



# nexi

2017 Reports and Financial Statements



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Together with our partner banks,  
**we work every day for millions  
of customers and businesses.**  
We work to make **every payment  
digital**, because it is simpler, safer  
and more practical for everyone.



# Letter from the Chairman and the Chief Executive Officer

Dear Shareholders,

2017 was an intense year for the Nexi Group, in which the transformation process launched in 2016 continued; in February, the 2017/2021 Business Plan of the Group was approved, which has the strategic objective of increasingly becoming the reference company for the evolution of the country towards digital payments, achieving a significant growth in profitability and contributing positively to the development of the country.

The board of directors and the new management team worked with determination to improve the organizational efficiency of the Group, directing a greater focus on the structures, improving customer orientation and efficacy of the decision-making process.

In November, Nexi was created from the CartaSi and ICBPI experience; therefore, an important rebranding project was completed, aimed at renewing the two historical brands ICBPI and CartaSi, which had by now little connotations to support the ongoing evolution of the activities. The project led to the change of the corporate names of ICBPI and CartaSi to "Nexi" and "Nexi Payments" respectively, more responsive to the Group's present and future plans and activities, and more consistent with the current positioning of the two companies in the digital payment market. The new brand, which wants to convey the projection towards the future and the proximity to our clients, was launched on 10 November 2017 with a series of events involving institutional representatives, partner banks and commercial stakeholders. As part of the Group's growth and development strategy, also externally in the e-money market, important acquisitions were completed, some of which were already launched in the previous year.

The acquisition of the business units relating to the merchant acquiring activities of Banca Monte dei Paschi di Siena and Deutsche Bank Italia was therefore initiated.

The 100% acquisition of Bassilichi S.p.A., the parent company of the Bassilichi Group, specialized in the area of payments and services for businesses, was then completed.

In the second half of the year, the transfer, to CSE (Consorzio Servizi Bancari), of the Nexi business unit active in providing transfer agent services for pension funds was also completed.

These transactions were carried out in a context of greater dynamism of the Italian economy, which saw a 1.5% GDP growth.

The awakening of the economy has favoured Italian banks, especially as regards loans to the private sector, the improvement of credit quality and the reduction of the weight of impaired loans. There was also an increase in profitability and a significant strengthening of capital ratios.

In reference to the markets in which the Group operates, the payments system remains dominated by cash, thus offering further development opportunities, but the digital payments sector is going through a phase of expansion, characterized by growth in all product segments.

The Group intends to drive this growth by supporting the banking system in the payment innovation process through important investments in technology so that banks can be increasingly competitive even in the digitalisation sector, obtaining benefits in terms of innovation and customer relations.

**Chairman**  
**Franco Bernabè**

This year, several new activities have already been carried out that go precisely in this direction. In November 2017, an instant bank transfer was launched called Instant Payment, which allows funds to be transferred in less than 10 seconds. In the micropayment sector, an initiative was launched that will eliminate, in 2018, commissions for transactions of less than Euro 10. A new international debt product has been released on the market, the first CVM campaigns have been launched with the banks, the prepaid card portfolio has been expanded and the new black contactless aluminium credit card has been launched, dedicated to a specific customer segment.

In the merchant services sector, the new app has been launched that allows merchants full control of their collections as well as a comparison of the business trend towards their respective competitors.

Total assets under management (AuM) of the Italian asset management sector reached about Euro 2,300 billion in the third quarter of 2017. The evolutionary scenarios of the next years foresee a continuation of growth with the possibility of achieving an average annual increase of 8% by 2020.

In 2017, the Group prepared the first non-financial statement, an important tool not only to respond to the requirements of Decree 254/2016 but also to share the social and environmental initiatives and activities of its work with stakeholders. Therefore, Nexi decided to start a structured and organic sustainability process.

The challenge is to grow, through continuous commitment to generate positive change that everyone can benefit from, promoting initiatives and simple and innovative solutions that are able to simplify the life of citizens, encourage business development, improve the efficiency of public administration and support, therefore, the growth of the country system and in general of the society in which we live and of which Nexi feels to be a responsible player.

The economic results achieved by the Nexi Group and Nexi in 2017 are positive, both as a whole and in comparison with those of the previous year.

The 2017 financial year closed with a consolidated EBITDA of € 304 million compared to € 227.3 million in 2016, with a contribution of € 34.5 million associated with new acquisitions. Consolidated net profit for the period amounted to € 791 million, compared to a result of € 104 million in 2016, having incurred significant expenses associated with the important transformation and reorganization process. Shareholders' equity totalled € 2050.8 million compared to € 2,059 million as at 31 December 2016.

2017, for the Bank, reported an EBITDA of € 145.2 million compared to € 121.6 million in 2016; the Company presents a profit for the year of € 89.5 million compared to a 2016 profit of € 84.2 million. Shareholders' equity amounted to € 2033.3 million compared to € 2,049.8 million in December 2016.

The growth prospects for 2018 remain favourable thanks to the current economic scenario which confirms a strengthening of the signs of recovery and a return of confidence to pre-recession levels.

We are working hard and energetically to boost the 2017-2021 Business Plan and the transformation process of the Group, evaluating all the opportunities that the market offers, aware of the importance of the challenges that await us but aware of our potential and ability to operate in the interest of the system, our clients, our shareholders and our people.

**CEO**  
**Paolo Bertoluzzo**

# Corporate positions

at 21 March 2018

<b>BOARD OF DIRECTORS</b>	<b>Chairman</b>	Franco Bernabè
	<b>Deputy Chairman</b>	Giuseppe Capponcelli
	<b>CEO</b>	Paolo Bertoluzzo
	<b>Directors</b>	Luca Bassi James Gerald Arthur Brocklebank Francesco Casiraghi Michaela Castelli Umberto Colli Simone Cucchetti Stuart James Ashley Gent Federico Ghizzoni Larry Allan Klane Robin Marshall Jeffrey David Paduch Ottavio Rigodanza
<b>BOARD OF STATUTORY AUDITORS</b>	<b>Chairman</b>	Alessandro Grange
	<b>Statutory auditors</b>	Lorenzo Banfi Paolo Francesco Maria Lazzati
	<b>Substitute auditors</b>	Alberto Balestreri Marco Giuseppe Zanobio
<b>GENERAL MANAGEMENT</b>	<b>General manager</b>	Paolo Bertoluzzo
	<b>Deputy Vice-General Manager</b>	Pier Paolo Cellerino

# Shareholders' Meeting Call

The Shareholders are convened to the ordinary Shareholders' Meeting in Milan, Corso Sempione no. 55, on 24 April 2018 at 3.00 p.m. first call and, if required, **on 26 April 2018, at 5.00 p.m. second call**, same place, in order to discuss the following

## **AGENDA**

1. Financial statements as at 31 December 2017; Report on Operations of the Board of Directors; reports of the Board of Statutory Auditors and the Auditing Company; related resolutions.
2. Appointment of the Board of Directors after determining the number and term of office of the directors. Determination of related fees; related resolutions.
3. Appointment of the Board of Statutory Auditors and its Chairman. Determination of related fees; related resolutions.
4. Remuneration policies of the Nexi Group; related resolutions.



# REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS

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**2017**

# 2017 Reports and Consolidated Financial Statements

## Banking group structure

As at 31 December 2017, the structure of the Banking Group was as follows:

- **Nexi S.p.A.** (Formerly ICBPI S.p.A.)  
Parent Company, registered in the National Register of Banks.
- **Nexi Payments S.p.A.**  
(Formerly CartaSi S.p.A.)  
Financial company registered in the Register of Payment Institutions pursuant to Art. 114-septies of the Consolidated Banking Act, in which the Parent Company has a 98.745% stake.
- **HELP LINE S.p.A.**  
Service company in which the Parent Company has a 70% stake.
- **OASI DIAGRAM – OUTSOURCING APPLICATIVO E SERVIZI INNOVATIVI S.p.A.**  
Service company, 100% owned by the Parent Company.
- **BASSILICHI S.p.A.**  
Service company, 100% owned by the Parent Company.
- **MONEYNET S.p.A.**  
Financial company registered in the National Register of Payment Institutions pursuant to art. 114-septies of the Consolidated Banking Act, indirectly held 100% by the Parent Company through Bassilichi S.p.A., with a 61% stake and by Consorzio Triveneto S.p.A., with a 39% stake.
- **CONSORZIO TRIVENETO S.p.A.**  
Service company, 100% owned by the Parent Company, directly with a 35.75% stake and indirectly through Bassilichi S.p.A. with a stake of 64.25%.
- **BASSMART S.R.L.**  
Service company, indirectly owned 95% by the Parent Company and directly owned with a 95% stake through Bassilichi S.p.A.
- **ARSBLUE D.O.O.**  
Service company under Serbian law, indirectly held 40.8% by the Parent Company through Bassilichi CEE.
- **BASSILICHI CEE D.O.O. BELGRADO**  
Service company under Serbian law, indirectly 80% owned by the Parent Company through Bassilichi S.p.A.
- **BASSILICHI CEE D.O.O. BANJA LUKA**  
Service company under Bosnian law, indirectly held 100% by the Parent Company through Bassilichi CEE D.o.o. Belgrade.
- **BASSILICHI CEE D.O.O. PODGORICA**  
Service company of Montenegrin law, indirectly 100% owned by the Parent Company through Bassilichi CEE D.o.o. Belgrade.

## Scope of consolidation

The scope of consolidation of the Nexi Group as at 31 December 2017 includes, besides the Group companies, the following:

- Hi-Mtf S.I.M. S.p.A., in which the Parent Company has a 25% stake.
- Unione Fiduciaria S.p.A., in which the Parent Company has a 24% stake.
- Win Join S.Cons.a r.l. in which Bassilichi S.p.A. has a 24% stake.
- Rs Records Store S.p.A. in which Bassilichi S.p.A. has a 30% stake.
- ICT Logistica S.p.A. in which Bassilichi S.p.A. has a 33% stake.
- BASSNET S.r.l. in which Bassilichi has a 49,68 S.p.A. stake.
- K.Red S.r.l. in which Bassilichi S.p.A. has a 50% stake.

## Prudential scope of consolidation

The Company Mercury UK HoldCo Ltd, is at the top of the prudential scope of consolidation

The scope also includes:

- Latino Italy S.r.l.;
- Mercury Payment Services S.p.A.



# BOARD OF DIRECTORS' REPORT ON BANKING GROUP OPERATIONS

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**2017**

# Board of Directors' Report on Banking Group Operations

## International economy

In 2017, the growth rate of the world economy accelerated to 3.2%, from 2.5% in 2016, thanks to the reawakening of investments, which benefited from the recovery in profits and from the persistent expansion of monetary policies. In particular, in the United States, GDP grew by 2.3% (vs. 1.5% in the previous year), with a positive return on investments (from -0.6% to 4.7%) – made possible from the recovery of profits after the contraction reported in the previous year - while consumption maintained the same pace of 2016 (2.7%). In Japan, GDP grew by 1.8% (vs. 0.9%), driven both by investments (from 0.6% to 3.0%) - stimulated by the decisive surge in profits - and by consumption (from 0.1% to 1.2%). In the Eurozone, GDP growth rose to 2.4% (from 1.8%), thanks to the recovery in investments (from 3.6% to 4.4%) and exports (from 2.8% to 5.0%), while consumption slowed slightly (from 2.0% to 1.9%). Higher growth allowed unemployment rates to drop significantly, decreasing from 4.7% to 4.1% in the US, from 3.1% to 2.8% in Japan and from 9.7% to 8.7% in the Eurozone.

Inflation at the global level rose by one percentage point to 3.4%, reflecting the rise in raw material prices. Specifically, the change in consumer prices increased from 1.3% to 2.1% in the United States, from -0.1% to 0.5% in Japan and from 0.2% to 1.5% in the Eurozone. Net of the most volatile energy and food prices, it has fallen from 2.2% to 1.8% in the US and from 0.4% to -0.1% in Japan, while it has slightly risen from 0.9% to 1.0% - in the Eurozone.

## Italian economy

Italy has benefited from the greater liveliness of the world economy, with GDP growing by 1.5% (vs. 0.9% in 2016), although a large gap persists with the rest of the Eurozone. The recovery was driven by exports (whose pace rose from 2.4% to 5.2%) and by investments (from 2.8% to 3.4%), while consumption growth remained stable (at 1.5%). The labour market benefited from the recovery, with the unemployment rate dropping by one percentage point to 10.8%.

Inflation rose to 1.2% (vs. -0.1%), due to the increase in raw material prices. On the other hand, net of the most volatile components, it fell to 0.5% (vs. 0.7%), against a wage trend that remained stable at moderate levels (at 0.6%).

## Reference markets

The following section provides some information about the markets in which the Nexi Group operates.

## E-money

In the Italian market of Electronic Money, cash still plays the dominant role. In 2016, 95 transactions per capita were executed with non-cash instruments, compared to 215 of the Eurozone (Bank of Italy elaboration on ECB, BRI and Poste Italiane sources).

The payment card industry is going through a phase of development, characterized by the growth of all types of products, but which relies mainly on debt and prepaid products.

During 2016<sup>1</sup>, the market for POS enabled debit card grew: both in terms of number of cards (+6.8%) and use (volumes +11.8%, transactions

.....  
1 Source Banca d'Italia

+13.6%). Prepaid products slowed the decisive expansion of recent years, in particular due to the number of cards in circulation (+3.7%), while volumes (18.5%) and transactions (+23.5%) remain robust. Credit cards increased as a number (+0.3%), but the active ones fell by 2.2%; the use of these cards increased (volumes +5.9%, transactions +9.8%).

The Nexi estimates for the market in 2017 see international volumes (VISA + MasterCard) up by 12.6%, with a significant growing contribution from prepaid and international debit cards, whose POS volumes have increased by 24.2%; in particular, prepaid by 17.5%, international debt by 30.6%. Credit increased by 6.3%: the Classic segment by 6.2%, Commercial by 7.3%, Premium by 5.4%.

As for the revolving segment, there was an increase<sup>2</sup> of +8.4% in volumes financed through revolving credit cards in 2017.

## Payment systems

Globally and in the Eurozone, the trend in the use of alternative cash instruments is growing rapidly: between 2005 and 2015, in the Eurozone, transactions rose from 166 to 215 (2.9 per cent on average per year). The use of cards, which are more directly compared to cash at points of sale, has increased considerably: in the same period, the percentage of cards on total transactions with alternative means to cash increased from 30.1 to 43.7 percent.

In the international comparison, Italy is characterized by a low number of transactions with instruments other than cash: in 2015, 88 transactions per capita in Italy (92 in 2016) compared to an average figure of 215 in the Area. However, the use of these instruments in Italy shows high growth: on average, in the period 2012-2015, payment card transactions increased by 14.7 percent compared to 7.7 in the Area.

