net gain on the sale of investments: composition

	31/12/2018	31/12/2017
1. Buildings	**-**	**-**
1.1 Gains	-	-
1.2 Losses	-	-
2. Other assets	**4,801**	**4,827**
2.1 Gains	9,971	4,827
2.2 Losses	(5.,70)	-
Risultato netto	**4,801**	**4,827**

Section 19 *Income taxes – Caption 270*

Factorit did not participate in the domestic tax consolidation scheme in 2017 as its Parent did not exercise the option under articles 117 to 129 of the Consolidated Income Tax Act. The tax expense reflects a reasonable expectation of the taxes due for the year, based on the ruling tax regulations.

19.1 Income taxes: composition

	31/12/2018	31/12/2017
1. Current taxes (-)	(6,171,715)	(4,193,219)
2. Change in current taxes from previous years (+/-)	(168,943)	-
3. Decrease in current taxes for the year (+)	2,094,597	-
3.bis Decrease in current taxes for the year due to tax assets as per Law no. 214/2011	-	-
4. Change in deferred tax assets (+/-)	269,702	(3,105,669)
5. Change in deferred tax liabilities (+/-)	185	(86)
6. Tax expenses for the year	**(3,976,174)**	**(7,298,974)**

The current tax expense includes IRES at 24,0%, the additional IRES atl 3,5% and IRAP at 5,57%.
The caption “current taxes” also considers the amount relating to the tax effect consequent to the write-back on receivables due to the introduction of the new accounting standard IFRS9 equal to Euro 2,094,597 (tax effect accounted for in equity).
The caption “Decrease in current taxes for the year” shows the same amount as the tax effect.

19.2 Reconciliation between the theoretical and effectivet tax expense

	IRES		IRAP		
	Tax base	Tax	Tax base	Tax	Total
Theoretical tax expense	11,829,678	3,253,161	11,829,678	658,911	
Tax credit	-	-	-	-	
Increase in permanent differences	6,828,017	1,877,705	32,892,123	1,832,091	
Decrease in permanent differences	(126,408)	(34,762)	(24,885,479)	(1,386,121)	
Increase in temporary differences	2,391,067	657,544	-	-	
Increase in temporary differences (for the year as per Law no. 214/2011)	-	-	-	-	
Decrease in temporary differences	(2,497,507)	(686,814)	-	-	
Effective tax expense	**18,424,847**	**5,066,834**	**19,836,322**	**1,104,881**	**6.171,715**

The table also includes the tax effect, accounted for as a balancing entry to shareholders' equity, following the write-back on receivables due to the introduction of the new accounting standard IFRS9.

Section 20 *Post-tax profit (loss) from discontinued operations – Caption 290*

None.

Section 21 *Income statement: other information*

21.1 Breakdown of interest income and fee and commission income

Voci/controparte	Interest income			Fee and commission income			31/12/2018	31/12/2017
	Banks	Financial Institutions	Customers	Banks	Financial Institutions	Customers		
1. Financial leases	-	-	-	-	-	-	-	-
- Real estate	-	-	-	-	-	-	-	-
- Moveable property	-	-	-	-	-	-	-	-
- Operating assets	-	-	-	-	-	-	-	-
- Intangible assets	-	-	-	-	-	-	-	-
2. Factoring	**8,190**	**2,435,932**	**23,448,187**	**17,024**	**664,781**	**23,523,817**	**50,097,931**	**50,782,843**
- Current accounts	8,190	2,267,372	16,369,899	14,883	547,734	21,403,286	40,611,364	41,343,419
- Future loans and receivables	-	-	2,291,594	-	-	415,473	2,707,067	2,896,886
- Loans and receivables purchased outright	-	-	-	-	-	-	-	-
- loans and receivables purchased for less than their original value	-	-	-	-	-	-	-	-
- other financing	-	168,560	4,786,694	2,141	117,047	1,705,058	6,779,500	6,542,538
3. Consumer credit	-	-	-	-	-	-	-	-
- personal loans	-	-	-	-	-	-	-	-
- special purpose loans	-	-	-	-	-	-	-	-
- salary backed loans	-	-	-	-	-	-	-	-
4. Pawn loans	-	-	-	-	-	-	-	-
5. Guarantees and commitments	-	-	-	-	-	-	-	-
- commercial	-	-	-	-	-	-	-	-
- financial	-	-	-	-	-	-	-	-
Total	**8,190**	**2,435,932**	**23,448,187**	**17,024**	**664,781**	**23,523,817**	**50,097,931**	**50,782,843**

21.2 Other information

Breakdown of interest and similar expense

	Amount
Current account overdrafts	(63,836)
Advances under reserve	(23,200)
Hot money	(1,284,167)
Foreign currency advances	(1,949,613)
Prior year expense	(38,114)
Other interest	(75)
Total	**(3,359,005)**

PART D Other information

Section 1 Business operations

B. FACTORING AND ASSIGNMENT OF LOANS AND RECEIVABLES

B.1 – Gross amount and carrying amount

B.1.1 – Factoring transactions

Captions	31/12/2018			31/12/2017		
	Gross amount	Impairment losses	Carrying amount	Gross amount	Impairment losses	Carrying amount
1. Performing assets	**2,178,662,702**	**2,220,159**	**2,176,442,543**	**2,270,335,098**	**9,355,751**	**2,260,979,347**
- exposures to assignors (with recourse)	1,660,821,005	1,754,544	1,659,066,461	1,776,477,188	7,204,320	1,769,27,868
- future loans and receivables	79,812,401	309,834	79,502,567	115,882,116	571,968	115,310,148
- other	1,581,008,604	1,444,710	1,579,563,894	1,660,595,072	6,632,352	1,653,962,720
- exposures to assigned debtors (without recourse)	517,841,697	465,615	517,376,082	493,857,910	2,151,431	491,706,479
- purchased for less that their nominal amount	-	-	-	-	-	-
- other	517,841,697	465,615	517,376,082	-	-	-
2. Impaired assets	**54,103,186**	**33,628,535**	**20,474,651**	**33,125,164**	**22,682,252**	**10,442,912**
2.1 Non-performing exposures	**15,961,265**	**15,322,815**	**638,450**	**17,416,155**	**16,519,428**	**896,727**
- exposures to assignors (with recourse)	12,601,696	11,963,246	638,450	14,360,722	13,463,997	896,725
- future loans and receivables	702,889	702,889	-	703,495	627,800	75,695
- other	11,898,807	11,260,357	638,450	13,657,229	12,836,197	821,032
- exposures to assigned debtors (without recourse)	3,359,569	3,359,569	-	3,055,431	3,055,431	-
- purchased for less that their nominal amount	16,249	16,249	-	16,249	16,249	-
- other	3,343,320	3,343,320	-	3,039,182	3,039,182	-
2.2 Unlikely-to-pay exposures	**38,132,502**	**18,304,872**	**19,827,630**	**13,171,342**	**5,934,434**	**7,236,908**
- exposures to assignors (with recourse)	37,405,371	17,916,441	19,488,930	11,960,601	5,121,274	6,839,327
- future loans and receivables	11,465,001	4,514,427	6,950,574	5,182,316	1,736,688	3,445,628
- other	25,940,370	13,402,014	12,538,356	6,778,285	3,384,586	3,393,699
- exposures to assigned debtors (without recourse)	727,131	388,431	338,700	1,210,741	813,160	397,581
- purchased for less that their nominal amount	2,675	2,675	-	2,675	2,675	-
- other	724,456	385,756	338,700	1,208,066	810,485	397,581
2.3 Impaired past due exposures	**9,419**	**848**	**8,571**	**2,537,667**	**228,390**	**2,309,277**
- exposures to assignors (with recourse)	9,419	848	8,571	2,537,667	228,390	2,309,277
- future loans and receivables	-	-	-	-	-	-
- other	9,419	848	8,571	2,537,667	228,390	2,309,277
- exposures to assigned debtors (without recourse)	-	-	-	-	-	-
- purchased for less that their nominal amount	-	-	-	-	-	-
- other	-	-	-	-	-	-
Total	**2,232,765,888**	**35,848,694**	**2,196,917,194**	**2,303,460,262**	**32,038,003**	**2,271,422,259**

The table also provides details on the advances granted against assignments of loans and receivables that do not fall under the scope of Law no. 52/91.

Caption	31/12/2018			31/12/2017		
	Gross amount	Impairment losses	Carrying amount	Gross amount	Impairment losses	Carrying amount
1. Performing assets	111,497,000	529,779	110,967,221	85,361,329	531,772	84,829,557
2. Impaired assets	1,469,963	1,442,147	27,816	2,670,681	2,022,535	648,146
2.1 Non-performing assets	1,178,699	1,178,699	-	1,178,699	1,121,195	57,504
2.2 Unlikely-to-pay exposure	291,264	263,448	27,816	1,491,982	901,340	590,642
2.3 Impaired past due exposures	-	-	-	-	-	-
Total	**112,966,963**	**1,971,926**	**110,995,037**	**88,032,010**	**2,554,307**	**85,477,703**

B.2 – BREAKDOWN BY RESIDUAL MATURITY

Past due exposures and receivables, compared to the invoice payment date, are recognised in the "on demand" bracket if they are not impaired. If they are impaired, they are classified based on the due date estimated for financial statement purposes.

B.2.1 – Factoring transactions with recourse: advances and "outstanding"

By maturity	31/12/2018		31/12/2017	
	Advances	Outstanding	Advances	Outstanding
- on demand	197,516,336	400,124,491	167,143,609	379,189,007
- up to 3 months	1,072,376,827	1,310,352,894	1,220,800,243	1,476,146,560
- from 3 to 6 months	168,805,754	328,506,910	204,420,779	348,831,888
- from 6 months to 1 year	119,251,218	118,220,157	68,028,979	91,461,233
- after 1 year	121,252,277	70,418,460	118,924,589	56,220,619
- open item	-	-	-	-
Total	**1,679,202,412**	**2,227,622,912**	**1,779,318,199**	**2,351,849,307**

The table provides a breakdown of the values indicated in the previous table B.1, with reference only to receivables due from assignors, and excludes transactions not included in the scope of Law 52/91.
The breakdown advances with recourse was conventionally carried out in proportion to the expiration dates of the related total outstanding.
At the same time, it should be noted that the total amount of receivables related to the sale of receivables realized outside Law 52/91 at 31 December 2018 amounts to Euro 120,628,824.

B.2.2 – Factoring transactions without recourse: exposures

By maturity	Exposures	
	31/12/2018	31/12/2017
- on demand	20,756,889	13,305,994
- up to 3 months	436,939,361	330,545,815
- from 3 to 6 months	59,140,743	61,603,342
- from 6 months to 1 year	546,967	86,252,057
- after 1 year	330,822	396,852
- open item	-	-
Total	**517,714,782**	**492,104,060**

The table shows the carrying amount of exposures purchased for factoring without recourse and loans and receivables purchased at other than their nominal amount, broken down by residual maturity bracket.

B.3 – OTHER INFORMATION

B.3.1 – Turnover of assigned loans and receivables

	31/12/2018	31/12/2017
1. Transactions without recourse	**3,610,686,320**	**3,720,398,078**
- including: purchased for less than their nominal amount	-	-
2. Transactions with recourse	**9,933,253,196**	**9,370,864,614**
Total	**13,543,939,516**	**13,091,262,692**

The table shows the nominal amount of loans and receivables purchased during the year (turnover) in factoring transactions, split between without recourse transactions and with recourse/formal without recourse transactions.

The following table shows details of the turnover of “Other assignments”.

	31/12/2018	31/12/2017
- Without recourse	-	-
- With recourse	243,098,624	153,341,761
	243,098,624	**153,341,761**

B.3.2 – Collection services

The company did not perform collection only services in 2018 and 2017.

B.3.3 – Nominal amount of contracts to purchase future loans and receivables

	31/12/2018	31/12/2017
- Contracts to purchase future loans and receivables during the year	167,527,565	367,123,707
- Loans and receivables at the reporting date	280,833,940	425,599,600

D. – GUARANTEES GIVEN AND COMMITMENTS

D.1 – BREAKDOWN OF GUARANTEES GIVEN AND COMMITMENTS

	31/12/2018	31/12/2017
1) First demand financial guarantees given	**-**	**-**
a) Banks	-	-
b) Financial Institutions	-	-
c) Customers	-	-
2) Other financial guarantees given	-	-
a) Banks	-	-
b) Financial Institutions	-	-
c) Customers	-	-
3) Commercial guarantess given	**-**	**-**
a) Banks	-	-
b) Financial Institutions	-	-
c) Customers	-	-
4) Irrevocable commitments to grant funds	**228,928,337**	**251,918,441**
a) Banks	9,360	-
i) certain use	-	-
ii) uncertain use	9,360	-
b) Financial Institutions	2,537,382	2,603,726
i) certain use	-	-
ii) uncertain use	2,537,382	2,603,726
c) Customers	226,381,595	249,314,715
i) certain use	3,207,685	31,671
ii) uncertain use	223,173,910	249,283,044
5) Commitments underlying credit derivatives: protection sales	-	-
6) Assets pledged as collateral for third party obligations	-	-
7) Other irrevocable commitments	**-**	**-**
a) to issue guarantees	**-**	**-**
b) other	-	-
Total	**228,928,337**	**251,918,441**

The table shows the company's commitment to grant funds solely for "approved with recourse" (formal without recourse) transactions, i.e., the difference between the approved with recourse outstanding and the advances for approved with recourse transactions (shown under assets with the assignor).

The balance of Euro 225,720,652 refers to irrevocable commitments to grant funds for uncertain use as the company's commitment to grant funds is optional; in this case, it is not certain whether and to what extent the funds will actually be granted.

D.2 – FINANCING RECOGNIZED DUE TO ENFORCEMENT.

None.

Section 3 *Risks and hedging policies*

3.1 – CREDIT RISKS

<u>QUALITATIVE DISCLOSURE</u>

1. General information

Credit risk is traditionally the main risk involved in factoring. Constant modifications in credit disbursement, management and monitoring processes, based on the different counterparties involved, allow the company to contain this type of risk.
Credit quality is checked by monitoring both the counterparty's (assignor and assigned debtor) specific risk and the portfolio risk.
With respect to specific credit risk, the company uses the current procedures to assess the individual party's (assignor and assigned debtor) risk profile and that of its related parties, calculating the total potential risk related to the financed parties.
In the case of portfolio risk, the company has always focused on concentration risk, which covers exposures to large economic and/or legal groups.
This analysis also includes positions shared with the parent, Banca Popolare di Sondrio S.C.p.A., for which it assess the total amount of outstanding exposures.

2. Credit risk management policies

2.1 Organisational aspects

Factorit's lending process complies with the Credit regulations issued by its board of directors, which are consistent with the parent's lending regulations, the reference model for the group companies. These latter regulations establish common criteria and methods for credit management, while still allowing for special features that may be based on the particular types of financing and the nature of the counterparties.

The credit process is divided into the following phases:

- Credit policy;
- preliminary investigation;
- resolution;
- disbursement of credit;
- review of credit facilities
- monitoring;
- non performing loans management;

Credit policy

Ass well as the credit policy set by the parent company, also Factorit lending policy is based on the criteria of prudence and risk containment. This is reflected in a strict screening of the counterparties having granted credit facilities and the constant monitoring of their risk profile.
An optimal setting of the credit portfolio is pursued in compliance with the risk assumption parameters defined by the Risk Appetite Framework (RAF) and in line with dispositions set by the risk management policies of the Parent Company.

Preliminary investigation

The investigation is aimed at ascertaining certain assumptions regarding the transaction, including:
- the creditworthiness of the requesting counterparty;
- the characteristics of the loans sold;
- the solvency of the transferred debtors;
- asset risk, ie the interaction of individual names within the transferred portfolio whose risk profile is determined by the concentration of debtors and their nature;
- risk concentration;
- the consistency between the performance of the transaction and the risk assumed;
- any guarantees;

This phase calls for the involvement of the different departments - ensuring the respect of principle under contrasting roles andbasing risk assumed and the involvement of organizational structures different from the ones with commercial responsibilities.

Resolution

The resolution phase consists in a set of activities aimed at formulating the decision to take a credit risk - on the basis of the results arising from the preliminary investigations and taking into consideration any elements for judgment..
The Body with supervision function can resolve factoring operations for any amount and can delegate part of its competences to other internal organs, single or collegial, to this option.
In addition, thresholds are established beyond which a prior opinion of the Parent Company is mandatory.
The following elements are taken into consideration:
- amount of the requested loan;
- creditworthiness of the counterparty;
- adequacy of the technical form;
- adequacy of guarantees;
- risk concentration;

Disbursement of credit

Once credit lines are granted, these are made effective only after completion of the resolution requirements. In this phase, every aspect related to the characteristics of the contract is assessed.

In particular, before the effective disbursement of credit, the formal and substantial compliance with the contractual scheme envisaged for the agreed technical form and any clauses specifically introduced are checked.

Review of credit facilities

The credit exposures are subject to a periodic monitoring and review, for the purpose of ensuring the persistence of the conditions met during the preliminary investigation.
The review of an assignment is activated:
- on a time basis, that is, with fixed deadlines or according to defined intervals;
- on reporting of the monitoring functions that also make use of automatic systems of risk indicators;
- on the initiative of the organizational unit that manages the report.

Monitoring

Credit risk monitoring is observed in all the management phases that characterize the credit relationship through an effective process aimed at formulating timely assessments regarding any anomalies and critical issues.
Continuous monitoring of risk positions makes it possible to detect any signs of a deterioration in creditworthiness with a view to ensuring that the quality of the portfolio is maintained.
The credit monitoring model provides risk performance monitoring, in analytical terms, with an intensity, frequency and depth proportional to the seriousness of the anomalies detected and is based on dedicated strategies, organizational structures and processes.
The positions that are characterized by a significant risk are subjected to appropriate analysis by the relevant functions and, if concrete signs of criticality are found, it is decided, because of their seriousness, to put them under observation or classify them among the "deteriorated counterparties".

2.2 Management, measurement and control system

Generally speaking, the credit disbursement processes are automated for small amounts while they are discretionary and centralised at the head office for risk assessments of assignors and larger amounts.
Moreover, the parent takes on a coordination role and prepares mandatory opinions for credit facility applications that exceed the established limits.

2.3 Credit risk mitigation techniques

The essential features of a factoring transaction (numerous parties and the assignment of trade receivables) make it possible to mitigate the factor's risks through techniques designed to consolidate the transfer of risk with the assigned debtor and split it over a number of parties.
With respect to without recourse transactions, many mitigation clauses can be implemented, including:
- limiting the credit risk assumed for each debtor;
- obtaining direct guarantees or collateral;
- applying ceilings;
- limiting the risk in relation to the volume of assets brokered and the profitability of the relationship (maximum annual ceiling);

- assignor's assignment obligations;
- insuring the receivable.

2.4 Classification of financial instruments

The new impairment model requires the classification into three stages of the financial instruments included in the scope of application of IFRS 9. The three stages reflect the degree of deterioration in credit quality. The first two stages, which represent performing exposures, subdivide this classification into transactions that did not have a significant increase in credit risk with respect to the initial recognition from those that instead had it even though they did not fall under impaired exposures (stage 3).
For the purposes of assessing the significant change in credit risk, the peculiarities relating to the nature of the financial assets held and the reference context are considered. The company has a continuous credit risk monitoring process, able to perceive signs of a decline in the creditworthiness of counterparties, based on both internal and external information. On the occurrence of negative events, coded through automatic triggers or subjective evaluations of the credit analysts and / or of the relationship managers, the exposures are classified in a specific internal status and managed in a specific *Watchlist*.
The positions thus classified and highlighted in the various management phases by the information system in order to monitor the exposures and the activities aimed at protecting the credit risk, are classified as stage 2. Financial assets identified as *Forborne* are also considered as stage 2 while financial assets that have a *Pastdue* 30 days (although explicitly mentioned by the law) are excluded because, given the specific nature of the factoring activity to operate on trade receivables, by their very nature, it is likely that a delay in the balance can be expected on the effective expiry date it is not representative of an actual state of difficulty of the subject.

2.5 Expected loss

The expected loss is an estimate of the weighted probabilities of credit losses over the expected life of the financial instrument and is calculated on the basis of the stage classification defined above.
In particular:

- Expected loss at 12 months (PD at 12 months), for activities classified as stage 1. Losses expected at 12 months are those deriving from default events that are possible in the next 12 months (or in a shorter period if the expected life is less than 12 months), weighted by the probability that the default event will occur.
- Expected *lifetime* loss (PD *lifetime*), for activities classified as stage 2 and stage 3. Expected *lifetime* losses are those arising from default events that are possible throughout the expected life of the financial instrument, weighted by the probability of its occurrence the default.

For the performing, stage 1 and stage 2 positions, the expected loss is calculated as the presumable loss on the exposure at the balance sheet date for the probability that the position goes into default, where the probability of default varies depending on whether the position has led to a increased risk compared to the date of registration in the balance sheet (i.e. position in stage 2 - PD *lifetime*) or does not involve an increased risk (ie position in stage 1 - PD at 12 months).
The default probabilities thus defined are also corrected with *foward-looking* factors, based on a specific model adopted by the Parent Company.

2.6 Impaired financial assets

The technical and organisational procedures used to manage and monitor irregular assets depend on how irregular the position is.