In the next few years, globally, the affirmation of electronic payments (E-payments and mobile payments) is expected. It is estimated that E-payments will grow at an average annual rate of 17.6% and mobile payments by 21.8% from 2015-2019, driven by the adoption of the Instant Payments and the strong growth that will be recorded in emerging markets. Attention is focused in particular on Instant Payments, increasingly considered by the Observatories to be one of the main phenomena in the "war on cash".

Specifically, in Europe and in Italy, the Payment Service Providers (PSP) and the European ACHs are creating products and services that will take advantage of the new infrastructure for the management of retail payments in "instant" mode, adopting as much as possible to the current SEPA schemes. The European Central Bank will activate a pan-European "Instant" tool (TIPS) at the end of 2018. In light of this complex scenario, it is worth pointing out that, as has already happened for SEPA, the success of these initiatives will be determined by the ability of the European System to activate, in advance, robust and efficient mechanisms of interoperability among the qualified operators, desired and urged by the European Legislator.

The digital revolution will inevitably also reflect on B2B-like payment processes, where companies will be able to considerably improve their management processes in the "financial" and "supply" segments and encourage the evolution of their business also through new and innovative procedures of collection and payment.

It should be noted that the strengthening of electronic invoicing and Instant payments is one of the main areas of efficiency improvement for companies.

The complex European regulatory framework aimed at standardizing payment processes, mitigating risks, expanding competition and general system innovation is having a significant influence on the operating and business models of Payment Service Providers (PSP) and, more generally, stakeholders interested in the subject.

In particular, the new Directive (EU) 2015/2366 (so-called PSD 2) on retail payments that should be implemented by each Member State by 2018, expanding the issues of the previous regulatory provision (PSD), opens the payment services market also to new non-bank subjects, so-called TPP (Third Part Payment), with which, as already mentioned, the European banking industry will also need to face.

It is clear that, in the coming years, there will be a tendency to harmonize, in terms of regulation and collaboration, the needs and activities of bank PSPs and those so-called TPP/FinTechs, in order to provide customers with better and cheaper products.

.....  
2 Source Assofin

It should be noted that the CBI Consortium, the ABI issuing body for the management of payment systems between companies, is implementing a system interbank gateway, with which the participating banks will be able to provide the TPP with the basic services required by PSD2. To create this gateway, Nexi has been selected by the CBI Consortium as a reference provider through a call for tenders.

## **Individual Managed Portfolios**

Total assets under management (AuM) of the Italian asset management industry reached about Euro 2,300 billion in the third quarter of 2017.

The evolutionary scenarios of the coming years foresee a continuation of growth with the possibility of reaching Euro 2,900 billion in AuM by 2020, with an average annual growth of 8%.

The main driver behind the growth assumptions of Asset Management in Italy is given by the expectation of the growth in the wealth investment level in savings products in order to align Italy with the European average. In 2016, the AuM value of the Italian sector was equal to 70% of GDP, against 132% of the European average. The percentage of the financial wealth of Italian households invested in asset management products was 31% in 2016, with a strong increase compared to 22% in 2008 but still far from the European average of 44%.

The progressive approach of Italian indicators to the averages of the other European countries will lead to the growth of the industry, regardless of cyclical factors such as the performance of stock market indices.

Among the savings products, Pension Funds will have a particular boost, for which a growth of more than 8% per year and higher than the market average is expected. Open-end pension funds will be incentivized both by the specific tax regime and by the uncertainties related to public pension schemes.

Within the mutual funds, the progressive increase of the market share of Foreign Law and Roundtrip funds is confirmed, whose share in the market for mutual funds in Italy is estimated to be higher than 70% in the coming years. Among the growth drivers, we must certainly consider the emergence of ETFs, currently on the market only as funds under foreign law.

## **Dear Shareholders,**

2017 ended with a consolidated Net Profit of Euro 791 million, compared to a Net Profit of Euro 104.0 million in 2016.

Shareholders' equity reached Euro 2,050.8 million, compared to Euro 2,059.1 million as at 31 December 2016.

These are positive economic results, both overall as well as with respect to the previous year, and were attained in a macroeconomic scenario of recovery that is still weak.

Operating revenue amounts to € 855.9 million. Consolidated EBITDA is equal to Euro 304.0 million, 33.7% against € 227.3 million in 2016.

## **Group evolution**

In 2017, the Group's growth and development strategy continued, also externally, in the E-money market.

In particular, significant acquisitions were completed, some of which were already launched in 2016.

In June, following the necessary authorizations from the competent Supervisory Authorities, acquisitions of the business units relating to the merchant acquiring activities of Banca Monte dei Paschi di Siena and Deutsche Bank Italia were completed.

In July, the acquisition of 100% of Bassilichi S.p.A., the parent company of the Bassilichi Group, an operator specialized in payments and services for businesses, for which an agreement was signed at the end of 2016, was completed.

Lastly, in December, the sale of the business unit active in the provision of transfer agent services for pension funds was finalized to CSE Consorzio Servizi Bancari, with which a preliminary agreement was signed in October.

## **2017-2021 Business plan**

During the meeting held on 9 February 2017, the Parent Company Board of Directors approved the Group 2017/2021 Business Plan, which is based on the guidelines that had already been discussed and approved by the board on 22 June 2016.

The ambition of this Plan is to make the Group the national leader in digital payments, reaching the scale necessary to invest in technology, services, skills with the aim of growing faster than the market, guiding the development of digital payments in Italy together with partner banks and, in particular, to pursue a significant increase in profitability.

This growth strategy focuses on payments and is based on four fundamental pillars:

- 1.** Organic growth, on the various business units, through real product leadership and customer experience leadership together with partner banks, accelerating the shift from cash to digital payments;
- 2.** Inorganic growth with targeted acquisitions in the payments sector to encourage scale growth and skills development more rapidly;
- 3.** Strong investments in technological excellence, in skills, in the commercial area and in partnerships with banks;
- 4.** Focus on efficiency and on the concentration of resources also to finance investments, significantly reducing costs in areas with lower growth impact and disposal of non-strategic activities.

The Plan sees a digital transformation of the Group and initiatives aimed at implementing innovative projects that allow, on the one hand, the offer of services designed to meet the most technologically advanced needs of the market and, on the other, to identify the best investment opportunities both in already established companies and in start-ups.

The key objectives of the Plan include the revision of the Group's corporate structure to make the legal structure of the individual components consistent with the nature of the business actually performed.

To this end, on 16 October 2017, the Board of Directors initially approved the overall and general framework of a corporate reorganization project of the banking group controlled by Nexi S.p.A. and the other subsidiaries of Mercury UK Hold-Co Ltd aimed at separating, within the group, the technological and digital payments activities from those connected to the banking license, eliminating the existing competitive disadvantages with respect to competitors and increasing overall efficiency.

The reorganization therefore sees the creation of:

**Nexi Payments (Imel)**, National champion of digital payments:

- focused exclusively on its core business and on the development of related technology
- with a flexible corporate structure able to support additional investments (e.g. IT and payment infrastructure) and future M&A activities

- with better access to the capital market thanks to the lower risk perceived by them for the activities related to digital payments compared to regulated banking activities.

**Nexi (bank)**, with a simplified organizational structure and a greater focus on banking services such as:

- Securities Services
- "Settlement" to be offered through a joint commercial offer between Nexi and Nexi Payments.

At the start of 2018, the Boards of Directors of Nexi and Nexi Payments definitively approved the project that was submitted to the competent Supervisory Authorities for the necessary authorizations.

## Rebranding

As part of the Group transformation process, a rebranding project was launched, involving both the Parent Company and CartaSi, motivated by the need to renew the two brands with connotations more related to the past rather than the future and to instruments connected to digital payments.

The Parent Company Board of Directors has therefore undertaken a process of assessing the adequacy of the company name of the two companies with respect to the reference market, the outcome of which showed that the previous business names, excessively related to the past and, however, little known by the public to whom they addressed, were unsuitable to support the ongoing evolution of the activities.

In light of these results, a research phase for a new company name was launched, also verifying the appreciation of the potential names with consumers and merchants.

Having taken note of the analysis on the adequacy of the two names and deemed appropriate to update the brands to the Group's present and future plans and activities, the Parent Company Board resolved to change the name of ICBPI to "Nexi S.p.A." and CartaSi to "Nexi Payments S.p.A.", as it is more consistent with the current positioning of the companies in the digital payments market.

On 25 October 2017, the Shareholders' Meetings of ICBPI and CartaSi, extraordinary meeting, therefore resolved to change their respective

company names with effect from 10 November 2017, consequently amending the Articles of Associations.

Nexi S.p.A., with effect from 10 November 2017, also transferred its registered office to Milan, Corso Sempione 55.

On the occasion of the launch of the new brand, a series of events were organized in Milan and Rome, attended by institutional representatives, partner banks and commercial stakeholders. Various activities were launched to spread the new brand across the press and digital media.

## Governance and control structures

On 27 July 2017, following the acquisition of Bassilichi S.p.A., the Chairman of the Nexi Payments Board of Directors, Franco Bernabè, resigned from the position of Chairman, maintaining the role of board member. The Board therefore resolved to co-opt as Board Member and Chairman of the Board of Directors, Marco Bassilichi, subsequently confirmed by the Shareholders' Meeting held in the ordinary session on 25 October 2017, until the approval date of the financial statements as of 31 December 2018.

## Group internal Audit system

In 2017, the projects to develop the Group Internal Control System continued in line with the evolution of the reference legislation.

The Audit Department, in continuity with the development activities of its control model, carried out further evolutionary measures in the areas of finalizing and managing the "Remedial Actions" emerged in the audits, developing further operational reports useful for the analysis and monitoring of the actions also by the Management involved. The actions implemented are in a process of improving the effectiveness of the audit action also through a more direct correlation with the main business risks.

Furthermore, the acquisition by Nexi of the Bassilichi scope involved the revision of the Governance systems and the Organizational and Operating Model of the Group subject to evaluation of the Internal Control System (SCI - Sistema dei Controlli Interni). In this context, the Audit Func-

tion initiated and conducted a project to evolve the SCI Overall Evaluation Framework and to extend the scope of analysis consistent with the new corporate structure.

Lastly, the fine-tuning activities of the set of "Remote Controls" continued, which the Audit Function had implemented in compliance with the requirements of the Supervisory Authorities. In this context, a new set of remote controls was also identified in the "E-money" area, which will be developed in the 2018 financial year.

The Compliance Department of the Parent Company, which continuously monitors the rules with regard to all company activities according to a "risk based" approach, updated the regulatory scope during the year applicable to the Nexi Group in order to incorporate both regulatory changes and the expansion of the corporate scope as a result of company acquisitions.

Within the companies of the former Bassilichi Group, for which there is currently a decentralized management model for the control functions, the method for measuring the non-compliance risk used by the Parent Company Compliance Department is being implemented.

Furthermore, during the year, activities were launched aimed at the implementation of the Directive (EU) 2015/849 within the Group concerning the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (so-called "IV AML Directive"), Directive 2015/2366/EU on payment services in the internal market (so-called PSD2), EU Regulation 2016/679 on data protection (so-called GDPR) and Directive 2014/65/EU relating to the markets for financial instruments (so-called MiFID II).

The IT tools in support of the Department are also being improved, also with reference to the self-assessment exercise of the risks of money laundering and financing of terrorism.

## Risk governance

Also, in 2017, the activity carried out by the Risk Management Department had the aim to support Management in view of a prudent and effective management of the company business, while ensuring full compatibility with the risk governance process, through the definition and compliance with the risk tolerance defined in the Risk Appetite Framework.

The Risk Appetite Framework was subject to the annual review in line with the changed context of the Group and with the new Business Plan; work continued on the regulatory adaptation and fine-tuning of the methods, systems and processes for measuring corporate risks; the project initiatives were analysed, some of which were classified as Significant Transactions (OMR - Operazioni di Maggior Rilievo), related to the development of new products/services for all the Group companies; as regards operational risk, the planned Risk Control Self-Assessment of the operational processes was carried out and the methodology of IT risk analysis was revised, based on the new IT strategy; Lastly, the new Recovery Plan was prepared, a document requested from the Banks under the Banking Recovery and Resolution Directive (BRRD), and the new Liquidity Plan, prepared according to the ILAAP guidelines (Internal Liquidity Adequacy Assessment Process) issued by the EBA.

## **Nexi group organisational structure**

In line with the transformation process already started in 2016, during the year, the activities aimed at achieving the organizational efficiency necessary to finance investments and achieve the strategic objectives of the 2017-2021 Business Plan were completed.

In particular, with the changes to the Group organizational structure completed in May and November 2017, the implementation of the Group organizational model was completed, concentrating on a greater focus of the structures, improving customer orientation and simplifying the decision-making process.

The main additions and changes to the organizational structures, as regards the Parent Company, include:

- the establishment of the Initiatives Committee in order to support the decision-making process regarding the implementation of new project initiatives relevant to the Group;
- the assignment also of the Recovery Committee function to the Operational Risk Committee, pursuant to the BRRD (Bank Recovery and Resolution Directive);

- the centralization of the activities previously carried out by the CFO of Nexi Payments, the transfer of the three organizational units of the Securities Services Institutional Sales Trading, Market Making and Middle Office to the Treasury unit, and the establishment of the Post Merger Integration (PMI) organizational unit; Project Governance for the management and integration of the Group's industrial and strategic activities;
- the establishment and specialization of the CISO function in the CIO Area, which includes all the management activities related to IT security and Business Continuity in a dedicated area;
- the establishment of the IT Governance & Strategy function in the CIO Area to oversee the activities relating to architectures, the management of the project portfolio and the operational management of contracts with outsourcers;
- the assignment of the CIO Area of software development and maintenance activities to the Payments & CBI competence center, related to Interbank Corporate Banking and other Banca-Impresa services previously allocated to the corresponding BU;
- actions in the CIO Area for the optimization of the monitoring of new strategic projects (IT Strategy) through:
  - the creation of the new M&A and Corporate Systems Competence Center which, in addition to including the activities overseen by the current Corporate Systems function, assumes responsibility for the implementation of new application solutions required for extraordinary transactions that impact on "corporate systems";
  - the review of the Merchant Services Competence Center structure which is divided into the following organizational units: Business Architecture, Switch, On Boarding & CRM Acquiring, POS and Acquiring Core Platforms;
  - the establishment in the Digital Competence Center of the Digital Architecture function with the task of defining and developing the architectures in the "digital" and "data" areas;
  - the creation in the IT Service Management and Infrastructures segment of the new Network unit with the task of defining and developing solutions for the network infrastructure to support all the CIO Area Competence Centers.