As far as unlikely to pay exposures are concerned, the company monitors its relationship with the debtor, to:

- check whether the counterparty's financial/business difficulties can be reversed;
- assess the repayment schedules presented, considering the debtor's capacity to pay the amounts due within the timeframe set in the schedules, also considering the requests to ease the conditions applied to the positions in question;
- examine the outcome of the measures taken to normalise/recover the loans and receivables (repayment schedules, reviews of the technical forms of credit, etc.) and the reasons for their possible failure;
- calculate the related expected losses analytically, considering the reference economic and financial context.

With respect to doubtful debts, risks are controlled through the following procedures:

- for new positions, solicitation to their fixing;
- appointment of debt collection companies if necessary;
- assignment of new positions to third party legal advisors to file legal actions against the assigned debtors, assignors and any guarantors;
- in the case of positions that are being settled, check that the counterparties have honoured their commitments;
- regular checks of the correctness of the classification and analytical estimate of expected losses on the various positions.

The classification of positions is in line with the requirements of supervisory and internal regulations, which also set out the general guidelines for the analytical estimate of expected losses.

For Non-performing and Unlikely-to-pay exposures, the Company takes prospective recovery expectations into account in its assessments. In addition, the Company provides for a process that enables the amounts recoverable to be discounted according to the EIR rate of the transaction at the time of the first passage in Unlikely to Pay or Uncertainty.

For *Pastdue* exposures, in consideration of the historic low importance of this class, the Company uses a single parameter to calculate value adjustments on a flat-rate basis, calculated in line with the model adopted for performing exposures. This parameter is subject to periodic (annual) review based on the evolution of these exposures, considering a time span of 7 years.

QUANTITATIVE DISCLOSURE

1. Breakdown of credit exposures by portfolio and credit quality (carrying amount)

Category	Non-performing exposures	Unlikely-to-pay exposures	Impaired pastdue exposures	Unpaired past due exposures	Other unpaired assets	Total
1. Financial assets measured at amortised cost	638,451	19,855,444	15,877	119,972,599	2,204,844,067	2,345,326,438
2. Financial assets measured at fair value through OCI	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily valued at fair value	-	-	-	-	-	-
5. Financial assets available for sale	-	-	-	-	-	-
31/12/2018	**638,451**	**19,855,444**	**15,877**	**119,972,599**	**2,204,844,067**	**2,345,326,438**
31/12/2017	**954,228**	**7,827,571**	**2,323,827**	**75,586,731**	**2,304,258,744**	**2,390,951,101**

2. Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)

Categories	Impaired			Total partial Write-off	Not-impaired			Total (net exposure)
	Gross amount	Total impairment losses	Net exposure		Gross amount	Total impairment losses	Net exposure	
1. Financial assets measured at amortised cost	55,620,262	35,110,490	20,509,772	55,639,602	2,327,615,902	2,799,236	2,324,816,666	2,345,326,438
2. Financial assets measured at fair value through OCI								
3. Financial assets measure at fair value								
4. Other financial assets mandatorily valued at fair value								
5. Financial assets available for sale								
Total 31/12/2018	**55,620,262**	**35,110,490**	**20,509,772**	**55,639,602**	**2,327,615,902**	**2,799,236**	**2,324,816,666**	**2,345,326,438**
Total 31/12/2017								

Portafogli/qualità	Assets with poor credit quality	Other assets	Total
1. Financial assets held for trading	-	-	-
2. Hedging derivatives	-	-	-
31/12/2018	**-**	**-**	**-**
31/12/2017	**-**	**-**	**-**

3. Distribution of financial assets for maturity (carrying amounts)

Risk stages	First stage			Second stage			Third stage		
	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days to 90 days	Over 90 days
1. Financial assets measured at amortised cost	100,842,851	12,677,146	4,211,565	603,465	20,916	58,331	15,362	40,612	13,418,379
2. Financial assets measured at fair value through OCI									
Total at 31/12/2018	**100,842,851**	**12,677,146**	**4,211,565**	**603,465**	**20,916**	**58,331**	**15,362**	**40,612**	**13,418,379**
Total at 31/12/2017									

4. Financial assets, commitments to grant funds and financial guarantees given: dynamics of overall value adjustments and total provisions

Risk stages	Overall value adjustments												Of which: purchased or originated credit impaired financial assets	Overall provisions on: Commitments to grant funds and financial gurantees given			Total
	First stage				Second stage				Third stage								
	Financial assets measured at amortised cost	Financial assets measured at Fair value through OCI	Of which: individual write-downs	Of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through OCI	Of which: individual write-downs	Of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through OCI	Of which: individual write-downs	Of which: collective write-downs		Third stage	Second stage	Third stage	
Overall initial adjustments	**3,202,472**			**3,202,472**	**316,581**			**316,581**	**24,788,793**		**24,788,793**		**18,925**	**139,527**	**1,455**	**39,530**	**28,488,358**
Changes from purchased or originated credit impaired financial assets (+)																	
Cancellations different from write-off	(2,262,159)			(2,262,159)	(6,539)			(6,539)	(3,720,365)		(3,720,365)						(5,989,063)
Net impairment losses for credit risk (+/-)	1,776,442			1,776,442	(53,571)			(53,571)	15,253,999		15,253,999			(38,442)	(632)	1,043,959	17,981,755
Contractual variances without cancellation																	
Changes in the estimation methodology																	
Write-off									(1,385,927)		(1,385,927)						(1,385,927)
Other	(168,036)			(168,036)	(5,954)			(5,954)	173,990		173,990						
Overall closing adjustments	**2,548,719**			**2,548,719**	**250,517**			**250,517**	**35,110,490**		**35,110,490**		**18,925**	**101,085**	**823**	**1,083,489**	**39,095,123**
Recoveries from collection of financial assets subject to write-off									877,688		877,688						877,688
Write-off through Profit & Loss																	

5.Financial assets, commitments to grant funds and financial guarantees given: transfers among the different stages of credit risk

Categories	Gross value/ Nominal value					
	Trasfers from first to second stage		Trasfers from second to third stage		Transfers from first to third stage	
	From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
1. Financial assets measured at amortised cost	18,731,328	19,552,730	533,890	-	28,761,778	511
2. Financial assets measured at fair value through OCI	-	-	-	-	-	-
3. Commitments to grant funds and financial gurantees given	266,839	18,766,312	-	-	9,803,690	1,799,489
Total 31/12/2018	**18,998,167**	**38,319,042**	**533,890**	-	**38,565,468**	**1,800,000**
Total 31/12/2017						

6. Credi exposures to customers, banks and financial institutions

6.1 Credit and off-balance sheet exposures to banks and financial institutions: gross and net values

Exposure types	Gross exposure		Total value adjustment and total provisions	Net exposure	Total partial Write-off
	Impaired assets	Not impaired assets			
A. ON BALANCE SHEET EXPOSURES	**295,812**	**75,379,336**	**(336,259)**	**75,338,889**	
a) Non-performing exposures					
- Including: forborne exposures					
b) Unlikely-to-pay exposures	295,812		(267,564)	28,248	
- including: forborne exposures					
c) Impaired past-due exposures					
- including: forborne exposures					
d) Not-impaired past due exposures		41,027,899	(18,902)	41,008,997	
- including: forborne exposures					
e) Other assets		34,351,437	(49,793)	34,301,644	
- including: forborne exposures					
TOTAL A	**295,812**	**75,379,336**	**(336,259)**	**75,338,889**	
B. OFF BALANCE SHEET EXPOSURES					
a) Impaired					
b) Not impaired		3,367,282	(618)	3,366,664	
TOTAL B		**3,367,282**	**(618)**	**3,366,664**	
TOTAL A+B	**295,812**	**78,746,618**	**(336,877)**	**78,705,553**	

With the introduction of the new accounting standard IFRS9 in off-balance sheet credit exposures, in addition to the commitments on the part of without recourse not yet anticipated, also the credit lines granted to customers are reported.

6.2 Cash credit exposures to banks and financial institutions: dynamics of gross impaired exposures

Categories	Non-performing exposures	Unlikely-to-pay exposures	Impaired past-due exposures
A. Initial gross exposure		**295,812**	
- of which: not canceled sold exposures			
B. Increases			
B.1 from non-impaired exposures			
B.2 from impaired financial assets acquired or impaired exposure			
B.3 disposals from other categories of impaired exposures			
B.4 contractual variances without cancellation			
B.5 other			
C. Decreases			
C.1 to non-impaired exposures			
C.2 write-off			
C.3 receipts			
C.4 Profit from disposals			
C.5 Losses from disposals			
C.6 transfers to other categories of impaired exposures			
C.7 contractual variances without cancellation			
C.8 other			
D. Final gross exposure		**295,812**	
- of which: not canceled sold exposures			

6.2bis Credit exposures to banks and financial institutions: dynamics of exposures subject to gross concessions distinguished by credit quality

Quality	Forborne exposures: impaired	Forborne exposures: not-impaired
A. Initial gross exposure	**0**	**0**
- of which: not canceled sold exposures		
B. Increases		
B.1 rom not-impaired non-forborne exposures		
B.2 from not-impaired forborne exposures		
B.3 from impaired forborne exposures		
B.4 other		
C. Decreases		
C.1 to not-impaired non-forborne exposures		
C.2 to not-impaired forborne exposures		
C.3 to impaired forborne exposures		
C.4 write-off		
C.5 receipts		
C.6 Profit from disposals		
C.7 Losses from disposals		
C.8 other		
D. Final gross exposure	**0**	**0**
- of which: not canceled sold exposures		

6.3 Impaired cash credit exposures to banks and financial institutions: changes in total value adjustments

Categories	Non-performing exposures		Unlikely-to-pay exposures		Impaired past-due exposures	
	Total	Of which: Forborne exposures	Total	Of which: Forborne exposures	Total	Of which: Forborne exposures
A. Initial total adjustments	**0**	**0**	**267,564**	**0**	**0**	
- of which: not canceled sold exposures						
B. Increase						
B.1 from purchased or originated credit impaired financial assets						
B.2 other adjustments						
B.3 Losses from disposals						
B.4 transfers to other categories of impaired exposures						
B.5 contractual variances without cancellation						
B.6 other						
C. Decreases						
C.1 valuation value gains						
C.2 recovery receipts						
C.3 Profit from disposals						
C.4 write-off						
C.5 transfers to other categories of impaired exposures						
C.6 contractual variances without cancellations						
C.7 other						
D. Final total adjustments	**0**	**0**	**267,564**	**0**	**0**	**0**
- of which: not canceled sold exposures						