The main changes to the organizational structure of Nexi Payments, in addition to the aforementioned changes to the structure of the CFO, concerned:

- the establishment of the supervision of E-Commerce activities in the Merchant Services BU, and a staff unit dedicated to the development of partnerships in the Electronic Cash Register segment; the separation of the Marketing and Customer Value Management activities to allow greater focus on the aspects of competence;
- the creation of the ATM BU, an integral part of the Payments & ATM BU located in the Parent Company and coordinated by it, geared to the needs of Banking customers in relation to ATMs;
- the centralization of the Payments Services bank network and the Nexi Tender Office in the Merchant Services BU. The Management also revised its organizational model with a view to streamlining network support structures and further strengthening the monitoring of partnerships with banks;
- the review of the internal organization of the Operations Department in order to support the review of some key processes with a view to improving production efficiency and to better adhere to the organizational model of the Business Units. In particular, two vertical operational units were created, dedicated respectively to the provision of specific services for merchants (Operations Merchant Services) and specific services for cardholders (Operations Issuing);
- within the Business Development Department, in order to better adhere to the organizational model of the Business Units, the Mobile Products organizational unit was split into two units dedicated respectively to the Issuing and Merchant Services business lines.

As for Help Line, the most significant changes include:

- the introduction of the CEO position, a role that replaces that of the General Manager;
- the elimination of, with a view to simplifying and rationalizing support activities, functions in the "Governance and Support" staff, "Reporting and ICT", "Customer Relationship, Quality and Design" and "Planning and Monitoring", whose activities have been part centralized in the Parent Company structures, partly trans-

ferred to the Commercial Department and to the Operations Department of Nexi Payments, partly merged into the new Help Line staff unit;

- the creation of a single staff unit called Customer Operations Support dedicated to supporting Operational Units in providing services with a view to efficiency and quality of service;
- the revision of the Operational Units with a view to focusing on the main business lines by creating four competence centers: Issuing Customer Operations and Merchants Customer Operations at the Milan office, Issuing in Servicing Customer Operations at the Cividale office, Payments Customer Operations at the Anzola dell'Emilia office.

The main changes in the organizational structure of Bassilichi have include:

- the review of the Business Services BU, focused on non-payment activities (fleet management, security, back office, licensing) divided internally into the organizational units of Service Manager, Production, ICT and Commercial and Marketing and equipped with a staff area aimed to act as a link to the central staff structures;
- the establishment of the Planning & Control department whose objectives are to monitor the budget and profitability of the company and its subsidiaries (Consorzio Triveneto, Monneyt, Bassilichi CEE, BassmArt), verifying and updating the reference management indices (revenues, costs, margins and economic indicators) and producing the related analysis and reporting support;
- the establishment of the CFO area to which the Administration and Budget Department and the Finance and Treasury organizational units, General and Legal Affairs, and Communications were transferred;
- In addition, due to the acquisition by the Nexi Group of the former Bassilichi group, specific initiatives were launched for the preparation of the technical and organizational measures necessary for integration purposes.

As part of the Quality Management System, the verifications for the confirmation of the ISO9001 Certification for the Parent Company, Nexi Payments and Oasi and for the ISO9001 and UNI EN 15838 certifications (certification of excellence specific to the Contact Centers) were successfully passed for Help Line.

## Regulatory compliance

In 2017, the project was launched for updating the Organizational Model pursuant to Legislative Decree 231/01 for all the Group companies in order to incorporate the organizational changes that have occurred and the legislative changes introduced (for example, gangmaster system crime, organ trafficking crime, reforms to the penal code) and with the intent to implement, with a view to simplifying the model and making it more effective and usable, a rationalization and review of the Model definition methodology.

In the second half of 2017, the assessment initiative was launched to measure the adequacy of business processes and IT systems to the regulatory requirements set forth in the New European Data Protection Regulation, so-called. "GDPR". The overall plan for measures to adapt to the new legislation requires full compliance, in line with the deadlines set by the Regulations, by 2018.

The activities for the obligations provided for by the law of 18 June 2015, n. 95 and Council Directive 2014/107/EU of 9 December 2014, amending Directive 2011/6/EU have been completed regarding the mandatory automatic exchange of information in the field of taxation (common reporting standard - CRS).

The activities deriving from Directive 2014/65/EU (MiFID) and from regulation no. 600/2014 (MiFIR) were initiated. Adjustments to Record Keeping, Transaction Reporting and Post Trade Transparency were completed within the terms of the law and the Execution Policy was also updated. Developments are under way on the applications for the production of reports to be forwarded to the Supervisory Bodies and the adjustments to company regulations.

In reference to the introduction of IFRS 9, during 2017, Nexi carried out the project activities aimed at identifying the main impact areas and defining the reference methodological framework for the classification, measurement and impairment of financial assets. Within the scope of the project, the guidelines for the application of the IFRS 9 rules were defined and approved by the Board of Directors, and in particular:

- the business model;
- the procedures for carrying out the SPPI test (Sole payment of Principal and Interest);
- the impairment model also for the purposes of the classification of performing exposures.

In reference to IFRS 15, in the second half of the year, the Nexi Group undertook a project in order to analyse the impacts for the most significant contracts related to the recognition of revenues and the identification of the included obligation performance, so as to allow changes to the allocation of revenues starting from the first quarter of 2018.

Lastly, the Nexi Group started the project to adapt to the new regulations introduced by the Directive (EU) no. 2015/2366 on payment services in the internal market (Payment Services Directive, so-called "PSD2") and the related secondary regulation issued by EBA. In September, a first assessment phase was completed aimed at investigating the impacts and identifying the actions to be undertaken by preparing a remediation plan for the analysed mainstream (Processes & Operating Risks, Data Openings & TPPS Relationships, SCA & Fraud Detection and Contracts & Transparency) in line with the different timelines for the entry into force of the new regulation. The consequent implementation activities of the identified interventions are under way.

## Group IT

During the year, the IT Department concentrated, in addition to the execution of the project and maintenance initiatives of the Group's application range, on the following topics:

- Continuation of the reorganization and strengthening of internal staff through a hiring/insourcing plan.
- Completion of the design phase of the various ICT Strategy streams and start of the execution phase for the Infrastructures, Digital and Merchant Services areas.
- Strengthening of ICT Governance, with set-up of a structure dedicated to monitoring the project portfolio and overseeing the progress of strategic initiatives.
- Launch of a Spending Review program, aimed at reducing operating costs (running and processing).
- Continuation of the "Remediation" program aimed at improving the Group's technological infrastructures and resolving operational criticalities.

### ***ICT Services and Solutions for Issuing & Operations Systems***

As part of the Issuing & Operations Systems, extensive work was carried out in 2017 with the Issuing, Sales BUs and Service Manager teams in order to ensure continuous and effective management of Clients.

In particular:

- As regards International Debit, the Issuing commercial offer was extended with the international debit product, released on the equensWorldline platform and also implemented on the SIA platform, with the forecast of the latter to be completed by the end of the first quarter of 2018.
- The Value Partnership business model for the so-called "Large Banks" was revised in order to introduce new functionalities in line with the needs of the market and the objective of offering "best in class" services.
- The ContactLess technology was adopted for cards and terminals enabled to operate on the PagoBancomat® Network in order to comply with the obligation required by national and international networks.
- Further initiatives were launched in fraud prevention and dispute management.

### ***ICT Services and Solutions for Merchant Services***

In the first half of 2017, activities in the Merchant Services area focused mainly on the migration of the Book Merchants of Deutsche Bank and MPS. Subsequently, focus was placed on the development of the functionalities related to the Referral model for the acquired books. New commercial offers were also created for Merchants, with the aim of incentivising micropayments and the use of POS through digital collection instruments (e.g. Start Offer). At the same time, work was carried out on the main projects related to the "ICT Strategy" Program (Onboarding Acquiring and Core Platform), within which feasibility studies were carried out for the implementation of target solutions.

### ***ICT Services and Solutions for Payment and ATM Systems***

In regard to payment systems, the activities carried out during the year promoted the stabilization and renewal of the main ICT platforms in the ATM and Corporate Banking sectors.

In particular, the following is highlighted:

- The creation of an infrastructure for the management of Instant Payments (ACH, Gateway).
- Implementation of electronic payment flows for INPS pensions according to the SEPA Credit Transfer standard (Smart Payments INPS).
- The introduction of the Check Image Truncation, a mechanism for transmitting the image of cheques.
- The adaptation of the iCT platforms in order to incorporate the provisions of the PSD2 regulation.

### ***ICT Services and Solutions for Digital Systems***

Digital activities focused on application consolidation and data quality initiatives, technological innovation aimed at supporting the commercial offerings of the Partner Banks (Mobile payments), simplifying and automating existing processes in the e-commerce sector.

The Data & Analytics competencies were also strengthened, with the aim of launching initiatives aimed at supporting the business in the Client targeting activity.

Lastly, work was carried out on the efficiency of IT operations through the organizational set-up of the Digital Factory and the introduction of new work methods (Agile, DevOps).

The main areas of activity include:

- Mobile Payments - Apple Pay: enabling the payment service through Apple Wallet Provider for cards issued by CartaSi.
- Mobile Payments - HCE: integration in the current HCE of new features in order to increase security and improve the customer experience.
- E-Commerce (On-boarding, XPay Evolution): creation of a new web-based direct e-commerce channel and evolution of processes (internal preliminary examination) and products (Xpay), at the same time facilitating the dialogue with other market platforms.
- CAMS eW Issuing extension: enrichment of the information database with the personal

data the handling relative to the Client Banks managed under servicing, currently in the availability of the processor only, and evolution of the PAN functions, multifunctional cards.

- CVM Issuing & Acquiring: implementation of "customer value management" campaigns in respect of Cardholders and Merchants, in order to retain clients and promote the Nexi Group offering.
- Nexi Business: creation of a mobile APP for merchants through which it is possible to monitor operations, conduct operations and self-customer caring processes.
- Cardholder Portal: release of the new cardholder portal on a new, more modern and secure technology stack with a new customer experience and new spending control functions.

### ***ICT Services and Solutions for Securities Services and Banking Systems***

2017 was a year of intense activity both for the execution of project initiatives aimed at the adaptation of the information systems to the secondary legislation, and to pursue the continuous operating efficiency in the area of Fund Services.

The main activities include:

- Brokerage area - Middle Office evolution: optimization of the activity with the introduction of more efficient logics of operational verification.
- MiFID II: implementation of the EU Directive 2014/65 (MiFID II), which involved complex and transversal activities with respect to the various areas of the investment services (third-party brokerage, own account brokerage and treasury) and fund services (calculation NAV and transfer agent).
- Sale of the Pension Funds business unit: management of technical and operational aspects, guaranteeing the continuity of the service.
- Collateral Management: adoption of a new product for the management of the cash collateralisation of transactions on over-the-counter derivatives for big clients.
- EMIR: adaptation of the applications according to the new EMIR regulations that came into force during the year.

### ***ICT infrastructures***

In 2017, infrastructure played an important role in supporting the acceleration of Nexi's business development.

Focus on the strategic axes regarded the increase in quality, strengthening of architectures and platforms, and efficiency.

In particular, the following activities are distinguished:

- Live Service Control Room. An organizational nucleus of the processes and tools was created dedicated to supervision in H24 mode of the level of service offered to clients. Inspired by the best international best practices, the Live Service Control room has allowed to increase the level of average availability of services arriving to permanently exceed 99.9% during the year.
- Platform Improvements. Through the Service Control Room, it was possible to isolate the components of the IT platform affected by structural fragility. Improvement and remediations have been launched on each of these programs that have allowed to solve the problems in a permanent way.
- Skills. The workforce has been strengthened with new expert resources in key sectors, the professional and managerial skills have been made congruent to the strategic nature of the function.
- Strengthening of Disaster Recovery Infrastructure. The "active-active" Disaster Recovery architecture, already successfully used in various areas of the Data Center of Pero and Settimo Milanese (primary Data Center), has been extended to the whole perimeter of the mid-range systems (within the contractual so-called "Giotto") and more than 20 applications.
- EOL (technology End of Life) management. Technological renewal projects have been carried out of infrastructures that are extremely relevant to the business that had achieved and, in some cases, exceeded their useful life cycle. The most important intervention concerned the Oracle hardware and software update of the so-called ODS database (Operational Data Store).
- Private Cloud. Within the framework of the Infrastructure IT Strategy, the new Nexi Private Cloud infrastructure has been designed according to the "Software Defined Data Center" paradigm.

### **Information security**

In the field of IT security, the process of continuous improvement of ICT security and cybercrime control has, among the main activities, seen:

- the technical certification of the Group's main applications relating to compliance with the regulations on ICT Security (PCI-DSS Certification).
- a series of tactical activities aimed at improving ICT security and reducing the vulnerabilities of the Nexi Group information systems, including the strengthening of perimeter protections

and technical-organizational measures to control the use of privileged utilities (Security Priority Program).

### **Human resources**

in regard to human resources, the Group's workforce as at 31 December 2017 amounted to 2808 resources, compared to 1895 of 31 December 2016, and are thus distributed among the individual companies.