6.4 Credit and off-balance sheet exposures to customers: gross and net values

Exposure types	Gross exposure		Total value adjustements and total provisions	Net exposure	Total partial Write-off
	Impaired assets	Not impaired assets			
A.ON BALANCE SHEET EXPOSURES	**55,324,450**	**2,252,236,566**	**(37,573,467)**	**2,269,987,549**	**55,639,602**
a) Non-performing exposures	17,149,619		(16,511,168)	638,451	55,138,601
- of which: forborne exposures	-		-	-	
b) Unlikely-to-pay exposures	38,157,218		(18,330,022)	19,827,196	500,905
- of which: forborne exposures	2,298,417		(431,303)	1,867,114	
c) Impaired past due exposures	17,613		(1,736)	15,877	
- of which: forborne exposures					
d) Not impaired past due exposures		79.112.587	(148,985)	78,963,602	
- of which: forborne exposures					
e) Other assets		2,173,123,979	(2,581,556)	2,170,542,423	96
- of which: forborne exposures					
TOTAL A	**55,324,450**	**2,252,236,566**	**(37,573,467)**	**2,269,987,549**	**55,639,602**
B.OFF BALANCE SHEET EXPOSURES	**25,873,029**	**1,530,783,574**	**(1,184,779)**	**1,555,471,824**	
a) Impaired	25,873,029		(1,083,489)	24,789,540	
b) Non-impaired		1,530,783,574	(101,290)	1,530,682,284	
TOTAL B	**25,873,029**	**1,530,783,574**	**(1,184,779)**	**1,555,471,824**	
TOTAL A+B	**81,197,479**	**3,783,020,140**	**(38,758,246)**	**3,825,459,373**	**55,639,602**

With the introduction of the new accounting standard IFRS9 in off-balance sheet credit exposures, in addition to the commitments on the part of "without recourse" not yet anticipated, also the credit lines granted to customers have been reported.

6.5 Credit exposures to customers: dynamics of gross impaired exposures

Categories	Non-performing exposures	Unlikelt-to-pay exposures	Impaired past-due exposures
A. Initial gross exposure	**18,650,218**	**14,394,734**	**2,553,656**
- *of which*: not canceled sold exposures			
B. Variazioni in aumento	**2,896,790**	**64,248,980**	**3,646,046**
B.1 from not-impaired exposures	170,300	35,056,712	3,229,282
B.2 from impaired financial assets or impaired exposure			
B.3 transfers to other categories of impaired exposures	772,166	15,959	
B.4 contractual variances without cancellation			
B.5 other	1,954,324	29,176,309	416,764
C. Variazioni in diminuzione	**4,397,389**	**40,486,496**	**6,182,089**
C.1 to not-impaired exposures			
C.2 write-off	1,157,059	228,868	
C.3 receipts	3,240,330	33,372,230	2,947,723
C.4 Profit from disposals			
C.5 Losses from disposals			
C.6 transfers to other categories of impaired exposures		771,005	17,120
C.7 contractual variances without cancellation			
C.8 other		6,114,393	3,217,246
D. Final gross exposure	**17,149,619**	**38,157,218**	**17,613**
- *of which*: not canceled sold exposures			

6.5bis Cash credit exposures to customers: dynamics of exposures subject to gross concessions distinguished by credit quality

Qualities	Forborne exposures: impaired	Forborne exposures: not-impaired
A. Gross initial exposures	**23,218**	**6,739,824**
- of which: not canceled sold exposures		
B. Increases	**31,737,760**	
B.1 from not-impaired non-forborne exposures	1,287,973	
B.2 from not-impaired forborne exposures		
B.3 from impaired forborne exposures		
B.4 other	30,449,787	
C. Decreases	**29,462,561**	**6,739,824**
C.1 from not-impaired non-forborne exposures		6,739,824
C.2 from not-impaired forborne exposures		
C.3 from impaired forborne exposures		
C.4 write-off	3,989	
C.5 receipts	27,232,075	
C.6 Profit from disposals		
C.7 Losses from disposals		
C.8 other	2,226,497	
D. Final gross exposure	**2,298,417**	**0**
- of which: not canceled sold exposures		

6.6 Impaired cash credit exposures to customers: dynamics of overall value adjustments

Categories	Non-performing exposures		Unlikely-to-pay exposures		Impaired past due exposures	
	Total	Of which: Forborne exposures	Total	Of which: Forborne exposures	Total	Of which: Forborne exposures
A. Initial total adjustments	**17,695,990**	**3,989**	**6,595,410**	**4,611**	**229,829**	**0**
- of which: not canceled sold exposures						
B. Increases	**1,560,798**	**0**	**15,053,927**	**598,790**	**8,773**	**0**
B.1 value adjustments purchased or originated credit impaired financial assets						
B.2 other value adjustments	914,841		14,886,052	365,014	1,233	
B.3 Losses from disposals						
B.4 transfers to other categories of impaired exposures	645,948		1,436			
B.5 contractual variances without cancellation						
B.6 other	9		166,439	233,776	7,540	
C. Decreases	**2,745,620**	**3,989**	**3,319,315**	**172,098**	**236,866**	**0**
C.1 valuation value gains	91,618		449,276	167,487	7,231	
C.2 recovery receipts	1,496,943		1,995,328	4,611	228,094	
C.3 Profit from disposals						
C.4 write-off	1,157,059	3,989	228,868			
C.5 Transfers to other categories of impaired exposures			645,843		1,541	
C.6 contractual variances without cancellation						
C.7 other						
D. Final total adjustments	**16,511,168**	**0**	**18,330,022**	**431,303**	**1,736**	**0**
- of which: not canceled sold exposures						

7. Breakdown of credit exposure on and off-statement of financial position by external rating classes

Factorit, as per the exposures belonging to the Central Administration and Central banks portfolio, starting from this reporting period, uses the external rating of the ECAI Scope Rating AG.

Company	Class of creditworthiness	Rating	Rating Italia as at 31/12/2018
Scope Rating AG	2	B	BBB+

Moreover the company, starting from 31.03.2017, as regard the exposures belonging to "Corporates and other subjects" portfolio, uses the external rating of the ECAI Cerved Rating Agency S.p.A. Their valuations are only for resident companies with turnover equal to or higher than 50 million euros or with an exposure equal to or higher than 1,5 million euros.

Company	Class of creditworthiness	Rating
Cerved Group spa	1	A1.1, A1.2, A1.3
Cerved Group spa	2	Da A2.1 a A3.1
Cerved Group spa	3	B1.1, B1.2
Cerved Group spa	4	B2.1, B2.2
Cerved Group spa	5	C1.1
Cerved Group spa	6	Da C1.2 a C2.1

7.1 Distribution of financial assets, commitments to grant funds and financial guarantees given according to external rating classes (carrying amount)

Exposures	External rating classes						without rating	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Financial assets measured at amortised cost	**143,099,904**	**499,112,541**	**734,286,389**	**227,598,811**	**11,709,443**	**504,305**	**766,924,771**	**2,383,236,164**
- First stage	143,099,904	498,761,402	725,913,294	150,479,428	4,563,472	400,618	684,596,482	2,207,814,600
- Second stage		351,088	8,361,507	74,696,486	5,169.376	41,305	31,181,540	119,801,302
- Third stage		51	11,588	2,422,897	1,976,595	62,382	51,146,749	55,620,262
B.Financial assets measured at fair value through OCI								
- First stage								
- Second stage								
- Third stage								
Total (A + B)	**143,099,904**	**499,112,541**	**734,286,389**	**227,598,811**	**11,709,443**	**504,305**	**766,924,771**	**2,383,236,164**
Of which: purchased or originated credit impaired financial assets							18,925	18,925
C. Commitments to grant funds and financial guarantees given	**19,164,593**	**406,468,765**	**496,825,386**	**187,348,287**	**10,200,032**	**738,077**	**439,278,744**	**1,560,023,884**
- First stage	19,164,593	403,393,865	495,369,463	179,623,846	8,058,946	738,077	421,358,888	1,527,707,678
- Second stage		1,074,951	1,362,401	172,013	2,141,086	-	1,692,726	6,443,177
- Third stage		1,999,949	93,522	7,552,428	-	-	16,227,130	25,873,029
Total (C)	**19,164,593**	**406,468,765**	**496,825,386**	**187,348,287**	**10,200,032**	**738,077**	**439,278,744**	**1,560,023,884**
Total (A + B + C)	**162,264,497**	**905,581,306**	**1,231,111,775**	**414,947,098**	**21,909,475**	**1,242,382**	**1,206,203,515**	**3,943,260,048**

With the introduction of the new accounting standard IFRS9, in the off-balance sheet credit exposures have been reported, in addition to the commitments on the part of “without recourse” not yet anticipated, also the credit lines granted to customers.

9. Credit concentration

9.1 Breakdown of credit exposures on and off-statement of financial position by the counterparty's business segment

	Government and Central Banks			Other government agencies			Banks			Financial Institutions			Non financial Institutions			Households		
	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment	Net exposure	Individual impairment	Collective impairment
A. On balance																		
A.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-	-	-	638,451	16,253,214	-	-	257,954	-
Of which: forborne exposures																		
A.2 Unlikely to pay exposures	-	-	-	263,503	133,948	-	-	-	-	28,248	267,564	-	19,549,745	18,169,288	-	13,948	26,786	-
Of which: forborne exposures													1,855,853	428,408		11,261	2,895	
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-	-	-	15,877	1,736	-	-	-	-
Of which: forborne exposures																		
A.4 Other exposures	-	-	-	-	-	-	58,509,174	-	18,908	16,801,467	-	49,787	2,245.064.085	-	2.723.299	4.441.940	-	7,242
Of which: forborne exposures																		
Total A	**-**	**-**	**-**	**263,503**	**133,948**	**-**	**58,509,174**		**18,908**	**16,829,715**	**267,564**	**49,787**	**2,265,268,158**	**34,424,238**	**2,723,299**	**4,455,888**	**284,740**	**7,242**
B. Off-balance sheet exposures																		
B.1 Impaired exposures	-	-	-	-	-	-	-	-		-	-		9,797,710	1,074,511		14,991,830	8,978	
B.2 Other exposures	-	-	-	2,669,167	-	1,784	9,360		-	3,357,304	-	618	1,485,218,636	-	93,603	42,794,481	-	5,903
Total B	**-**	**-**	**-**	**2,669,167**	**-**	**1,784**	**9,360**		**-**	**3,357,304**		**618**	**1,495,016,346**	**1,074,511**	**93,603**	**57,786,311**	**8,978**	**5,903**
Total at 31/12/2018	**-**	**-**	**-**	**2,932,670**	**133,948**	**1,784**	**58,518,534**	**-**	**18,908**	**20,187,019**	**267,564**	**50,405**	**3,760,284,504**	**35,498,749**	**2,816,902**	**62,242,199**	**293,718**	**13,145**
Total at 31/12/2017	**8,199,829**	**-**	**-**	**44,572,327**	**139,997**	**216,771**	**15,229,675**	**-**	**-**	**28,922,386**	**267,564**	**54,619**	**2,540,818,278**	**24,412,471**	**9,694,430**	**2,523,321**	**8,291**	**4,302**

9.2 Breakdown of loans and receivables with customers by geographical segment

Exposures	ITALY		OTHER EUROPEAN COUNTRIES		UNITED STATES		ASIA		REST OF THE WORLD	
	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On balance sheet exposures										
A.1 Non-performing exposures	638,451	14,928,316	-	1,582,852	-	-	-	-	-	-
A.2 Unlikely-to-pay exposures	19,855,444	18,597,586	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	15,877	1,736	-	-	-	-	-	-	-	-
A.4 Other exposures	2,052,110,558	2,310,004	143,224,685	124,228	69,390,679	46,813	9,930,233	6,598	50,160,511	311,593
Total A	**2,072,620,330**	**35,837,642**	**143,224,685**	**1,707,080**	**69,390,679**	**46,813**	**9,930,233**	**6,598**	**50,160,511**	**311,593**
B. Off balance sheet exposures										
B.1 Impaired exposures	24,757,829	107.787	31.711	975,702						
B.2 Other exposures	1,505,369,011	98.519	27.838.527	3,231	479,094	76	298,589	72	63,727	7
Total B	**1,530,126,840**	**206.306**	**27.870.238**	**978,933**	**479,094**	**76**	**298,589**	**72**	**63,727**	**7**
Total at 31/12/2018	**3,602,747,170**	**36.043.948**	**171.094.923**	**2,686,013**	**69,869,773**	**46,889**	**10,228,822**	**6.670**	**50,224,238**	**311,600**
Total at 31/12/2017	**2,233,443,002**	**31,232,955**	**229,723,937**	**2,416,823**	**43,039,559**	**157,775**	**39,024,763**	**103,128**	**50,882,474**	**565,581**

In details, net exposures towards customers belonging to the category “rest of the world” are divided as follows:

- Australia for Euro 472,040;
- Etiopia for Euro 49,688,471:

9.2.1 Breakdown of loans and receivables with customers by geographical segment (Italy)

31/12/2018	North West Italy		Nord East Italy		Centre Italy		South Italy		Italy's Islands	
Credit quality	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On balance sheet exposures										
Non-performing exposures	107,666	5,000,464	141,788	1,637,356	99,678	1,631,480	166,662	5,865,696	122,656	793,321
Unlikely-to-pay exposures	1,464,380	2,250,192	1,132,379	3,071,169	17,034,723	12,580,667	207,328	664,213	16,635	31,344
Impaired pastdue exposures	8,942	884	-	-	3,593	355	-	-	3,342	497
Other operations	1,176,531,514	1,250,286	353,472,311	565,741	367,182,227	356,963	54,895,432	63,220	100,029,074	73,794
TOTAL A	**1,178,112,502**	**8,501,826**	**354,746,478**	**5,274,266**	**384,320,221**	**14,569,465**	**55,269,422**	**6,593,129**	**100,171,707**	**898,956**
B.Off balance sheet exposures										
Impaired exposures	20,066,288	9,704	846	1,266	4,606,040	14,976	83,094	79,500	1,561	2,341
Not-impaired exposures	863,444,416	38,558	355,664,778	31,328	185,173,231	18,489	75,941,494	7,248	25,145,092	2,896
TOTAL B	**883,510,704**	**48,262**	**355,665,624**	**32,594**	**189,779,271**	**33,465**	**76,024,588**	**86,748**	**25,146,653**	**5,237**
(TOTAL A+B) 31/12/2018	**2,061,623,206**	**8,581,088**	**710,412,102**	**5,306,860**	**574,099,492**	**14,602,930**	**131.294.010**	**6,679,877**	**125,318,360**	**904,193**
(TOTAL A+B) 31/12/2017	**1,260,278,833**	**8,463,820**	**362,773,550**	**4,812,828**	**280,956,345**	**4,355,228**	**33,417,949**	**7,112,843**	**119,085,472**	**939,847**

9.3 Large exposures

	31/12/2018	31/12/2017
a) Carrying Amount	1,018,444,411	1,295,968,828
b) Weighted Amount	902,237,426	989,368,305
c) Number	21	25

Pursuant to the regulatory provisions, the table shows the total amount and number of counterparties with risk positions that exceed 10% of the regulatory capital.
Risks for individual customers are considered jointly when there are legal and/or economic connections between them.
The “Weighted amount” is the sum of the on- and off-statement of financial position exposures with a customer, weighted according to the supervisory rules and considering the counterparty’s nature and any guarantees given.
By subscribing into the new Financial Broker official List on 23/05/2016, the margins related to the revocable trusts granted to customers are also included in the Large exposure exhibit. This is the main factor for increments in the amount and number.

10. Models and other methods to measure and manage credit risk

The company has factoring management software that enables daily monitoring of large exposures using estimated values.

11. Other quantitative disclosure

The total amount of large exposures is well below the global limit of eight times the regulatory capital.
Starting from the fourth quarter of 2017, for the risk exposures which fall above the 25% capital threshold, the Parent Company provides coverage of the exceeding individual limit by granting financial personal commitment.
At 31 dicembre 2018, three primary groups exceeded the above mentioned 25%.

3.2 – MARKET RISK

As the company does not have any assets in its trading portfolio, it is not exposed to market risk.
Therefore, it is only subject to interest rate risk on assets in its banking book and marginally to currency risk.

3.2.1 Interest rate risk

QUALITATIVE DISCLOSURE

1 – GENERAL INFORMATION

The company manages its market risks in line with the parent's regulations.
The parent manages and controls interest rate risk using the internal asset & liability management (ALM) model which processes the data that Factorit provides daily and makes the related operating decisions.
Interest rate risk is caused by differences, in timing and methods, in repricing interest rates of assets and liabilities. The existence of diversified fluctuations in interest rates in general causes both a change in the expected interest income or expense and a change in the fair value of assets and liabilities, and thus a change in the carrying amount of the captions at risk.

The characteristics of the company's assets and liabilities significantly diminish the impact of a change in market rates on the fair value of assets and liabilities.
The fast turnover of loans and receivables and the presence of exclusive short-term funding, ensuring frequent, closely spaced repricing, make it possible to keep lending and funding conditions aligned to market situations as they arise.

A.2. – Models and other methods to measure and manage interest rate risk

With respect to interest-bearing assets and liabilities a 200 bp increase in interest rates over twelve months would lead to an increase of €2,5 million in the future interest income.
The future interest income is the difference between future interest income on interestbearing assets and the future interest expense on interest-bearing liabilities calculated solely on transactions existing at the reporting date.
The effects of a 200 bp decrease in interest rates over twelve month would have not any impact.

A.3. – Other quantitative disclosure about interest rate risk

Assuming a sudden 200 bp increase or decrease in interest rates, the change in the company's assets would be below the warning threshold provided for in the regulator provisions (20% of regulatory capital).

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets and liabilities by residual maturity (re-pricing date) – Currency: EURO

Captions	On demand	Up to 3 months	From 3 to 6 months	From 6 moths to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**555,263,990**	**1,356,772,108**	**171,012,912**	**86,018,850**	**63,558,379**	**133,826**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
1.2 Loans and receivables	555,263,990	1,356,772,108	171,012,912	86,018,850	63,558,379	133,826	-	-
1.3 Other Assets	-	-	-	-	-	-	-	-
2. Liabilities	**305,377,809**	**1,695,939,710**	**1,239,550**	**-**	**-**	**-**	**-**	**-**
2.1 Financial liabilities	305,377,809	1,695,939,710	1,239,550	-	-	-	-	-
2.2 Debt instruments	-	-	-	-	-	-	-	-
2.3 Other liabilities	-		-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
3.1 Long positions	-	-	-	-	-	-	-	-
3.2 Short positions	-	-	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-	-	-
3.3 Long positions	-	-	-	-	-	-	-	-
3.4 Short positions	-	-	-	-	-	-	-	-

2. Breakdown of financial assets and liabilities by residual maturity (re-pricing date) - Currency: USD

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**11,094,046**	**96,455,473**	**-**	**-**	**28,269**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
1.2 Loans and Receivables	11,094,046	96,455,473	-	-	28,269	-	-	-
1.3 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**384,607**	**90,442,382**	**16,356,862**	**-**				**-**
2.1 Financial liabilities	384,607	90,442,382	16,356,862	-	-	-	-	-
2.2 Debt instruments	-	-	-	-	-	-	-	-
2.3 Other liabilities	-	-	-	-	-	-	-	-
3. Derivati finanziari	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
3.1 Long positions	-	-	-	-	-	-	-	-
3.2 Short positions	-	-	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-	-	-
3.3 Long positions	-	-	-	-	-	-	-	-
3.4 Short positions	-	-	-	-	-	-	-	-

3. Breakdown of financial assets and liabilities by residual maturity (re-pricing date) - Currency: CHF

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**163**	-	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
1.2 Loans and Receivables	163	-	-	-	-	-	-	-
1.3 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**24**	-	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Debts	24	-	-	-	-	-	-	-
2.2 Debt instruments	-	-	-	-	-	-	-	-
2.3 Other liabilities	-	-	-	-	-	-	-	-
3. Other derivatives	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
3.1 Long positions	-	-	-	-	-	-	-	-
3.2 Short positions	-	-	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-	-	-
3.3 Long positions	-	-	-	-	-	-	-	-
3.4 Short positions	-	-	-	-	-	-	-	-

4. Breakdown of financial assets and liabilities by residual maturity (re-pricing date) – Currency: OTHER

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**870,024**	**3,980,785**	**137,613**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
1.2 Loans and Receivables	870,024	3,980,785	137,613	-	-	-	-	-
1.3 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**6,171**	**4,389,791**	**516,381**	**-**	**-**	**-**	**-**	**-**
2.1 Debts	6,171	4,389,791	516,381	-	-	-	-	-
2.2 Debt instruments	-	-	-	-	-	-	-	-
2.3 Other liabilities	-	-	-	-	-	-	-	-
3. Other derivatives	-	-	-	-	-	-	-	-
Options	-	-	-	-	-	-	-	-
3.1 Long positions	-	-	-	-	-	-	-	-
3.2 Short positions	-	-	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-	-	-
3.3 Long positions	-	-	-	-	-	-	-	-
3.4 Short positions	-	-	-	-	-	-	-	-

3.2.2 Price risk

QUALITATIVE DISCLOSURE

1. General aspects

The Company is not exposed to price risk.

3.2.3 Currency risk

QUALITATIVE DISCLOSURE

1. General aspects

The company is marginally exposed to currency risk as it systematically hedges foreign currency items. This risk mainly exists for the following, although the volumes are limited:

- charges and interest income that is not offset by interest expense in currencies other than the Euro;
- foreign currency guarantees for transactions in Euros.