### **NEXI GROUP**

#### **Workforce on Dec. 31<sup>st</sup>, 2017**

	<b>NEXI</b>				<b>NEXI PAYMENTS</b>				<b>OASI</b>				<b>HELP LINE</b>			
	<b>DEC-16</b>		<b>DEC-17</b>		<b>DEC-16</b>		<b>DEC-17</b>		<b>DEC-16</b>		<b>DEC-17</b>		<b>DEC-16</b>		<b>DEC-17</b>	
	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>
Managers	35	35.0	<b>47</b>	<b>47.0</b>	14	14.0	<b>33</b>	<b>33.0</b>	6	6.0	<b>3</b>	<b>3.0</b>	2	2.0	<b>1</b>	<b>1.0</b>
Middle Management	385	378.5	<b>396</b>	<b>390.7</b>	192	190.0	<b>220</b>	<b>217.7</b>	37	37.0	<b>38</b>	<b>38.0</b>	17	16.8	<b>14</b>	<b>13.8</b>
Permanent staff	442	420.7	<b>376</b>	<b>358.0</b>	326	302.9	<b>287</b>	<b>266.5</b>	54	53.3	<b>48</b>	<b>47.7</b>	331	275.7	<b>278</b>	<b>235.4</b>
Workers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Temporary staff	9	9.0	<b>6</b>	<b>6.0</b>	-	-	-	-	-	-	-	-	45	41.6	<b>5</b>	<b>4.8</b>
<b>Total</b>	<b>871</b>	<b>843.2</b>	<b>825</b>	<b>801.7</b>	<b>532</b>	<b>506.9</b>	<b>540</b>	<b>517.1</b>	<b>97</b>	<b>96.3</b>	<b>89</b>	<b>88.7</b>	<b>395</b>	<b>336.2</b>	<b>298</b>	<b>255.0</b>

	<b>BASSILICHI</b>				<b>CONS. TRIVENETO</b>				<b>MONEYNET</b>				<b>BASSMART</b>			
	<b>DEC-16</b>		<b>DEC-17</b>		<b>DEC-16</b>		<b>DEC-17</b>		<b>DEC-16</b>		<b>DEC-17</b>		<b>DEC-16</b>		<b>DEC-17</b>	
	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>
Managers			<b>12</b>	<b>12.0</b>			<b>3</b>	<b>3.0</b>			<b>1</b>	<b>1.0</b>			-	-
Middle Management			<b>42</b>	<b>42.0</b>			<b>12</b>	<b>12.0</b>			<b>1</b>	<b>1.0</b>			-	-
Permanent staff			<b>680</b>	<b>647.7</b>			<b>125</b>	<b>108.4</b>			<b>67</b>	<b>66.0</b>			<b>6</b>	<b>6.0</b>
Workers	-	-	-	-	-	-	-	-	-	-	<b>2</b>	<b>0.6</b>	-	-	-	-
Temporary staff			<b>1</b>	<b>1.0</b>			-	-			<b>3</b>	<b>3.0</b>	-	-	-	-
<b>Total</b>	-	-	<b>735</b>	<b>702.7</b>	-	-	<b>140</b>	<b>123.4</b>	-	-	<b>74</b>	<b>71.6</b>	-	-	<b>6</b>	<b>6.0</b>

	<b>ARS BLUE</b>				<b>BASSILICHI BELGRADO</b>				<b>BASSILICHI BANJA LUKA</b>				<b>BASSILICHI PODGORICA</b>			
	<b>DEC-16</b>		<b>DEC-17</b>		<b>DEC-16</b>		<b>DEC-17</b>		<b>DEC-16</b>		<b>DEC</b>		<b>DEC-16</b>		<b>DEC-17</b>	
	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>
Managers			<b>1</b>	<b>1.0</b>			<b>1</b>	<b>1.0</b>			-	-			-	-
Middle Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Permanent staff			<b>44</b>	<b>44.0</b>			<b>35</b>	<b>35.0</b>			<b>10</b>	<b>10.0</b>	-	-	-	-
Workers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Temporary staff	-	-	-	-	-	-	<b>6</b>	<b>6.0</b>	-	-	<b>4</b>	<b>4.0</b>	-	-	-	-
<b>Total</b>	-	-	<b>45.0</b>	<b>45.0</b>	-	-	<b>42</b>	<b>42.0</b>	-	-	<b>14</b>	<b>14.0</b>	-	-	-	-

	<b>NEXI GROUP</b>			
	<b>DEC-16</b>		<b>DEC-17</b>	
	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>
Managers	57	57.0	102	102.0
Middle Management	631	622.3	723	715.2
Permanent staff	1,153	1,052.6	1,956	1,824.6
Workers	-	-	2	0.6
Temporary staff	54	50.6	25	24.8
<b>Total</b>	<b>1,895</b>	<b>1,782.6</b>	<b>2,808</b>	<b>2,667.1</b>

## Information on staff and the environment

In terms of training, for the year 2017, the Group Training Plan "Train to enhance roles and skills in the ICBPI Group", now Nexi Group, presented for financing the Banking and Insurance Fund in 2016 was finalized and reported.

The 2017 training actions responded to the Group's organizational and process developments and focused, in particular, on these objectives:

- a)** Timely retraining of resources that have changed roles following organizational changes.
- b)** Update and consolidation of the distinctive and peculiar competencies of the Nexi Group.
- c)** Compliance with the legal regulations typical of the activities of the bank and the intermediary and the related actions validated by the Compliance Department.
- d)** Definition of the new 2018-2019 training model and anticipation of some innovations contained therein.

The redevelopment actions were carried out under coaching/on-the-job training, in particular in the Payments area, with a focus on specialization in the classroom, held by internal trainers.

The updating of skills, at the request of the various managers (so-called "On demand") has provided for both participation in inter-company courses and the organization of internal classrooms that involved, in particular, the areas affected by the release of new IT tools, the areas involved in rebranding and sales.

All compulsory training actions validated at the beginning of the year were completed. Part of the contents, where possible and in compliance with the regulations, have been updated and revised with the aim of optimizing the duration of the courses while maintaining the planned training objectives; in this way it was possible to make the originally planned commitment of 15.8% more efficient.

In 2017, the training activities involved a total of 1,752 resources for a total of 40,210 hours of training, of which 22% of compulsory training, 73% specialized training and 5% managerial training, with an average of about 3 man/days out of the total employees.

As for the former Bassilichi group, about 6,000 hours of training were provided in 2017, 25% of which was financed. Innovative ways of delivering training have been experimented, through sessions held in interactive virtual classroom (so-called webinar) thanks to the use of a web platform. This type of intervention involved about 400 employees belonging to the Interaction Center Department (Team leader, focal point and operation call) with the aim of motivating, sensitizing and creating alignment with corporate expectations regarding communication to the client (banks, merchants, credit card users, merchants, technicians etc.).

The program, designed in such a way as to favour a strong awareness on what are considered the classic postulates of communication, dealt with issues related to the development of communication skills even in situations of emotional stress.

This method was particularly suitable for reaching, at the same time, a very large audience of people spread over several geographical locations, thus optimizing time and costs. The program was finalized with the use of Fondimpresa funds.

The training course, started in 2016, was also completed, conceived ad hoc for the entire commercial team with the aim of developing and refining the managerial skills necessary to approach strategic clients in a more analytical, planned and structured way.

An in-depth study plan was organized for all the Service Managers with specific and pragmatic focus on the issues of business continuity and disaster recovery of the services provided, based on reference standards and good practices.

In the safety area, during 2017, 876 hours of training were provided involving 159 employees.

An important activity is also dedicated to administration and budget department, on IAS/IFRS national and international accounting standards.

In regard to Health and Safety, a gap analysis was carried out for the Nexi Group in relation to the Health and Safety Management System (SGSL - Sistema di Gestione della Salute e della Sicurezza) in order to make the Group Organization, Management and Control Model compliant with UNI-INAIL.

Work on monitoring the quality of workplaces continued, such as the microclimate (temperature, humidity, ventilation and air quality) and lighting (natural and artificial light). Furthermore, the evaluation of work-related stress risk data continued with analysis of mental fatigue, monotony and repetitiveness in work processes. As required by the law, evacuation drills were carried out at each location.

## **External communication and media relations**

Communication events include the following:

- Communication and press office activities related to the creation and launch of the new Nexi brand for institutional and business events;
- Media relations aimed at enhancing the company's positioning on the market, the products and services offered, the initiatives and corporate and business events organized by Nexi;
- The organization of internal events for employees and related to rebranding and the involvement of colleagues on Nexi projects and ongoing activities;
- The supervision of events promoted by third parties (ABI, NetComm, Politecnico) with the aim of increasing the company's participation;
- Content management and distribution of the internal newsletter

## **Performance of the parent company and the group companies**

The results of the Financial Statements and the initiatives of the Parent Company and of the Subsidiaries subject to the management and coordination of Nexi.

### **Nexi S.p.A.**

Nexi reported a Net Profit for the year of Euro 89.5 million compared to a 2016 Net Profit of € 84.2 million.

EBITDA amounted to € 145.2 million 19.4% compared to € 121.6 million of 2016.

Shareholders' equity totalled Euro 2,033.3 million compared to Euro 2,049.8 million of December 2016.

### **Nexi payments S.p.A.**

The company, of which Nexi holds 98.745% of the share capital, ended the year with an EBITDA of € 229.407 million (+36.3% compared to 2016) and a pre-tax profit of € 122.988 million, lower than in the previous year (-68.7%) which included the extraordinary proceeds related to the sale of the Visa Europe membership to Visa Inc.

The 2017 business performance led to a total management of approximately 16.2 million cards and over 2.9 billion transactions.

The activities are analysed below in relation to the three main lines of business managed by the company:

- Issuing and acquiring activities under direct license and on behalf of Banks;
- Servicing activities;
- POS and ATM terminal management activities.

**Issuing and acquiring activities under Direct License and on behalf of Banks**

- The card range recorded growth compared to 2016 (+8.8%), reaching over 9.6 million cards at the end of the period, thanks to the increase in the stock of prepaid cards made during the year;
- The breakdown by product of the new issues of the year (2 million cards) reflects a general increase in all products compared to the previous period;
- The breakdown by product of cards in circulation at the end of the year shows an increase in prepaid products, albeit with an increasing percentage weight of the Classic / Revolving cards (28.6%);
- The total spending of the owners amounted to about Euro 30.2 billion and recorded, compared to 2016, a growth of 4.8%, with positive performance both of the Direct License model (+3.3%) and the model on behalf of Banks (+8.9%);
- The average use of credit cards under Direct Licence, which is confirmed among the highest in the reference market, has increased (+4.6%), also due to the promotional and spending stimulation initiatives implemented during 2017;
- Acquiring transaction volumes amounted to approximately € 61.9 billion, up (+18.5%) compared to 2016; growth also influenced by the acquisition of the Acquiring business units of Monte dei Paschi di Siena and Deutsche Bank for the management of incremental Pagobancomat volumes. Net of the inorganic increase, growth is + 9.9% compared to 2016;
- Overall, the number of transactions managed by issuing and acquiring reported a growth of 23.5%.

**Activities under Servicing**

- The stock of cards managed on behalf of third party licensees totaled approximately 6.6 million cards, up 1.7%, performance driven by credit cards (+2.4%);
- The number of features linked to national debit cards (€ 30.9 million) is down compared to that of 2016 (-0.8%), even with the stock of debit cards (€ 11.7 million) slightly up (+0.4%);
- The total number of transactions managed (1,679 million) is up compared to last year (+1.8%).

**Terminal management activities**

- The stock of managed Pos (725 thousand units), composed of e-commerce terminals (over 20 thousand units) and physical (about 705 thousand units), has significantly increased due to the acquisitions made during the year by the Merchant service business units of Banca Monte dei Paschi di Siena and Deutsche Bank (+33.4%);
- ATM managed terminals amounted to 9.2 thousand units and fell compared to last year (-0.7%) as a result of the rationalization of the branch network by some client banking groups.

The main economic indicators of 2017, compared with those of 2016, show the following results:

- The income statement, as at 31 December 2017, reports a result for the period of € 83.425 million compared to € 329.909 million as at 31 December 2016 (-74.7%);
- Net revenue and commission income amounted to € 552.847 million, compared to € 470.070 million in 2016 (+17.6%);
- Net interest income margin totalled at € -12.420 million, while in 2016 reported € - 8.009 million (+55.1%);
- Payroll costs amounted to € 44.006 million, compared to € 38.199 million in 2016 (+15.2%);
- Administrative expenses totalled € 308.453 million, compared to € 283.278 million in 2016, with an increase of 8.9%.

The Balance Sheet, as at 31 December 2017, reports total assets of € 3,632.5 million, compared with € 2,791.9 million of 2016.

In particular:

- Receivables amounted to € 2,572.2 million compared to € 2,391.8 million in 2016;
- Tangible assets amounted to € 83.2 million compared to € 84.2 million in 2016;
- Payables amounted to € 2,298.5 million, compared to € 1,618.5 million in 2016, and the increase is due to the greater need for funding;
- Funds amounted to € 13.0 million compared to € 13.6 million in 2016.

The commercial activity of Nexi Payments in 2017 was characterized by coordinated action on all business lines and customer segments, with particular attention to innovation and value creation for the partner banks.

An integrated program of involvement initiatives was launched in 2017 with the objective of strengthening the value of the Partnership with Banks, aimed at ensuring continuous updating of the commercial strategy of the offer and presentation of the main developments in terms of technological innovation and market. The meetings were also occasions to discuss the main challenges and strategic opportunities of the market and gather ideas and suggestions on possible paths to be taken to develop the digital payment market in Italy.

During the month of November, the annual convention "What's Next?" dedicated to the Partner Banks was also organized, an opportunity for the presentation of the Nexi Payments commercial strategy and for sharing the news of the offer in all business areas.

In reference to the activities of monitoring and commercial stimulation, in collaboration with the Banks, commercial activities were carried out during the year aimed at increasing the dissemination and use of payment instruments.

In particular, the following commercial activities were carried out:

- Incentive plans targeted at the growth of the range of cards, the support of the issue of international debit, premium and commercial products, and the growth of the POS portfolio;
- Promotional activities aimed at further stimulating the networks of partner banks in the growth of the transaction and in customer acquisition / retention;
- "B2C" promotional activities dedicated to a targeted selection of partner banks, aimed at encouraging credit card issue and at the same time the use of the cards and the membership of the new cardholders to loyalty and digital services;
- Relaunch of the most advanced version of pre-paid cards, equipped with new features that characterize the product at the top of the market;
- Expansion of acceptance networks by merchants;
- Participation in calls for tender issued by major banks for the management of e-money in the field of issuing, acquiring and management of POS terminals;
- Support activities, through work sessions aimed at participating in Nexi Payments initiatives and in network training sessions, aimed at sharing the value of the e-money offer.

During the year, the boost to commercialization of the new licensed international debt product continued, which represents a further opportunity for growth for the partner banks in the field of electronic payments, making it possible to offer its customers an authorized payment instrument for use on all channels without any credit risk.

The international debit card can also meet the needs of banking customers also in the e-commerce sector: growth forecasts see further acceleration in the use of the product which will generate a strong growth in volumes over the next few years.

In 2017, Nexi Payments also relaunched the commercial offering for issuing and acquiring activities for third party licensees, extending the offer contents of the licensed model and the offer of innovative products to clients under servicing and the management of POS and ATM terminals.

Within the scope of the services for the Public Administration, the commercial activities towards the Partner Banks intensified during the period to promote digital payments within the treasury services that are proposed to Public Bodies.

Starting from the month of October, the range of services has been enriched with a new service able to manage the revenues deriving from transactions carried out through physical POS via the pagoPA® system, giving the possibility to the public bodies to open to the Node of Payments, also their own physical acceptance network. The service is certified by the Agency for Digital Italy.

The Company has also expanded its business proposition with Apple Pay features, a new payment system for cardholders in possession of Apple products, implemented in collaboration with some partner banks.

In the second half of the year the commercial offer was enriched with the Nexi Business App, an innovative tool that enhances and completes the products and services that the Partners Banks can offer to their merchants.

In 2017, the Nexi Payments Purchasing Observatory widened its scope of observation, from that of purchases to electronic payments. Alongside the analysis of the monthly trend in purchases and spending behavior at times of the year with a higher seasonality, new insights of greater depth and specificity were realized, able to respond directly and in a more univocal way to the requests of the press.

## Help line S.p.A.

The subsidiary Help Line S.p.A., of which Nexi holds 70% of the share capital, recorded an EBITDA of Euro 1.4 million.

Income taxes amounted to Euro 1.8 million, therefore, Net Profit amounted to negative Euro 5.7 million.

The Company carries out activities mainly for the Nexi Group, but also operates for some major Italian banks, supporting their clients 24 hours a day, 365 days a year.

In 2017, work continued on improving the processes for managing contacts with clients, with the aim of improving internal efficiency and containing costs.

Projects were launched to ensure constant improvement of the quality of the services offered to clients, through Customer Satisfaction activities that allow to receive timely feedback on the degree of customer satisfaction.

brance for all OASI customer intermediaries were sent to the authorities within the prescribed time limits. In synergy with the Parent Company, an important project was launched to provide all OASI clients with the new service for forwarding the reporting of the Central Credit Register via the Internet, rather than through the national interbank network (RNI - rete nazionale interbancaria). In addition, planning activities were undertaken for the new requirements on Financial Statements and Finrep (Financial Reporting) IFRS 9;

- in the anti-money laundering area, the new solution called GIANOS 4D was designed and presented to banks, insurance companies and other intermediaries, which allows the management of the formalities required by the new European and national AML-CFT regulations; important system integration projects have been implemented and the expansion of outsourcing services has begun; the consultancy for the self-assessment of AML-CFT risks was completed in relation to the Bank of Italy requirements and training was carried out on the GIANOS systems in agreement with ABI Servizi.

## Oasi S.p.A.

The subsidiary Oasi S.p.A., of which NEXI holds 100% of the share capital, reported an EBITDA of € 9.5 million, compared to € 8.7 million of the previous year (+10.3%). Operating revenues amounted to € 27.5 million, down by 1.8% compared to the previous year; operating costs amounted to € 23.5 million, in line with 2016 (0.3%). Current and prepaid taxes € 682 thousand and the one-off extraordinary provision for group restructuring and the management of the redundancy incentive of € 1.8 million, lead to a Net Profit of € 1.5 million. In order to direct the entire organization on the core business of reporting and anti-money laundering, as part of the restructuring, the activities for ICT Security and Internal Controls were abandoned. Considering the result on the same scope of business, revenues rose by 16.2% and EBITDA by 24%.

The Oasi business was carried out with regularity and consistency with respect to the project plans. New initiatives and services were added to traditional products and the major project for the innovation of IT solutions for regulatory reporting and anti-money laundering has been largely completed. In particular:

- for the supervisory reports, all the updates required by the new European and national supervisory regulations were carried out, and the first European report so-called Asset Encum-

## Bassilichi S.p.A. and subsidiaries

The subsidiary Bassilichi S.p.A., of which Nexi holds 100% of the share capital, reported a consolidated EBITDA of € 12.7 million in 2017, compared to € 10.5 million of the previous year (22%).

Operating revenues amounted to € 166.1 million, up compared to the previous year (€ 142.0 million) thanks to the Payments Services business unit (+30%). Operating costs amounted to € -153.4 million, benefit from the cost containment program (both direct and indirect) launched in 2017. Annual depreciation and amortization for € -15.1 million, financial charges € -2.8 million, income taxes € -1.9 million and extraordinary income items € -57.9 million lead to a Net Loss for the year of € -65.1 million.

In regard to the extraordinary income components, which have most influenced the negative result for the year, we note (i) the impact generated by the lower valuations of the assets that took place after the changes in estimates (net of adjustments to IFRS) for € 27.9 million on the values of some equity investments, the value of the properties and the full write-down of deferred tax assets; (ii) the effects of some transactions occurred concurrently with the sale of the majority stake in Bassilichi to Nexi for € 22.7 million mainly related to tax conciliations as well as to certain

transactional agreements concluded between Bassilichi and Banca Monte dei Paschi di Siena.

The activities of the former Bassilichi group after its entry into Nexi were carried out on a regular basis and, consistently with the plans and projects envisaged, mainly focused on the group's overall rationalization program and the redefinition of its financial structure, incorporating the following initiatives:

- Following the establishment of the new administrative body and the control bodies, the Management of the company started, in September 2017, a process of in-depth analysis on the financial and capital situation and the transition to the IFRS standards with reference to 30/06, then extended to 30/09, which led to the recapitalization of Bassilichi by Nexi in December 2017 (capital increase of € 100 million);
- The former Bassilichi group, with a view to optimizing the processes, implemented the processes and harmonized the Nexi policies at all levels of the organization. With regard to processes in particular, a system of planning and control and monthly reporting, both accounting and management, was implemented, consistent with the information needs required by Nexi and the Bank of Italy regulatory system;
- From the operational point of view, 2017 saw the launch of a comprehensive plan to reduce direct and indirect operating costs, started in collaboration with Nexi, to exploit any possible synergy of group-level spending while at the same time reducing costs under a "stand alone" logic;
- Consistent with the above, Bassilichi has, thanks to the financial contribution of Nexi, refinanced its financial indebtedness at more advantageous interest rates and cost in order to achieve material savings on the financial expense in this regard;
- The rationalization of the former prodromal group to the future integration plans involved all the business lines, segregating, within the company in Bassilichi, a dedicated division called "Business Service" that includes all the lines of business not relevant to the core business of Bassilichi and Nexi. Management is currently evaluating the best path for the enhancement of these lines of business, also through the possibility of transfer to third parties;
- In addition, a process was launched for the valuation of non-strategic equity investments, which in part has already reverberated its effects in 2017 with the sale of the investment in Alfazero;

● Bassnet, a company in which Bassilichi holds about 49%, is particularly important in the portfolio of the investee companies. Towards the last months of 2017 Bassnet embarked on its own path of resolution of the business crisis which it is experiencing; a path that could lead to the liquidation of the Company during 2018.

The former Bassilichi group includes:

- Bassilichi S.p.A. which operates in the Payments sector and in the Business service sector.
  - The company, within the Payments sector, offers services related to the management of electronic payments (POS, Digital Commerce Carda management) as well as interbank corporate banking, cash automation / cash management (Teller cash Recycle / Teller Assist Units and Automated Teller machine) and self-service devices;
  - In regard to the business service sector, the company offers services related to the management of the entire process cycle to support the business, including data entry - back office, administrative / accounting, passive - digitalization and contact centre. In the business service area, integrated security services are also included, including installation, management and maintenance of systems as well as video surveillance and cash and surveillance management. This area also includes Fleet management, namely the management of workstations and Licensing.

In the financial year 2017, the company reported operating revenues totalling € 150.3 million.

- Moneynet S.p.A., whose share capital is 61% held by Bassilichi S.p.A. and 39% by Consorzio Triveneto S.p.A. is a Hybrid Payment Institute, authorized by the Bank of Italy pursuant to and for the purposes of art. 114-novies of Legislative Decree. 1 September 1993, n. 385 (and subsequent amendments).

In the financial year 2017 the company recorded operating revenues totalling € 73 million.

- Consorzio Triveneto S.p.A., whose share capital is 64.25% held by Bassilichi S.p.A. and 35.75% by Nexi, it operates in the Payments sector, offering its customers services related to the management of electronic payments (POS, Digital Commerce Carda management).

In the financial year 2017 the company recorded operating revenues totaling € 35.3 million.

- Bassilichi CEE D.o.o., whose share capital is 80% held by Bassilichi S.p.A. and 20% by other shareholders, offers its customers services related to electronic payment management, as well as ATM maintenance and management.

In the financial year 2017, the company recorded operating revenues totalling € 4.3 million.

- Arsblue D.o.o., whose share capital is 40.8% held by Bassilichi and 59.2% by other shareholders, is dedicated to software development for payment systems.

In the financial year 2017 the company recorded operating revenues totalling € 1.6 million.

The following table shows the main financial statements indicators for year 2017:

<b>NEXI GROUP - HIGHLIGHTS AND MAIN INDICATORS</b>	<b>YEAR 2017</b>	<b>YEAR 2016</b>	<b>% CHANGE</b>
<b>Statement of financial position highlights (€'000)</b>			
Loans and receivables with customers	<b>2,910,913</b>	2,844,529	2.3%
Loans and receivables with banks	<b>835,116</b>	747,676	11.7%
Financial assets	<b>2,727,915</b>	3,371,105	- 19.1%
Tangible/Intangible assets	<b>2,119,069</b>	1,360,544	55.8%
Total assets	<b>12,593,382</b>	10,662,098	18.1%
Direct funding from customers	<b>7,789,484</b>	6,255,341	24.5%
Indirect funding from customers (assets under administration)	<b>54,162,935</b>	51,660,230	4.8%
Equity	<b>2,050,841</b>	2,059,082	- 0.4%
<b>Income statement highlights (€'000) (*)</b>			
Net interest income	<b>38,857</b>	36,281	7.1%
Net fee and commission income and revenue from services	<b>811,702</b>	648,043	25.3%
Operating income	<b>855,945</b>	688,527	24.3%
Personnel expense	<b>171,846</b>	137,919	24.6%
Operating costs	<b>552,001</b>	461,236	19.7%
EBITDA	<b>303,944</b>	227,291	33.7%
Profit for the year	<b>79,092</b>	103,998	- 23.9%
<b>Structural ratios (%)</b>			
Loans and receivables with customers / Total assets	<b>23.1%</b>	26.7%	
Loans and receivables with banks / Total assets	<b>6.6%</b>	7.0%	
Financial assets / Total assets	<b>21.7%</b>	31.6%	
Direct funding from customers / Total assets	<b>73.1%</b>	76.5%	
Indirect funding from customers / Total funding from customers	<b>87.4%</b>	89.2%	
<b>Profitability ratios (%)</b>			
Profit / (equity - profit) (ROE)	<b>4.0%</b>	5.3%	
Net interest income / Operating income	<b>4.5%</b>	5.3%	
Fee and commission income and revenue from services / Operating income	<b>94.8%</b>	94.1%	
Operating costs / Operating income (Cost income ratio)	<b>64.5%</b>	67.0%	
<b>Credit risk ratios (%)</b>			
Net impaired loans and receivables with customers / Net loans and receivables with customers	-	-	
Impairment losses on loans and receivables with customers / Gross impaired loans and receivables with customers	<b>90.9%</b>	92.2%	
Total net impaired assets / Equity	-	-	
<b>Productivity indices (€'000)</b>			
Average number of employees (FTE)	<b>2,667</b>	1,784	49.5%
Operating income / Average number of employees	<b>321</b>	386	- 16.8%
EBITDA / Average number of employees	<b>114</b>	127	- 10.5%
Personnel expense / Average number of employees	<b>64</b>	77	- 16.6%

(\*) The economic data can be formal in the reclassified income statement included in the management report.

*Dear Shareholders,*

## Financial statement Highlights

A summary of the consolidated results recorded in the accounts as at 31 December 2017 is provided below.

### Statement of financial position

The group's financial position and performance are illustrated by the key figures of its statement of financial position and income statement set out below.

#### ASSETS

(millions of €)	31.12.2017	31.12.2016
Financial assets held for trading	<b>17.4</b>	13.2
Available-for-sale financial assets	<b>2,710.5</b>	3,357.9
Held-to-maturity investments	<b>5.0</b>	15.9
Loans and receivables with banks	<b>835.1</b>	747.7
Loans and receivables with customers	<b>2,910.9</b>	2,844.5
Equity investments	<b>12.1</b>	10.1
Non-current assets	<b>2,107.0</b>	1,350.4
Other assets	<b>3,995.4</b>	2,322.3
<b>Total assets</b>	<b>12,593.4</b>	<b>10,662.1</b>

#### LIABILITIES

(millions of €)	31.12.2017	31.12.2016
Due to banks	<b>1,692.1</b>	1,567.1
Due to customers	<b>7,789.5</b>	6,255.3
<i>Other liabilities</i>	<b>981.6</b>	710.3
<i>Post-employment benefits</i>	<b>22.6</b>	20.6
Provisions	<b>51.9</b>	37.3
Equity	<b>1,971.7</b>	1,955.1
Equity attributable to non-controlling interests	<b>5.0</b>	12.4
Profit for the year	<b>79.1</b>	104.0
<b>Total liabilities</b>	<b>12,593.4</b>	<b>10,662.1</b>

At December 2017, the group has total assets of € 12,593.4 million compared to € 10,662.1 million at the end of the previous year.

A glance at the various asset captions shows that:

- **financial assets held for trading** amount to € 17.4 million against € 13.2 million at 31 December 2016;

- **available-for-sale financial assets** come to € 2,710.5 million compared to € 3,357.9 million at

the end of 2016, mainly consisting of government bonds.

- **held-to-maturity investments** amount to € 5.0 million and comprise bank bonds (31 December 2016: € 15.9 million). The reduction is mainly a result of redemption of certain bonds that reached maturity;

- **loans and receivables with banks** amount to € 835.1 million compared to € 747.7 million at the previous reporting date. The increase is princi-

pally due to the higher deposits and to the reverse repos with banks at the reporting date;

- **loans and receivables with customers** amount to € 2,910.9 million compared to € 2,844.5 million at 31 December 2016;

- **equity investments** amount to € 12.1 million compared to € 10.1 million at the previous year-end;

- **non-current assets** amount to € 2,107.0 million against € 1,350.4 million at 31 December 2016. The increase is mainly attributable to the goodwill recognized as a result of the acquisition of merchant books by Deutsche Bank and BMPS and the acquisition of Bassilichi;

- **other assets** of € 3,995.4 million (31 December 2016: € 2,322.3 million) include cash and cash equivalents of € 3,243.3 million, tax assets of € 103.7 million and other assets of € 648.4 million. The increase mainly refers to the greater liquidity deposited with central banks.