The company does not use internal measurement models but monitors its exposure to currency risk and reports on it once a quarter in accordance with the regulatory methods.

QUANTITATIVE DISCLOSURE

1. Breakdown of assets, liabilities and derivatives by currency

Captions	Currency					
	US Dollar	Pound sterling	Yen	Canadian Dollar	Swiss franc	Other currencies
1. Financial assets	**107,577,788**	**761,920**	**368**	**1,283,448**	**163**	**2,942,686**
1.1 Debt instruments	-	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-	-
1.3 Loans and Receivables	107,577,788	761,920	368	1,283,448	163	2,942,686
1.4 Other financial assets	-	-	-	-	-	-
2. Other assets	-	-	-	-	-	-
3. Financial liabilities	**107,183,851**	**725,539**	**-**	**1,280,665**	**24**	**2,906,139**
3.1 Debts	107,183,851	725,539	-	1,280,665	24	2,906,139
3.2 Debt instruments	-	-	-	-	-	-
3.3 Other financial liabilities	-	-	-	-	-	-
4. Other liabilities	**8,702**	**1,732**	**368**	-	**-**	**-**
5. Derivatives	**-**	**-**	**-**	**-**	**-**	**-**
5.1 Long positions	-	-	-	-	-	-
5.2 Short positions	-	-	-	-	-	-
Total assets	**107,577,788**	**761,920**	**368**	**1,283,448**	**163**	**2,942,686**
Total liabilities	**107,192,553**	**727,271**	**368**	**1,280,665**	**24**	**2,906,139**
Difference (+/-)	**385,235**	**34,649**	**-**	**2,783**	**139**	**36,547**

3.3 OPERATIONAL RISKS

QUALITATIVE DISCLOSURE

1. General aspects, management and measurement of operational risk

Operational risk, in accordance with the Basel Committee's definition, is the risk of losses resulting from inadequacy or malfunction of procedures, human resources and internal systems, or from exogenous events.
Operational risk also includes legal risk while strategic risks and reputation are excluded. Based on the Group's operational risk management policy and in line with the proportionality principle, the Operational Risk Management Framework (OMR) was further strengthened during 2017 and it comprises:

- a process for the collection of operational loss data (Loss Data Collection - LDC), aimed at ensuring an accurate detection of risk events that generate losses and the recording both of monetary values and of qualitative information that specify when, how, where and why the event arose;
- a process for assessing the prospective exposure to operational risk (Risk Self Assessment - RSA), aimed at investigating the perception of business experts about the potential risks in which the company could incur during business operations and to seize indications regarding the interventions, proposed or implemented, for the prevention and mitigation of risky phenomena;
- a process of measuring operational risk for the calculation of the capital requirement focused on the adoption of the "Basic Indicator Approach" (BIA) method, which provides for the application of a single regulatory coefficient (15%) to the average of the last three years observations of the Relevant Indicator, calculated in accordance with the procedures set the Community regulations.

Factorit periodically submits specific information flows to the Parent Company in order to contribute to the assessment of the degree of exposures to operational risks with reference to the entire Group.
In addition, the company annually contributes to the feeding of GRIFO database ("Governo rischi operativi nel factoring") taking part to the project promoted by the a project promoted by the intermediary association of factoring (i.e. ASSIFACT). This provides for the collection and storage of operational loss data in order to build a common database for the association partners.

QUANTITATIVE DISCLOSURE

Operating losses were recognized as part of the Group's "Loss Data Collection" activity according to the classification scheme of the operational risk events. This envisages 7 events types (First Level Event Type).
The recorded operating losses relate to events (Event Type 4 and 7) attributable to defaults / negligence relating to the application of laws, codes, behavioral rules and professional obligations towards customers or due to defects in the nature or characteristics of products, services and models including prudential provisions for legal disputes.
The capital requirement for operational risk is quantified with the basic method (Basic Indicator Approach - BIA) which provides for a single regulatory coefficient (15%) to the average of the last 3 observations of the Relevant Indicator, calculated in compliance with the Supervisory provisions.

Based on methodology (BIA), described in the previous paragraph, as at 31 dicembre 2018, it amounts to Euro 6,8 million.

3.4 LIQUIDITY RISK

QUALITATIVE DISCLOSURE

1. General aspects, management and measurement of liquidity risk

Bank of Italy defined liquidity risk as the risk for which a company is unable to meet its payment obligations or to fund its assets on a timely basis due to its inability to raise funds on the market (*funding liquidity risk*) and/or to disinvest its assets (*market liquidity risk*).

On the basis of such statement, Factorit objective is to epursue risk containment and to maintain the balance between assets and liabilities maturities while pursuing the increase in the levels of profitability.
Nevertheless, the data in the following table could be misleading. The time mismatch between levels of assets and liabilities is justified by the fact that the company's funds are almost completely held with the Parent Company and Banco BPM SpA Group, the second largest shareholder.
This circumstance makes it possible to state that liquidity risk is marginal.

However, the company's real liquidity risk is tied to the liquidity risk of its parent, whose adoption of specific guidelines is appreciable. They cover the concentration of funding with retail customers, who are very diversified, and in the interbank system, where there is a very high level of confidence in the bank.

QUANTITATIVE DISCLOSURE

The following tables have been prepared pursuant to the supervisory instructions issued by Bank of Italy. In particular, non-discounted cash flows are recorded in the relevant residual maturity brackets excluding all collective impairment losses.

1. Breakdown of financial assets and liabilities by residual contract maturity – Currency: EURO

Captions	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 months	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	After 5 years	Open term
Assets	**226,167,495**	**210,043,278**	**313,151,091**	**292,540,030**	**651,231,765**	**258,200,364**	**138,796,335**	**128,585,857**	**18,350,302**	**170,723**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments											-
A.3 Financing	226,167,495	210,043,278	313,151,091	292,540,030	651,231,765	258,200,364	138,796,335	128,585,857	18,350,302	170,723	-
A.4 Other assets	-	-	-	-	-	-	-	-	-	-	-
Liabilities	**304,267,620**	**1,913,544**	**3,621,433**	**1.644,581,675**	**46,384,935**	**1,239,550**	**548,312**	**-**	**-**	**-**	**-**
B.1 Due to:	-	-	-	-	-	-	-	-	-	-	-
- Banks	293,494,097	1,913,544	3,488,733	1.644,119,752	43,845,500	-	-	-	-	-	-
- Financial institutions	-	-	-	-	-	-	-	-	-	-	-
- Customers	10,773,523	-	132,700	461,923	2,539,435	1,239,550	548,312	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
Off balance sheet positions	**25,128,565**	**5,075,441**	**13,258,070**	**29,478,571**	**71,351,719**	**61,870,908**	**18,973,170**	**3,305,804**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Positive differentials	-	-	-	-	-	-	-	-	-	-	-
- Negative differentials	-	-	-	-	-	-	-	-	-	-	-
C.3 Financing to be received	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant funds	**25,128,565**	**5,075,441**	**13,258,070**	**29,478,571**	**71,351,719**	**61,870,908**	**18,973,170**	**3,305,804**	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	25,128,565	5,075,441	13,258,070	29,487,571	71,351,719	61,870,908	18,973,170	3,305,804	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-

With regard to liabilities, deposits with Banks are represented by Euro 1,781,802,109 from payables to the Parent Company, while Euro 74,219,058 are due to Banco Bpm SpA Group.

2. Breakdown of financial assets and liabilities by residual contract maturity – Currency: USD

Captions	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 year	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Afer 5 years	Open term
Assets	**11,129,825**	**13,914,273**	**16,160,182**	**30,542,604**	**35,862,378**	**-**	**28,403**	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-
A.3 Financing	11,129,825	13,914,273	16,160,182	30,542,604	35,862,378	-	28,403	-	-	-	-
A.4 Other assets	-	-	-	-	-	-	-	-	-	-	-
Liabilities	**384,607**	**-**	**17,610,640**	**17,880,832**	**54,950,909**	**16,356,862**	**-**	-	-	-	-
B.1 Due to:							-	-	-	-	-
- Banks	384,607	-	17,610,640	16,980,462	54,950,909	16,356,862	-	-	-	-	-
- Financial Institutions	-	-	-		-	-	-	-	-	-	-
- Customers	-	-	-	900,370	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
Off balance sheet positions	**175,343**	**9,862**	**22**	**495,097**	**688,446**	**13,230**	**-**	**-**	**-**	**-**	**-**
C.1 Financial Derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.2 Financial Derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Positive differentials	-	-	-	-	-	-	-	-	-	-	-
- Negative differentials	-	-	-	-	-	-	-	-	-	-	-
C.3 Financing to be received	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant funds	**175,343**	**9,862**	**22**	**495,097**	**688,446**	**13,230**	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	175,343	9,862	22	495,097	688,446	13,230	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-

3. Breakdown of financial assets and liabilities by residual contract maturity– Currency: CHF

Captions	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	After 5 years	Open term
Assets	**163**	**-**	**-**	**-**		**-**	**-**	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-
A.3 Financing	163	-	-	-		-	-	-	-	-	-
A.4 Other assets	-	-	-	-	-	-	-	-	-	-	-
Liabilities	**24**	**-**	**-**	**-**	**-**		**-**	-	-	-	-
B.1 Due to:		-	-	-	-		-	-	-	-	-
- Banks	24	-	-	-	-	-	-	-	-	-	-
- Financial Institutions	-	-	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
Off balance sheet positions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial Derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.2 Financial Derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Positive differentials	-	-	-	-	-	-	-	-	-	-	-
- Negative differentials	-	-	-	-	-	-	-	-	-	-	-
C.3 Financing to be received	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant funds	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-

4. Breakdown of financial assets and liabilities by residual contract maturity – Currency: OTHER

Captions	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	After 5 years	Open term
Assets	**873.261**	**251,514**	**503,294**	**54,456**	**3,173,978**	**137,781**	-	-	-	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-	-
A.2 Othe debt instruments	-	-	-	-	-	-	-	-	-	-	-
A.3 Financing	873.261	251,514	503,294	54,456	3,173,978	137,781	-	-	-	-	-
A.4 Other assets	-	-	-	-	-	-	-	-	-	-	-
Liabilities	**6,171**	**-**	**-**	**420,283**	**3,969,507**	**516,381**	**-**	-	-	-	-
B.1 Due to:							-	-	-	-	-
- Banks	6,171	-	-	420,283	3,969,507	516,381	-	-	-	-	-
- Financial Institutions	-	-	-	-	-	-	-	-	-	-	-
- Clustomers	-	-	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-	-
Off balance sheet positions	**150,731**	**119,660**	**10,092**	**-**	**-**	**-**		-	-	-	-
C.1 Financial Derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.2 Financial Derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-	-
- Positive differentials	-	-	-	-	-	-	-	-	-	-	-
- Negative differentials	-	-	-	-	-	-	-	-	-	-	-
C.3 Financing to be received	-	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant funds	**150,731**	**119,660**	**10,092**	**-**	**-**	**-**	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-	-
- Short positions	150,731	119,660	10,092	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-

Section 4 *Equity*

4.1 Equity

4.1.1 Qualitative disclosure

The company's equity is considered adequate to cover existing and future risks.
This is also due to a prudent dividend distribution policy which has allowed the company to allocate € 111,8 million to the reserves in the last eleven years.