With respect to liabilities:

- **due to banks** amounts to € 1,692.1 million compared to € 1,567.1 million at 31.12.2016. The increase is principally due to the higher deposits with banks at the reporting date;

- **due to customers** comes to € 7,789.5 million against € 6,255.3 million at the previous year-end. The increase is mostly due to the higher volume of funding from customers and to reverse repos in place at end of the period;

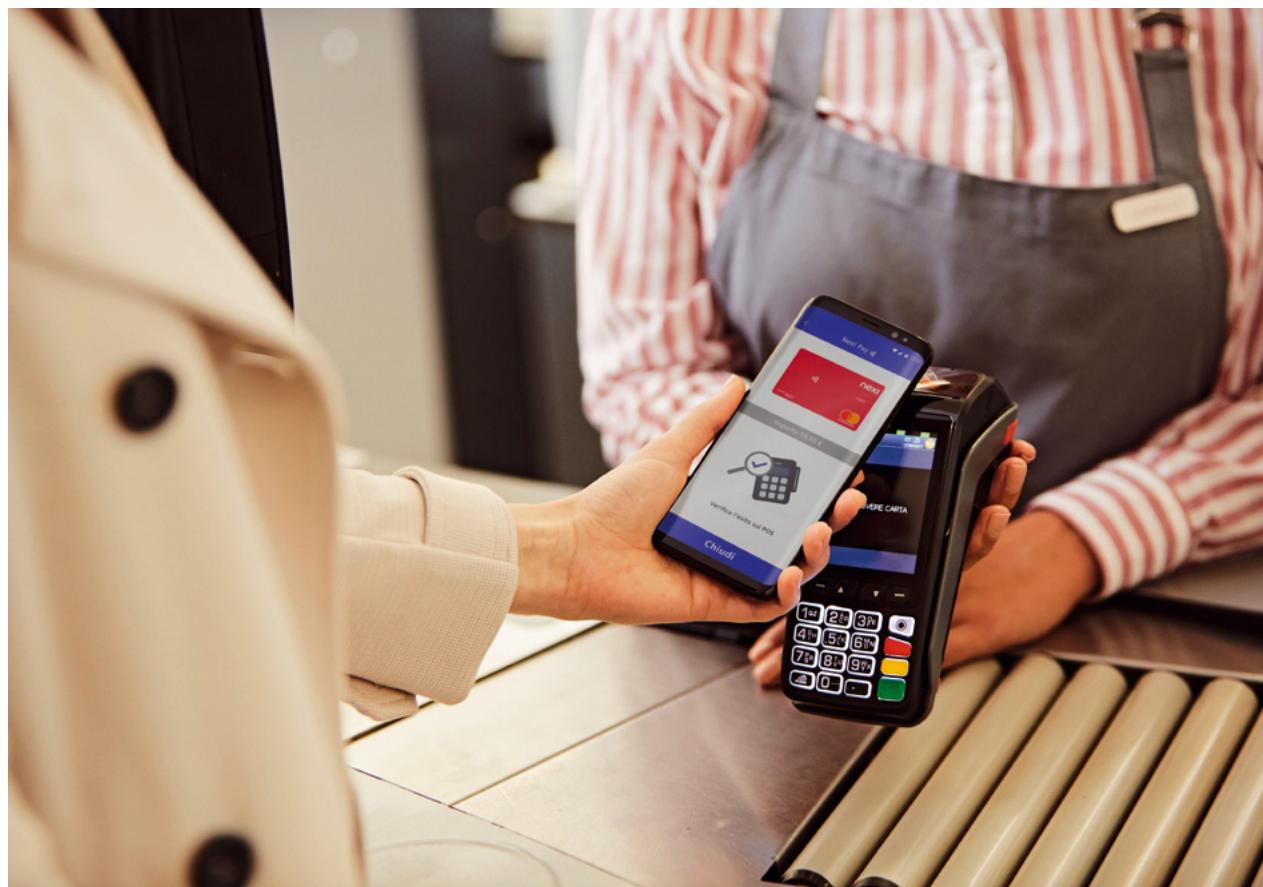
- **other liabilities** amount to € 981.6 million compared to € 710.3 million at the end of 2016 and include financial liabilities held for trading of € 6.7 million, hedging derivative of € 5.5 million related to the hedging of Visa Inc. in portfolio, tax liabilities of € 50.0 million and other liabilities of € 919.4 million;

- **post-employment benefits** total € 22.6 million compared to € 20.6 million at the end of 2016. The increase is due to the acquisition of Bassilichi;

- **provisions** amount to € 51.9 million compared to € 37.3 million in the previous year-end;

- **equity** attributable to the owners of the parent comes to € 1,971.7 million compared to € 1,955.1 million at the previous year-end;

- **equity attributable to non-controlling interest** amount to € 5.0 million at compared to € 12.4 million at the end of year 2016.



## Income statement

The December 31st 2017 figures are compared at the same period of last year in the following table.

The EBITDA amount to € 303.944 million compared to € 227.291 million at 31 December 2016 (+33.7%) and a profit amount to € 79.092 million (2016: € 103.998 million).

### NEXI GROUP - INCOME STATEMENT

YTD december, 31 (€/000)	2017 YEAR	2016 YEAR	% CHANGE
Net fee and commission income	811,702	648,043	25.3%
Net interest income	38,857	36,281	7.1%
Net trading/hedging income	4,748	3,676	29.2%
Dividends from equity investments and AFS	638	527	21.2%
<b>Operating revenue</b>	<b>855,945</b>	<b>688,527</b>	<b>24.3%</b>
Payroll and related costs	- 171,846	- 137,919	24.6%
Production costs	- 111,196	- 91,045	22.1%
ICT costs	- 218,140	- 186,151	17.2%
General expenses	- 48,170	- 37,580	28.2%
<b>Administrative expenses</b>	<b>- 549,352</b>	<b>- 452,695</b>	<b>21.4%</b>
Other net operating expenses/income	5,046	3,280	53.9%
Net accruals for risks and charges	- 7,695	- 11,820	- 34.9%
<b>Operating costs (net of DA)</b>	<b>- 552,001</b>	<b>- 461,235</b>	<b>19.7%</b>
<b>EBITDA</b>	<b>303,944</b>	<b>227,291</b>	<b>33.7%</b>
Depreciation and amortization	- 57,301	- 36,643	56.4%
<b>Operating profit</b>	<b>246,643</b>	<b>190,648</b>	<b>29.4%</b>
Depr.&Amort. (customer contract)	- 10,523	- 10,523	-
Share of gains/losses of investees	24,372	18	n.a.
Non recurring/extraordinary items	- 157,172	- 55,291	184.3%
<b>Pre-tax profit</b>	<b>103,320</b>	<b>124,852</b>	<b>- 17.2%</b>
Income taxes	- 24,854	- 19,268	29.0%
Profit to non-controlling interests	626	- 1,586	- 139.5%
<b>Group Net profit</b>	<b>79,092</b>	<b>103,998</b>	<b>-23.9%</b>

With respect to the **operating revenue**:

- **Net fee and commission income** amount to € 811.702 million, up on the same period of previous year figure of € 648.043 million (+25.3%);
- **Net interest income** come to € 38.857 million for 2017 increased from € 36.281 million for 2016 (+7.1%);
- **Net trading/hedging income** amounts to € 4.748 million compared to € 3.676 million on same period last year (+29.2%);
- **Dividends from equity investment and AFS** amount to € 0.638 million against € 0.527 million (+21.2%);

With respect to the **Operating costs**:

- **Payroll and related costs** amount to € 171.846 million compared to € 137.919 million for 2016 (+24.6%);

● **Production costs** come to € 111.196 million against € 91.045 million of the same period of last year (+22.1%);

● **ICT costs** amount to € 218.140 million compared to € 186.151 million for the previous year (+17.2%);

● **General expenses** amount to € 48.170 million against € 37.580 million of the same period of last year (+28.2%);

● **Other net operating expenses/income** amounts to € 5.046 million compared to € 3.280 million for 2016 (+53.9%);

● **Net accruals for risks and charges** amount to € 7.695 million against € 11.820 million for 2016 (-34.9%);

**Operating costs** thus come to € 552.001 million compared to € 461.235 million for the same period of the last year (+19.7%).

**EBITDA** thus come to € 303.944 million compared to € 227.291 million for 2016 (+33.7%).

The **depreciation and amortization** amount to € 57.301 million compared to € 36.643 million for 2016.

The **amortisation** of depository services customer contracts amount to € 10.523 million.

The **share of gains** of investees amounts to € 24.372 million.

The following other negative non-recurring components amount to € 157.172 and million including:

- cost of transformation program Advisory of € 39.949 million;
- losses of investees of € 3.899 million;
- incentive for voluntary redundancy and Solidarity Fund of € 85.246 million;
- registration taxes on operations of M&A of € 16.984 million;
- brand € 5.485 million;
- hiring fee € 3.870 million;
- other negative items € 1.739 million.

These components led to a **pre-tax profit** of € 103.320 million compared to € 124.852 million for 2016.

After **income tax expense** of € 24.854 million and the **profit to non-controlling interests** of € 0.626 million, the **Group Net profit** amounts to € 79.092 million.

## Forecast development of management

During 2018, the Nexi Group will be able to benefit from a general, albeit moderate, economic recovery, although the level of interest rates remains extraordinarily low.

The Nexi Group will leverage the initiatives provided for in the new 2017-2021 Business Plan, approved on 9 February 2017, aimed at maintaining a sustainable level of profitability over time, maximizing the value of the Group's components and maintaining an increasingly efficient cost structure.

## Impairment of assets

It is specified that the Explanatory Notes provide information regarding the asset valuation process subject to verification of any impairment (impairment test) on the subject of basic assumptions, methodologies and parameters used.

In addition, and in relation to disclosure, the Explanatory Notes report fundamental information on the following elements:

Definition of cash generating units (CGU);

Allocation of goodwill to each CGU;

Illustration of the criterion used to estimate the recoverable value when the latter is based on value in use;

Illustration of the criterion used to estimate the recoverable value when the latter is based on the fair value;

Description of the sensitivity analysis of the impairment test results with respect to changes in the underlying assumptions;

Remarks on the potential presence of external indicators of impairment and in the absence of write-downs of assets following the impairment procedure.

## Information on financial risks

Information on the nature and extent of financial risks to which the Group is exposed is provided below.

### Credit risk

Refer to the same section of the individual financial statements for the exposure of the Nexi Parent Company as a "second level bank" to this risk.

Nexi Payments, instead, is exclusively exposed to credit risk in relation to the issue of cards under "Direct Issuing" and in connection to which there is an actual lending process and continual oversight over credit risk. The other types of credit originate from operational anomalies in the following activities:

Issuing Bank where there may be debits on blocked cards and for which the bank, following the reporting of the block, is no longer exposed to the relative credit risk;

Acquiring, e.g. re-debiting to merchants following disputes or the failure to pay commissions on the part of the merchants.

No indications of cessation of financial support from financing entities and other creditors;

No past or pro-forma financial statements reporting negative cash flows;

Primary economic-financial indices are not negative;

No significant operational losses or significant impairments of assets generating cash flows;

No omission or discontinuity in the distribution of dividends;

Capacity to pay debts on expiration dates;

Capacity to comply with the contractual clauses of loans;

## Market risk

Since this risk is present exclusively in the Parent Company, exposure to this risk is illustrated in the same section of the individual financial statements.

### **Management indicators**

No situation involving a capital deficit or net negative working capital;

No loans with fixed or upcoming expiration dates without positive prospects of renewal or reimbursement; there is not an excessive dependency on short-term loans to finance long-term activities;

## Liquidity risk

Liquidity is managed in a centralized manner by Nexi for all the Group companies, for which the exposure to liquidity risk is illustrated in the same section of the individual financial statements.

## Interest rate risk

Interest rate risk is managed in a centralized manner by Nexi for the entire Banking Group, so that exposure to this risk is illustrated in the same section of the individual financial statements.

### **Other indicators**

No share capital decreases below legal limits or which were not in compliance with other legal norms;

No legal and fiscal disputes which, in the case of a loss, could result in obligations of reimbursement that the companies of the Group are not capable of respecting;

No legislative changes or government policies which could result in unfavourable effects to the companies of the Group,

## Business continuity

Considering the following indicators pertaining to the Parent Company and the Group companies:

### **Financial indicators**

No situation involving a capital deficit or net negative working capital;

No loans with fixed or upcoming expiration dates without positive prospects of renewal or reimbursement; there is not an excessive dependency on short-term loans to finance long-term activities;

The Directors confirm the reasonable expectation that the Group will continue its operations in the near future and that, as a result, the financial statements for the year 2017 have been drafted from the perspective of business continuity. Thus, no symptoms have been identified within the assets and financial structure of the group and in the operational trends that could constitute cause for uncertainty on business continuity.

## Rating

The rating agency Standard & Poor's confirmed, during the 2017 financial year, the long-term rating of Nexi S.p.A. and Nexi Payments S.p.A. at BB-, with stable outlook.

Similarly, the rating agency Moody's confirmed a "Corporate Family Rating" CFR with a stable outlook.

## Significant events after the reporting period

On 8 February 2018, the Bank of Italy initiated an inspection with regard to Nexi Payments, aimed at assessing compliance with the law on the transparency of transactions and the correctness of relations with clients.

**Milan, 21 March 2018**

THE BOARD OF DIRECTORS





CONSOLIDATED FINANCIAL  
STATEMENTS  
AS AT 31 DECEMBER

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**2017**

# Consolidated financial statements as at 31 December 2017

## CONSOLIDATED BALANCE SHEET

(€'000)

<b>ASSETS</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>10. Cash and cash equivalents</b>	3,243,281	1,798,784
<b>20. Financial assets held for trading</b>	17,424	13,193
<b>40. Available-for-sale financial assets</b>	2,710,491	3,357,912
<b>50. Held-to-maturity investments</b>	4,966	15,933
<b>60. Loans and receivables with banks</b>	835,116	747,676
<b>70. Loans and receivables with customers</b>	2,910,913	2,844,529
<b>100. Equity investments</b>	12,102	10,105
<b>120. Property, equipment and investment property</b>	217,658	185,112
<b>130. Intangible assets</b>	1,889,309	1,165,327
<i>including goodwill</i>	1,760,623	1,064,760
<b>140. Tax assets</b>	103,732	78,149
a) current	45,402	22,985
b) deferred	58,330	55,764
<i>including convertible into tax assets (Law no. 214/2011)</i>	40,253	40,344
<b>160. Other assets</b>	648,390	445,378
<b>Total assets</b>	<b>12,593,382</b>	<b>10,662,098</b>

<b>LIABILITIES</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>10. Due to banks</b>	1,692,051	1,567,113
<b>20. Due to customers</b>	7,789,484	6,255,341
<b>40. Financial liabilities held for trading</b>	6,722	8,067
<b>60. Hedging derivatives</b>	5,520	-
<b>80. Tax liabilities</b>	50,004	56,062
a) current	-	16,732
b) deferred	50,004	39,330
<b>100. Other liabilities</b>	919,308	646,141
<b>110. Post-employment benefits</b>	22,567	20,596
<b>120. Provision for risks and charges</b>	51,903	37,317
a) pension and similar obligations	881	940
b) other provisions	51,022	36,377
<b>140. Valuation reserves</b>	90,429	65,863
<b>170. Reserves</b>	1,690,553	1,698,454
<b>180. Share premium</b>	148,242	148,242
<b>190. Share capital</b>	42,557	42,557
<b>200. Treasury shares (-)</b>	-32	-32
<b>210. Equity attributable to non-controlling interests (+/-)</b>	4,982	12,379
<b>220. Profit for the period (+/-)</b>	79,092	103,998
<b>Total liabilities and equity</b>	<b>12,593,382</b>	<b>10,662,098</b>

**INCOME STATEMENT**

(€'000)

	<b>2017</b>	<b>2016</b>
<b>10. Interest and similar income</b>	<b>72,732</b>	<b>65,095</b>
<b>20. Interest and similar expense</b>	<b>-33,718</b>	<b>-28,119</b>
<b>30. Net interest income</b>	<b>39,014</b>	<b>36,976</b>
<b>40. Fee and commission income</b>	<b>1,078,507</b>	<b>984,073</b>
<b>50. Fee and commission expense</b>	<b>-592,824</b>	<b>-573,587</b>
<b>60. Net fee and commission income</b>	<b>485,683</b>	<b>410,486</b>
<b>70. Dividends and similar income</b>	<b>1,494</b>	<b>116</b>
<b>80. Net trading income</b>	<b>3,764</b>	<b>3,672</b>
<b>90. Fair value adjustments in hedge accounting</b>	<b>999</b>	<b>-</b>
<b>100. Profit (loss) on disposal or buy-back of:</b>	<b>7,011</b>	<b>300</b>
b) available for-sale financial assets	7,011	300
<b>120. Total income</b>	<b>537,965</b>	<b>451,550</b>
<b>130. Net impairment losses on:</b>	<b>-6,695</b>	<b>-4,458</b>
a) loans and receivables	-2,796	-2,246
b) available-for-sale financial assets	-3,899	-2,212
<b>140. Net financial income</b>	<b>531,270</b>	<b>447,092</b>
<b>180. Administrative expenses:</b>	<b>-757,582</b>	<b>-557,545</b>
a) personnel expenses	-261,849	-155,608
b) other administrative expenses	-495,733	-401,937
<b>190. Net accruals to provisions for risks and charges</b>	<b>2,522</b>	<b>-2,981</b>
<b>Depreciation and net impairment losses on property, equipment and investment property</b>	<b>-29,246</b>	<b>-23,328</b>
<b>210. Amortisation and net impairment losses on intangible assets</b>	<b>-38,578</b>	<b>-23,838</b>
<b>220. Other operating income, net</b>	<b>377,574</b>	<b>285,434</b>
<b>230. Operating costs</b>	<b>-445,311</b>	<b>-322,258</b>
<b>240. Share of profits of investees</b>	<b>17,367</b>	<b>18</b>
<b>270. Net gains on sales of investments</b>	<b>-7</b>	<b>-</b>
<b>280. Pre-tax profit from continuing operations</b>	<b>103,320</b>	<b>124,852</b>
<b>290. Income taxes</b>	<b>-24,855</b>	<b>-19,268</b>
<b>300. Post-tax profit from continuing operations</b>	<b>78,466</b>	<b>105,584</b>
<b>320. Profit for the period</b>	<b>78,466</b>	<b>105,584</b>
<b>330. Profit for the period attributable to non-controlling interests</b>	<b>626</b>	<b>-1,586</b>
<b>340. Profit for the period attributable to the owners of the parent</b>	<b>79,092</b>	<b>103,998</b>

**STATEMENT OF COMPREHENSIVE INCOME**

(€'000)

<b>CAPTIONS</b>		<b>2017</b>	<b>2016</b>
10. Profit for the period		78,466	105,584
<b>Items, net of tax, that will not be reclassified subsequently to profit or loss</b>			
40. Defined benefit plans		-35	501
<b>Items, net of tax, that will be reclassified subsequently to profit or loss</b>			
100. Available-for-sale financial assets		24,950	-3,608
130. Other comprehensive income (expense), net of tax		24,915	-3,107
<b>140. Comprehensive income (10 + 130)</b>		<b>103,381</b>	<b>102,477</b>
150. Comprehensive income attributable to non-controlling interests		-277	1,635
<b>160. Comprehensive income attributable to the owners of the parent</b>		<b>103,658</b>	<b>100,842</b>

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016**

(€'000)

	BALANCE AT 31.12.2015	CHANGES TO OPENING BALANCES	ALLOCATION OF PRIOR YEAR PROFIT			CHANGES FOR THE YEAR						2016 COMPREHENSIVE INCOME	EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT AT 31.12.2016	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT 31.12.2016
			BALANCE AT 1.1.2016	RESERVES	DIVIDENDS AND OTHER ALLOCATIONS	CHANGES IN RESERVES	ISSUE OF NEW SHARES	REPURCHASE OF TREASURY SHARES EXTRAORDINARY DIVIDEND DISTRIBUTION	CHANGES IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURY SHARES	STOCK OPTIONS			
Share capital:														
a) ordinary shares	45,045	-	45,045	-	-	-1,139	-	-	-	-	-	-	42,557	1,349
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	148,356	-	148,356	-	-	-46	-	-	-	-	-	-	148,242	68
Reserves:														
a) income-related	632,850	-	632,850	2,380	-	-1,062,159	-	-	-	-	-	-	1,687,606	9,782
b) other	10,848	-	10,848	-	-	-	-	-	-	-	-	-	10,848	-
Valuation reserves	237,918	-	237,918	-	-	-168,898	-	-	-	-	-	-	-3,107	65,863
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-32	-	-32	-	-	-	-	-	-	-	-	-	-32	-
Profit for the year	95,206	-	95,206	-2,380	-92,826	-455	-	-	-	-	-	-	105,584	103,998
Equity attributable to the owners of the parent	1,144,559	-	1,144,559	-	-90,363	904,047	-	-	-	-	-	-	100,842	2,059,084
Equity attributable to non-controlling interests	25,633	-	25,633	-	-2,463	-12,426	-	-	-	-	-	-	1,635	-12,379

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

(€'000)

	BALANCE AT 31.12.2016	CHANGES TO OPENING BALANCES	ALLOCATION OF PRIOR YEAR PROFIT			CHANGES FOR THE YEAR						2017 COMPREHENSIVE INCOME	EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT AT 31.12.2017	EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS AT 31.12.2017
			BALANCE AT 1.1.2017	RESERVES	DIVIDENDS AND OTHER ALLOCATIONS	CHANGES IN RESERVES	ISSUE OF NEW SHARES	REPURCHASE OF TREASURY SHARES EXTRAORDINARY DIVIDEND DISTRIBUTION	CHANGES IN EQUITY INSTRUMENTS	DERIVATIVES ON TREASURY SHARES	STOCK OPTIONS			
Share capital:														
a) ordinary shares	43,906	-	43,906	-	-	305	-	-	-	-	-	-	42,557	1,654
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	148,310	-	148,310	-	-	4	-	-	-	-	-	-	148,242	72
Reserves:														
a) income-related	1,697,389	-	1,697,389	39	-	-14,240	-	-	-	-	-	-	1,679,705	3,483
b) other	10,848	-	10,848	-	-	-	-	-	-	-	-	-	10,848	-
Valuation reserves	65,913	-	65,913	-	-	-	-	-	-	-	-	-	24,915	90,429
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interim dividend	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-32	-	-32	-	-	-	-	-	-	-	-	-	-32	-
Profit for the year	105,128	-	105,128	-39	-105,089	-	-	-	-	-	-	-	78,466	79,092
Equity attributable to the owners of the parent	2,059,084	-	2,059,084	-	-103,982	-7,917	-	-	-	-	-	-	103,658	2,050,841
Equity attributable to non-controlling interests	12,379	-	12,379	-	-1,107	-6,013	-	-	-	-	-	-	-277	4,982

**STATEMENT OF CASH FLOWS (Indirect method)**

(€'000)

<b>A. OPERATING ACTIVITIES</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>1. Operations</b>	<b>174,250</b>	<b>176,002</b>
- profit for the year	<b>79,092</b>	103,998
- net gains on financial assets held for trading and financial assets/liabilities at fair value through profit or loss	<b>106</b>	37
- net impairment losses	<b>6,695</b>	4,458
- net impairment losses on property, equipment and investment property and intangible assets	<b>67,824</b>	47,166
- net accruals to provisions for risks and charges and other costs/revenues	<b>-2,522</b>	2,981
- unpaid taxes and duties	<b>24,855</b>	19,268
- other adjustments	<b>-1,800</b>	-1,906
<b>2. Cash flows generated by financial assets</b>	<b>337,056</b>	<b>406,319</b>
- financial assets held for trading	<b>-4,337</b>	5,509
- financial assets at fair value through profit or loss	<b>-</b>	209,225
- available-for-sale financial assets	<b>617,830</b>	-615,642
- loans and receivables with banks: on demand	<b>-85,931</b>	80,010
- loans and receivables with banks: other	<b>-</b>	-
- loans and receivables with customers	<b>-69,132</b>	690,123
- other assets	<b>-121,374</b>	37,094
<b>3. Cash flows used by financial liabilities</b>	<b>1,598,745</b>	<b>1,254,874</b>
- due to banks: on demand	<b>42,930</b>	-73,454
- due to banks: other	<b>-</b>	-
- due to customers	<b>1,522,385</b>	1,708,114
- securities issued	<b>-</b>	-
- financial liabilities held for trading	<b>-1,345</b>	3,160
- financial liabilities at fair value through profit or loss	<b>-</b>	-
- other liabilities	<b>34,775</b>	-382,946
<b>Net cash flows generated by (used in) operating activities A</b>	<b>2,110,051</b>	<b>1,837,195</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flows generated by</b>	<b>-</b>	<b>-</b>
- sales of equity investments	<b>-1,888</b>	-
- dividends from equity investments	<b>-</b>	415
- sales/repayments of HTM investments	<b>11,000</b>	16,000
- sales of property, equipment and investment property	<b>-</b>	2,731
- sales of subsidiaries and business units	<b>16,390</b>	-
<b>2. Cash flows used to acquire</b>	<b>-</b>	<b>-</b>
- equity investments	<b>-</b>	-
- HTM investments	<b>-</b>	-
- property, equipment and investment property	<b>-22,287</b>	-26,481
- intangible assets	<b>-41,478</b>	-41,556
- subsidiaries and business units	<b>-624,828</b>	-
<b>Net cash flows used in investing activities B</b>	<b>-663,091</b>	<b>-48,890</b>
<b>C. FINANCING ACTIVITIES</b>		
- issue/repurchase of treasury shares		
- issue/purchase of equity instruments		
- dividends and other distributions	<b>-2,463</b>	-11,910
<b>Net cash flows used in financing activities C</b>	<b>-2,463</b>	<b>-11,910</b>
<b>NET CASH FLOWS FOR THE YEAR D=A+/-B+/-C</b>	<b>1,444,497</b>	<b>1,776,395</b>

**RECONCILIATION****Financial statements captions**

Opening cash and cash equivalents	<b>1,798,784</b>	22,389
Net cash flows for the year	<b>1,444,497</b>	1,776,395
<b>Closing cash and cash equivalents G=E+/-D+/-F</b>	<b>3,243,281</b>	<b>1,798,784</b>





# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**2017**

# Notes to the consolidated financial statements

## Part A - ACCOUNTING POLICIES

### A.1 - GENERAL PART

#### SECTION 1 - Statement of compliance

Pursuant to Regulation (EC) no. 1606 of 19 July 2002, the NEXI Group has prepared these consolidated financial statements at 31 December 2017 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. They were introduced into Italian law with Legislative decree no. 38/2005.

The group applied the IFRS enacted at 31 December 2017 and Bank of Italy's instructions about financial statements issued in its Measure of 22 December 2005, the related Circular no. 262 and subsequent amendments, pursuant to art. 43 legislative decree no. 136/2015.

It did not make any departures from the IFRS.

#### SECTION 2 - Basis of presentation

The consolidated financial statements at 31 December 2017 comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

They are accompanied by a directors' report which comments on the group's performance, its results of operations and financial position.

The group's presentation currency is the Euro and the amounts shown in the consolidated financial statements and these notes are in thousands of Euros.

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

The following paragraphs illustrate the amendments made to several accounting standards issued by the IASB and validated by the European Commission, which were applicable on a mandatory basis from FY 2017:

- Regulation (EU) no. 1989 of 9 November 2017 - "Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)" amends IAS 12 Income Taxes to address diversity in practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value that has arisen because of uncertainty about the application of some of the principles in IAS 12.
- Regulation (EU) no. 1990/2017 of 9 November 2017 "Disclosure Initiative (Amendments to IAS 7)" amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Regulation (EU) no. 2018/182 of 7 February 2018 "Annual Improvements to IFRS Standards 2014–2016 Cycle", amends IFRS 1 First-time adoption of IFRS, IFRS 12 Disclosure of investments in other entities and IAS 28 Investments in associates and joint ventures.

Regarding to the amendment of IAS 28, the IASB clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The application of the above-illustrated amendments did not have any significant impact on the Financial Statements.

The following table shows the new standards or amendments with the related endorsement regulations. Their application is mandatory from 1 January 2018 (for entities whose reporting period is the calendar year) or subsequently.

<b>ENDORSEMENT REGULATION</b>	<b>NAME</b>	<b>STANDARD/INTERPRETATION</b>	<b>YEAR OF APPLICATION</b>
2016/2067	IFRS 9	Financial Instruments	2018
2017/1988	Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	2018
2016/1905	IFRS 15	Revenue from contracts with customers	2018
2017/1987	Clarifications to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	2018
2017/1986	IFRS 16	Leases	2019
2018/182	Annual Improvements to IFRS Standards 2014-2016 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates and Joint Ventures	2018 (for the IFRS 1 and IAS 28 amendments)

With reference to IFRS 9, Nexi Group, during 2016 and 2017, has conducted a project in order to identify the main areas of impact and to establish the reference method framework for the classification, measurement and impairment of financial assets. The project scope has included the design and the approval of IFRS 9 application guidelines by the Board of Director and the subsequent update of internal accounting policy.

In particular, for the classification and measurement of debt financial instruments, the analysis highlighted the following:

- Business Model: the Business Models have been defined and approved by the Board of Directors and the internal accounting policy have been updated. We also proceeded to allocate the financial instruments in the Defined Business Model Portfolio; in particular, the trading and the loan portfolios will not change and will be allocated respectively in the IFRS 9 "Other" and "Held to collect" (HTC) portfolios. The portfolio of debt instruments classified in the IAS 39 portfolio of instruments available for sale will be allocated in the business model "Held to collect or sale" (HTCS).
- SPPI (Sole payment of Principal and Interest) test: the internal accounting policy has been updated and a market solution has been purchased to perform the SPPI test. Furthermore, an analysis was carried out on the current stock of financial assets classified in the HTC and HTCS portfolios, which showed that some instruments classified in the HTCS portfolio didn't pass the SPPI test. Since under IAS 39 standard these instruments are classified in the Available For Sale portfolio, the transition to the new IFRS9 standard needs to reclassify the difference between fair value and carrying amount as at 31 December 2017, from the Valuation Reserve to "Retained Earnings", without any impact on the total Net Equity. The subsequent valuations will be recognized to profit and loss.