		(Euro millions)		
2007-2014	**2015**	**2016**	**2017**	**Total**
87,9	11,5	3,2	9,2	111,8

4.1.2 Quantitative disclosure

4.1.2.1 Equity: breakdown

Captions	31/12/2018	31/12/2017
1. Share Capital	**85,000,002**	**85,000,002**
2. Share premium	**11,030,364**	**11,030,364**
3. Reserves	**131,888,245**	**118,499,935**
- income related	122,719,043	113,542,225
a) legal	11,790,989	11,034,847
b) statutory		
c) treasury shares		
d) other	110,928,054	102,511,378
- other	9,169,202	4,953,710
4. (Treasury shares)		
5. Valuation reserves	**-242,996**	**-318,667**
- Financial assets measured at fair value through OCI	31,374	
- Hedging of equity instruments measured at fair value through OCI		
- Financial assets (other than equities) measured at fair value through OCI		
- Property and equipment		
- Intangible assets		
- Hedge of investments in foreign operations		
- Cash flow hedges		
- Exchange rate gains (losses)		
- Currency differences		
- Non-current assets held for sale and disposal groups		
- Finacial liabilities measured at fair value through profit or loss		
- Special revaluation laws		
- Net actuarial losses on defined benefit pension plans	-274,370	-318,667
- Portion of revaluation reserves of equity-accounted investees		
6. Equity instruments		
7. Profit for the year	**7,853,504**	**15,122,818**
Total	**235,529,119**	**229,334,452**

4.1.2.2 Valuation reserves of financial assets measured at fair value through OCI: breakdown

Assets	31/12/2018		31/12/2017	
	Positive Reserve	Negative Reserve	Positive Reserve	Negative Reserve
1. Debt instruments				
2. Equity instruments	31,374			
3. Financing				
Total	**31,374**			

4.1.2.3 Valuation reserves of financial assets measured at fair value through OCI: annual changes

	Debt instruments	Equity instruments	Financing
1. Opening balance		-	
2.Increases		**31,374**	
2.1 Fair value increases		31,374	
2.2 Impairment losses for credit risk			
2.3 Reversal to the income statement of negative reserves			
2.4 Transfers to other equity components (equity instruments)			
2.5 Other			
3. Decreases			
3.1 Fair value decreases			
3.2 Write-backs for credit risk			
3.3 Reversal to the income statement of positive reserves			
3.4 Transfers to other equity components (equity instruments)			
3.5 Other			
4. Closing balance		**31,374**	

4.2. Own funds and regulatory ratios

4.2.1 Own funds

4.2.1.1 Qualitative disclosure

1. Common Equity Tier 1 (CET1)
2. Additional Tier 1 (AT1)
3. Tier 2 (T2)

The supervisory body uses the regulatory capital to assess the stability of the company and of the system.
Regulatory capital is subject to severe prudential controls, such as the requirements set on risks and risk concentration.
At the reporting date, the company's regulatory capital solely consisted of Common Equity Tier 1 capital.

4.2.1.2 Quantitative disclosure

Description	31/12/2018	31/12/2017
A. Common Equity Tier 1 (CET1) before application of prudential filters	**235,529,119**	**223,384,452**
B. CET1 prudential filters (+/-):		
B.1 Positive prudential filters IAS/IFRS (+)		
6.2 Negative prudential filters IAS/IFRS (-)		
C. CET1 including the elements to be deducted (A + B)	**235,529,119**	**223,384,452**
D. Elements to be deducted from CET1	**210,798**	**123,550**
E. Total Common Equity Tier 1 (CET1) (C – D)	**235,318,321**	**223,260,902**
F. Additional Tier 1 Capital (AT1) gross of the elements to be deducted and of the transitory disposition		
G. T2 prudential filters:		
G.1 Positive prudential filters IAS/IFRS (+)		
G.2 Negative prudential filters IAS/IFRS (-)		
H. Tier 2 capital (T2) grosso of the elements to be deducted and of the transitory disposition (F + G)		
I. Elements to be deducted from T2		
L. Total Tier 2 (TIER 2) (H – I)		
M. Elements to be deducted from CET1 and T2		
N. Total Own Funds (E + L – M)	**235,318,321**	**223,260,902**

Own Funds include entirely the profit for the year and the effect of the first application of the new accounting standard IFRS9.

4.2.2 Capital adequacy

4.2.2.1 Qualitative disclosure

Suitable regulatory capital allows the company to comply with the individual solvency ratio. This requirement is the ratio between regulatory capital and the sum of the risk-weighted assets.
At the reporting date, the risks weighing the assets are credit, currency and operational risks.
The company has chosen to use the standard method for credit risk, which entails the breakdown of the loans and receivables portfolio into sub-groups, considering the counterparties and products, and applying different prudential treatments. The weighing ratios of the exposures are based, when available, on the rating assigned to each counterparty by specialised credit rating agencies.

From the Prudential Supervisory Report dated 31 March 2017 the company has recognized, in line with its parent company, Cerved Rating Agency S.p.A. as its external credit assessment agency (ECAI) to determine the weight of credit risk in the standardized method with respect to the "companies and other subjects" portfolio.
The valuations of this agency are required for resident listed companies with a turnover equal to or greater than 50 million euros or with an exposure equal to or higher than 1,5 million euros.
Starting from the fourth quarter of 2017, Factorit has identified in Scope Rating AG the ECAI to be used for the determination of risk weighted assets with respect to exposures to Central Administrations, Territorial Bodies, Non-profit Bodies, Public Sector Bodies and Supervisory Intermediaries, and proceeded in due time to update the changes in ratings related to the States.

Factorit, in accordance with the provisions of the law, has notified the change of the ECAI of reference to the Supervisory Authority.

With reference to credit risk, the individual coefficient is 6%.

With respect to operational risk, Factorit uses the basic method. Accordingly, it calculates its requirement using a regulatory ratio of 15% applied to a business operating volume indicator identified as thee year average of total income.

4.2.2.2 Quantitative disclosure

Captions	Unweighted amounts		Weighted amounts/requirements	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
A. EXPOSURES				
A.1 Credit and counterparty risk	3,940,385,174	3,969,567,892	1,921,519,649	1,842,210,644
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			115,417,648	110,532,639
B.2 Requirement for the provision of payment services				
B.3 Requirement for issuing electronic money				
B.4 Specific prudential requirements			6,794,210	7,719,581
B.5 Total prudential requirements			122,211,858	118,252,220
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,034,779,135	1,970,870,320
C.2 CET1 / Risk weighted assets (CET 1 Capital ratio)			11.565%	11,328%
C.3 Total Own Funds/Risk weighted assets (Total capital ratio)			11,565%	11,328%

The weighted amount for credit and counterparty risk benefitted from the use of financial guarantees (fidejussioni) issued by the parent with respect to three groups (approximately with €119 million impact).

The risk-weighted assets, shown in caption C.1, and also used to calculate the ratios in captions C.2 and C.3, are calculated as the Total prudential requirements (B.5) multiplied by 16,67 (invers of the minimum mandatory ratio of 6%).

Section 5 *Statement of comprehensive income*

Captions	31/12/2018	31/12/2017
10 Profit for the year	**7,853,504**	**15,122,818**
Other comprehensive income that will not be reclassified to profit or loss		
20 Equity instruments measured at fair value through OCI:		
a) fair value differences	43,274	
b) trasfers to other equity components		
70. Defined benefit plans	61,099	(115,363)
100 Income taxes related to other comprehensive income without reversal to income statement	-28,702	31,725
190 Total other comprehensive income	**75,671**	**(83,638)**
200 Comprehensive income (captions 10+190)	**7,929,175**	**15,039,180**

Section 6 *Related party transactions*

6.1 Key management personnel's remuneration

Managers: remuneration of Euro 482,472 of which salaries equal to Euro 363,175, bonus and other incentives equal to Euro 35,000, non-monetary benefits of Euro 31,097 and fees for the position of managing director for Euro 53,200.

6.2 Loans given and guarantees given on behalf of directors and statutory auditors

See caption 110.a of the income statement.

6.3 Related party transaction disclosure

6.3.1. Transactions with Banco Bpm Group

Statement of financial position

Company	Loan assets	Financial liabilities	Other assets	Other liabilities
Banco BPM S.p.a.	3,852,849	73,681,934	2,095,107	537,124

Income statement

Company	Interest income	Interessi expenses	Interest expense on active syndacate	Factoring commissions	Other fee and commission expense	Other expense
Banco BPM S.p.a.	344	1,389,518	820,720	150,700	89,693	13,200

6.3.2. Transactions with the Parent and associates

Loans and receivables with banks

Banca Popolare di Sondrio S.c.p.a.	Amount
Ordinary current accounts– Euro	6,322,985
Ordinary current accounts – Foreign currency	20,498
Total	**6,343,483**

Due to banks

Banca Popolare di Sondrio S.c.p.a.	Amount
Ordinary current accounts	200,867,890
Hot money	1,580,000,000
Hot money accruals	3,667
Commissions to be paid	927,653
Supplier invoices	2,899
Total	**1,781,802,109**

Costs – banks

Banca Popolare di Sondrio S.c.p.a.	Amount
Interest expense	1,241,394
Fee and commission expense – expense	112,122
Fee and commission expense - factoring	927,653
Fee and commission expense – financial guarantees	497,426
Lease expense	213,487
Service contracts	90,000
Directors' fees	32,378
Seconded personnel	-
Total	**3,114,460**

Revenue– banks

Banca Popolare di Sondrio S.c.p.a.	Amount
Interest income – ordinary current accounts	1,044
Seconded personnel	128,455
Total	**129,499**

Costs – customers

Sinergia Seconda S.r.l.	Amount
Lease expense	1,205,073
Total	**1,205,073**

Pirovano Stelvio S.p.A.	Amount
Hotels and restaurants	1,637
Total	**1,637**

Section 7 *Other disclosures*

In accordance with the disclosure requirement of article 2497-bis of the Italian Civil Code, key figures from the most recently approved financial statements of the bank that manages and coordinates the company are provided below.

STATEMENT OF FINANCIAL POSITION

Assets	31/12/2017	31/12/2016
10. Cash and cash equivalents	112,049,023	96,466,584
20. Financial assets held for trading	607,920,318	1,014,376,806
30. Financial assets at fair value through profit or loss	351,053,774	163,116,546
40. Availvable for sale financial assets	6,787,508,046	6,643,534,743
50. Held-to-maturity investments	4,132,571,684	117,022,971
60. Loans and Receivables with banks	2,815,465,621	2,759,906,193
70. Loans and Receivables with customers	21,819,028,458	21,331,910,550
100. Equity investments	506,727,965	487,346,548
110. Property and equipment	184,145,045	170,969,964
120. Intangible assets	14,396,056	14,313,189
130. Tax assets	385,613,399	437,950,534
a) current	41,717,531	64,074,927
b) deferred	343,895,868	373,875,607
b1) including: as per Law no. 214/2011	307,112,948	335,353,219
150. Other assets	305,819,797	350,831,386
Total assets	**38,022,299,186**	**33,587,746,014**

Liabilities and Equity	31/12/2017	31/12/2016
10. Due to banks	5,635,658,170	2,249,796,181
20. Due to customers	26,244,477,812	24,913,251,427
30. Securities issued	2,784,807,929	3,089,135,232
40. Financial liabilities held for trading	51,079,682	87,615,749
80. Tax liabilities	27,779,910	30,470,573
b) deferred	27,779,910	30,470,573
100. Other liabilities	629,221,765	666,090,044
110. Post-employment benefits	42,848,291	42,271,279
120. Provisions for risks and charges	179,477,008	174,329,787
a) pension and similar provisions	141,658,773	130,873,531
b) other provisions	37,818,235	43,456,256
130. Valuation reserves	38,642,710	37,356,524
160. Reserves	856,064,897	803,540,688
170. Share premium	79,005,128	79,005,128
180. Share capitl	1,360,157,331	1,360,157,331
190. Treasury shares (-)	-25,321,549	-25,321,549
200. Profti for the year	118,400,102	80,047,620
Total liabilities and equity	**38,022,299,186**	**33,587,746,014**

INCOME STATEMENT

Captions	2017	2016
10. Interest and similar income	547,390,208	579,229,241
20. Interest and similar expense	-121,713,804	-164,028,900
30. Net interesti income	**425,676,404**	**415,200,341**
40. Fee and commission income	277,187,608	263,785,646
50. Fee and commission expense	-14,453,872	-14,274,152
60. Net fee and commission income	**262,733,736**	**249,511,494**
70. Dividends and similar income	18,623,815	18,191,127
80. Net trading income	37,930,083	12,589,330
100. Net gain from sales or repurchases of:	95,243,843	76,011,011
a) Loans and Receivables	-102	-79
b) available for sale financial assets	94,795,083	76,330,683
d) financial liabilities	448,862	-319,593
110. Net gain on financial assets and liabilities at fair value through profit or loss	4,247,438	4,307,436
120. Total income	**844,455,319**	**775,810,739**
130. Net impairment losses on:	-274,949,214	-260,808,124
a) loans and receivables	-231,983,535	-232,177,373
b) available for sale financial assets	-35,801,445	-25,188,829
c) held to maturity investments	-	-
d) other financial transactions	-7,164,234	-3,441,922
140. Net financial income	**569,506,105**	**515,002,615**
150. Administrative expenses	-438,614,938	-443,810,412
a) personnel expense	-189,379,026	-182,024,478
b) other administrative expenses	-249,235,912	-261,785,934
160. Net accruals to provisions for risks and charges	4,946,309	-1,279,781
170. Depreciation and net impairment losses on property, equipment and investment property	-14,362,189	-14,190,987
180. Amortisation and net impairment losses on intangible assets	-14,118,928	-13,433,218
190. Other operating income, net	68,152,303	64,901,082
200. Operating costs	**-393,997,443**	**-407,813,316**
210. Net losses on equity investments	-622,325	-1,680,491
240. Net gain on the sale of investments	12,354	10,374
250. Pre-tax profit from continuing operations	**174,898,691**	**105,519,182**
260. Income taxes	-56,498,589	-25,471,562
270. Post-tax profit from continuing operations	**118,400,102**	**80,047,620**
270. Profit for the year	**118,400,102**	**80,047,620**

Pursuant to article 149-duedecies of Consob's Issuer Regulation, the following table shows the fees for services provided by the following parties:

- the independent auditors for audit services.

Type of service	Service provider	Fees
Audit	EY S.p.A.	30,500
Half-year checks for Banca Pop. di Sondrio	EY S.p.A.	7,500
Half-year checks for Banco BPM	EY S.p.A.	4,000
Certification to the Supervisory Authority	EY S.p.A.	25,000
Other services	EY S.p.A.	5,000

(Euro)

The above fees do not include VAT or accessory expenses.

Report from the Board of Auditors to the Shareholders' Meeting

Dear shareholders,

In carrying out our duties pursuant to the law, we have followed the rules of conduct recommended by the Italian National Council of Accountants and Tax Advisors. Therefore, in accordance with the law and the aforementioned rules, we have monitored compliance with the law, the bylaws, and proper standards of administration in management of the Company, as well as the adequacy of the organizational structure and systems of internal control.

With regard to compliance with the law, the bylaws, and proper standard of administration, we note that during fiscal year 2018, the Directors did not perform any transactions contrary to the provisions of law or the bylaws, nor did they perform any transactions which were manifestly imprudent or detrimental to the Company. We also note that in terms of business management, the Directors and Management adhered to proper standards of administration and economic rationality. In this regard, we add that in operating terms, we did not note any conduct which diverges from or conflicts with decisions made by the Directors.

With regards to the meetings of company bodies, we note that the Board of Auditors participated to the Shareholders' Meeting of April 13, 2018 to approve the 2018 financial statements. Furthermore, we note that the Board of Auditors participated to eight meetings of the Board of Directors held during the year. We can attest that all meetings of the Board of Directors, as well as the said Shareholders' Meetings, were called and held in compliance with the applicable laws. We also note that the Board of Auditors met eleven times during fiscal 2018.

In terms of our activity of supervising the adequacy of the organizational structure, we focused on the constant monitoring of the organizational structure's ability to meet the company's operating needs, as well as the needs arising from membership in the Banca Popolare di Sondrio Banking Group. In this regard, we have not detected any problems worthy of note.

The activity of supervising the adequacy of the internal control systems was carried out primarily by maintaining relationships with the responsible structures of the company and the parent company, as well as with Unione Fiduciaria, which is responsible for the Conformity Function. Such activity refers in particular to the risks arising from the company's business and to the effectiveness of the IT systems on the financial reporting. In this regard, we put great attention to the activities carried out by the Company in order to comply with the new regulation in the field of risk controls and to the corresponding amendments done to the overall structure of internal controls in coherence with such regulation and with the guidelines issued by the Parent Company.

We have noted that there were no atypical or unusual transactions with the Group companies, third parties, or related parties. The Board of Directors' report and the explanatory note to the financial statements provide an exhaustive description of the nature and aggregate amount of transactions with related parties, the parent company, and affiliated companies during the year, as well as the financial and economic effects of such.

During the year, we have periodically contacted the Supervisory Board, obtaining regular updates on its supervisory activity regarding the proper functioning and appropriateness of the organization, management and control Model pursuant to Legislative Decree 231/2001. This activity did not reveal situations or conducts creating non-compliance risks or circumstances that might result in the company's possible administrative liability.

Controls that regard the keeping of regular accounts and accurate reporting of operating events in the financial statements were performed by the auditing company EY S.p.A (ex. Art. 2409 bis c.c.).

We discussed with EY S.p.A. the outcomes of the audit which did not reveal exceptions with regard to the financial statements, or any irregularities with regard to the organization and appropriateness of the accounting systems in terms of presenting an accurate picture of company affairs.

We monitored the definition and development of the financial statements as regard to its compliance to the relevant accounting standards (keeping particular attention to the going concern assumption) and to the related predisposition process.
In doing so, we paid particular attention, in addition to the applicability of the going concern assumption, to the correct application of the international accounting standard IFRS 9, as well as to the related clarification of the non-comparability of the balances resulting from the 2018 financial statements with those of the 2017 financial statements.

We can therefore attest that the financial statements that the Directors have submitted for your approval were prepared in accordance with the specific provisions applicable to their formation and that they have been drawn up in compliance to the IAS/IFRS international accounting standards adopted by the European Union. The accounting format complies with the form requirements applicable to credit and financial entities.

With regard to the Director's report, we note that the accounting auditing firm carried out the procedures indicated by the audit principle n. 720B (SA Italia) thus confirming that the Directors' report is consistent with Factorit S.p.A. financial statements as at December 31, 2018 and it complies with the applicable provisions of law. In this regard, the accounting auditing firm confirmed that with reference to the statement of which art.14, c. 2 lett. e) of Legislative decree 39/2010, no matters should be reported.

To complete our report, we declare that the Board has received no negative reports from third parties or any complaints pursuant to Art. 2408 of the Italian Civil Code.

In light of the above, and noting that the audit report released by EY S.p.A. contains no irregularities regarding the financial statements, nor any requests for information regarding what the Directors have analytically explained in the Directors' report and the explanatory note, with regard to the matters within our competence, we express our opinion in favor of approving the financial statements for the fiscal year 2018 and for the Directors' proposal for allocating net profit.

Finally, we point out that, with this Meeting, both the three-years appointment of the Board of Directors and ours as the Board of Statutory Auditors, expire. We therefore invite you to re-establish both Corporate Bodies and we thank You for the trust you have placed in us.

Milan, March 27, 2019

THE BOARD OF AUDITORS

Dott. Luca Zoani

Dott. Pio Bersani

Dott. Daniele Morelli

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Building a better working world

Independent auditor's report pursuant to article 14 and 19-bis of Legislative Decree n. 39, dated 27 January 2010

(Translation from the original Italian text)

To the Shareholders of
Factorit S.p.A.

Report on the audit of the Financial Statements

Opinion

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company as 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 43 of Legislative Decree n. 136, dated August 18, 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 Financial Statements section of our report.

We are independent of the Company 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.

Responsibilities of Directors and Those Charged with Governance 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 43 of Legislative Decree n. 136, dated August 18, 2015 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.

The directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption and, for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("*Collegio Sindacale*") is responsible, within the terms provided by the law, for overseeing the

Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming 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.

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 Factorit S.p.A. are responsible for the preparation of the Report on operations as at December 31, 2018, including its constitency with the related financial statements and its 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 Factorit S.p.A. as at December 31, 2018 and on its compliance with the applicable laws and regulations, and in order to assess whether it contains material misstatements.

In our opinion, the Report on Operations is consistent with the financial statements of Factorit S.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.

Milano, March 21, 2019

EY S.p.A.
Signed by: Davide Lisi, partner

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

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