With reference to the classification of the equity instruments in the portfolio, we have highlighted the following:

- Instruments held for trading purposes: there are no impacts because these instruments are already measured at fair value through the income statement for IAS 39 purposes;
- Capital instruments other than the previous: for these instruments, classified in the portfolio of instruments available for sale for IAS 39 purposes, the decision taken by the Bank to use the option envisaged by IFRS 9 that allows the measurement of these instruments at fair value against Shareholders' equity and does not generate any impact on the Bank's net equity. The treatment mentioned before need to reclassify the accumulated losses on the portfolio' instruments from the Retained Earnings to the Valuation Reserve.

Regarding to the Impairment rules, a simulation was carried out over to the portfolio at 31 December 2017. The simulation shows that there are very limited impacts because the Group's loan portfolio mainly consists of current account related to the services provided by the Group, short term loans related to the e-money services, that are almost fully guaranteed by the bank partners, and by the short-term trade receivable. No substantial differences were found between the valuation model with Probability of Default to 1 year (for loans classified in stage 1) and with probability of default life time (for loans classified in stage 2). The model in use is already based on the probability of default to 1 year and the changes aforementioned did

not generate impacts. The analyses carried out with reference to the inclusion of looking forward variables have shown the absence of significant impacts, considering the characteristics of the loan portfolio and the low amount of the provision recorded for performing loans by the Group.

With reference to the amendments of Hedge accounting rules, Visa shares hedging relationships, started in September 2017, is the only transaction that falls in this accounting model. Consequently, the Group decided to apply IFRS9 instead of maintaining IAS 39.

Since this hedging relationships is qualified for hedge accounting in accordance with IAS 39 and also for IFRS 9, is regarded as continuing hedging relationships, with the requirement to rebalance the IAS 39 hedge ratio if necessary and recognize any impacts in the income statement. No rebalancing is necessary as at 31 December 2017, because the hedge ratio calculated in accordance with IAS 39 is the same as that calculated for IFRS 9 purposes.

Therefore, the transition to IFRS 9 will not have any impact on the Group's shareholders' equity but only the reclassification of the "Hedging Result" from the Retained Earnings to the Valuation Reserve, as a result of the fair value valuation of the object hedged against equity.

The changes related the accounting treatment of "own credit risk" will not have any impact because this cases are not present in the consolidated financial statements of Nexi Group.

With reference to IFRS 15, Nexi Group decided to apply the prospective implementation with cumulative effect. Consequently, the transition date to the new standard is 1 January 2018. The impacts have been determined with reference only to the contracts that have not been completed as the date of first implementation.

The analysis conducted with reference to January 1, 2018, highlighted the following:

- Identification of contracts with customers: no significant impacts were identified.
- Contracts with multiple performance obligations: Performance obligations, in the majority of cases refer to routinary or recurring services. For this reason it's applicable the exception envisaged by IFRS 15 that consider the individual contractual obligations, such as a single performance obligation. The only impact relates to some up front fee that under IFRS 15 should be included in the total consideration of the service provided and the revenues from sale of software are considered as a transfer of right of access that should be recognized straight line basis in relation to the useful life of the underlying contracts. The change in accounting treatment requires to reverse from the Retained Earnings as at 1 January 2018 revenues and costs that for IFRS 15 purposes are attributable to subsequent financial years.
- Determination of the transaction price: The group has analysed the potential impact arising from "variable consideration". In particular existing contracts in some limited cases, include bucket considerations or periodic adjustments according to the volumes billed for services. The frequency of accounting of the adjustments, generally, does not exceed the solar year. Therefore, this variable consideration does not affect the annual financial statements of Nexi Group.
- Allocation of the transaction price to the performance obligations: The contracts including more performance obligations generally refer to recurring services, for which, there is not the application of significant rebates and consequently there are no significant impacts.
- Revenue recognition: There are no significant impacts due to the nature of Nexi Group revenues.

Following the summary of the estimates up to date relating to the impacts on the Net Equity of Nexi Group as at 31 December 2017 due to the application of the accounting standards applicable from 1 January 2018. These estimates are on going in particular with reference to Bassilichi Group, acquired during the year.

(€/million)	<b>AS REPORTED AT 31 DECEMBER 2017</b>	<b>ESTIMATED ADJUSTMENTS DUE TO ADOPTION OF IFRS 9</b>	<b>ESTIMATED ADJUSTMENTS DUE TO ADOPTION OF IFRS 15</b>	<b>ESTIMATED ADJUSTED OPENING BALANCE AT 1 JANUARY 2018</b>
Valuation Reserves	<b>90.3</b>	<b>(0.3)</b>	<b>0.0</b>	<b>90.0</b>
Retained Earnings	<b>1,690.5</b>	<b>0.3</b>	<b>(4.4)</b>	<b>1,686.5</b>
<b>Shareholders Equity</b>	<b>2,050.7</b>	<b>0.0</b>	<b>(4.4)</b>	<b>2,046.3</b>
NCI	<b>5.0</b>	<b>0.0</b>	<b>(0.0)</b>	<b>5.0</b>

With reference to IFRS16, the project has been started at the end of 2017 and will continue in 2018.

The group applies the measurement criteria assuming that it will continue as a going concern and in accordance with the principles of accruals, materiality and significance of the financial data and the principle of substance over form.

The consolidated financial statements and the notes present corresponding prior year figures.

The directors' report and these notes include all the information required by the IFRS, the law and Bank of Italy, as well as additional disclosures which are not mandatory but are deemed useful to give a true and fair view of the group's financial position and results of operations.

## **Basis of presentation of the consolidated financial statements**

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

They comprise captions, subcaptions and additional information. Revenue is shown without a plus sign while costs are shown with a minus sign in the income statement.

### **Statement of changes in equity**

This statement shows changes in equity during the year split between share capital, equity-related reserves, income-related reserves, valuation reserves and the profit (loss) for the year. Treasury shares are offset against equity. The parent has not issued equity instruments other than ordinary shares.

### **Basis of presentation of the notes**

These notes include the information required by Bank of Italy's Circular no. 262/2005 and the additional information required by the IFRS.

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

## **SECTION 3 – Basis of consolidation**

The group has established the consolidation scope in accordance with IFRS 10 - Consolidated financial statements. Accordingly, the concept of control is fundamental to consolidation of all types of entities. It exists when the investor concurrently:

- has power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee;
- has the ability to affect those returns through its power over the investee.

Therefore, the group consolidates all types of entities when all three control elements exist.

When an entity is directed mainly through exercise of voting rights, control exists when the investor holds more than half the voting rights.

In other cases, the assessment of control is more complex and requires the greater use of judgement as it is necessary to consider all the factors and circumstances that give control over the investee (de facto control).

In the case of the Nexi Group, all the consolidated entities are directed mainly through voting rights. Accordingly, the group did not have to exercise special judgements or make significant assumptions in order to establish the existence of control over subsidiaries and significant influence over associates.

The financial statements at 31 December 2016 of the parent and consolidated companies were used for consolidation purposes, after being reclassified and adjusted to comply with the consolidation requirements and the IFRS.

Investments in subsidiaries are consolidated by combining the captions of the statement of financial position and income statement on a line-by-line basis, making the following adjustments:

- (a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated;
- (b) the equity and profit or loss attributable to non-controlling interests are recognised separately.

Positive differences arising from the above adjustments are recognised as goodwill in caption "130 Intangible assets" at the date of first consolidation after allocation to the subsidiary's assets and liabilities. Any negative differences are recognised in profit or loss.

Intragroup assets and liabilities, off-statement of financial position transactions, income and expense and profits and losses among the consolidated companies are eliminated.

The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date. The income and expense of a subsidiary that is sold are included in the income statement up to the sales date, i.e., until the date when the parent ceases to control the subsidiary.

Pursuant to IAS 28, the consolidated financial statements also include the results of associates, i.e., entities over which the group has significant influence and the power to participate in directing its financial and operating policies without having control or joint control. These investments are measured using the equity method which entails the initial recognition of the investment at cost and its subsequent measurement using the equity method. The group's share of the associate's profit or loss is recognised separately in the income statement.

The difference between the investment's carrying amount and the group's share of its equity is included in the investment's carrying amount.

If there is indication of impairment, the group estimates the investment's recoverable amount, considering the discounted future cash flows that the investee may generate, including the investment's costs to sell. When the recoverable amount is less than the investment's carrying amount, the difference is recognised in profit or loss.

At present, the group is not a party to joint arrangements as defined by IFRS 11 in the form of joint ventures (the ventures have rights to the arrangement's net assets).

### **1. Investments in fully controlled subsidiaries**

<b>COMPANY NAME</b>	<b>OPERATING OFFICE</b>	<b>REGISTERED OFFICE</b>	<b>TYPE OF RELATIONSHIP (1)</b>	<b>INVESTMENT</b>			<b>VOTING RIGHTS % (2)</b>
				<b>INVESTOR</b>	<b>INVESTMENT %</b>		
1. Oasi-Diagram S.p.A.	Milan	Milan	1	Nexi S.p.A.	100.00	100.00	
2. Nexi Payments S.p.A.	Milan	Milan	1	Nexi S.p.A.	98.74	98.74	
3. Help Line S.p.A.	Cividale del Friuli / Milan	Cividale del Friuli	1	Nexi S.p.A.	98.74	98.74	
	Florence/Bologna/ Siena/Sassari/ Rome/ Milan/	Milan					
4. Bassilichi S.p.A.	Padova		1	Nexi S.p.A.	100.00	100.00	
5. Consorzio Triveneto S.p.A.	Padova	Padova	1	Nexi S.p.A.	26.09	26.09	
				Basilichi S.p.A.	64.26	64.26	
6. Moneynet S.p.A.	Palermo	Palermo	1	Basilichi S.p.A.	61.00	61.00	
				Consorzio Triveneto S.p.A.	39.00	39.00	
7. Bassmart S.r.l.	Florence	Florence	1	Basilichi S.p.A.	95.00	95.00	
8. Basilichi CEE Belgrado	Beograd	Beograd	1	Basilichi S.p.A.	80.00	80.00	
9. Ars Blue	Beograd	Beograd	1	Basilichi CEE	51.00	51.00	
10. Basilichi CEE Banja Luka	Banja Luka	Banja Luka	1	Basilichi CEE	100.00	100.00	
11. Basilichi Podgorica	Beograd	Beograd	1	Basilichi CEE	100.00	100.00	

Key

(1) Type of relationship:  
 1 = majority of voting rights at ordinary shareholders' meetings  
 2 = dominant influence at ordinary shareholders' meeting  
 3 = shareholder agreements  
 4 = other forms of control  
 5 = single management as per art.26.1 of Legislative decree no.87/92  
 6 = single management as per art.26.2 of Legislative decree no.87/92

(2) Voting rights at ordinary shareholders' meetings, differentiating between effective and potential voting rights.

The Nexi banking group includes the following companies:

- Nexi S.p.A.;
- Oasi Diagram - Outsourcing Applicativo e Servizi Innovativi S.p.A., operating company;
- Help Line S.p.A., operating company;
- Nexi Payments S.p.A., financial company included in the register of payment institutes as per article 114-septies of the Consolidated Banking Act.
- Basilichi S.p.A., operating company;
- Consorzio Triveneto S.p.A., operating company;
- Moneynet S.p.A., financial company included in the register of payment institutes as per article 114-septies of the Consolidated Banking Act.
- Bassmart S.r.l., operating company;
- Basilichi CEE Belgrado, operating company;;
- Ars Blue, operating company;
- Basilichi CEE Banja Luka, operating company;
- Basilichi Podgorica, operating company.

As well as the above consolidated banking group companies, the group includes the following associates at 31 December 2017:

- HI-Mtf S.p.A., in which the parent has a 25% interest;
- Unione Fiduciaria S.p.A., in which the parent has a 24% interest;
- Win Join in which the parent has a 24% interest;
- Rs Record store in which the parent has a 30% interest;
- ICT Logistica in which the parent has a 33% interest;
- BASSNET SrL in which the parent has a 49.67% interest;
- CONSORZIO ENGBAS in which the parent has a 50% interest;
- ALFAZERO S.p.A. in which the parent has a 39.74% interest;
- K.Red in which the parent has a 50% interest.

## **2. Significant judgements and assumptions applied to define the consolidation scope**

As stated above and given the group's current structure, where control is principally based on voting rights held, there were no situations that would have made it necessary to make specific judgements or make significant assumptions to define the consolidation scope.

This is also true for the associates, where significant influence is basically attributable to the voting rights held by the group.

## **3. Investments in consolidated companies with significant non-controlling interests**

### **3.1 Non-controlling interests, their voting rights and dividends distributed to them**

<b>COMPANY NAME</b>	<b>INVESTMENT %</b>	<b>VOTING RIGHTS % (1)</b>	<b>DIVIDENDS</b>
1. Help Line Spa	30%	30%	-

(1) Availability of votes at ordinary shareholders' meetings.

### **3.2 Investments with significant non-controlling interests: financial information**

(Euro)

<b>COM- PANY NAME</b>	<b>TOTAL ASSETS</b>	<b>CASH AND CASH EQUI- VALENTS</b>	<b>FINANCIAL ASSETS</b>	<b>PROPERTY AND INTANGIBLE ASSETS</b>	<b>PROPERTY AND INTANGIBLE ASSETS</b>	<b>FINANCIAL LIABILITIES</b>	<b>NET EQUITY</b>	<b>NET INTEREST EXPENSES</b>	<b>TOTAL OPERATING COSTS</b>	<b>PRE-TAX PROFIT</b>	<b>POST-TAX PROFIT FROM CONTINUING OPERATIONS</b>	<b>PROFIT FOR THE YEAR</b>	<b>OTHER COM- PREHENSIVE INCOME,</b>	<b>NET OF TAXES</b>	<b>COM- PREHENSIVE INCOME (3)</b>
										<b>FROM CON- TINUING OPERATIONS</b>	<b>FROM CON- TINUING OPERATIONS</b>	<b>(1)</b>	<b>(2)</b>	<b>(1) + (2)</b>	
1. Help Line Spa	23,302,272	488		6,522,672			2,888,839	-793	-793	-7,437,200	-7,437,991	-5,656,724	-5,656,724	75,823	-5,580,901

## **4. Significant restrictions**

There are no significant restrictions to the exercise of voting rights for the investments in subsidiaries and associates.

## **5. Other information**

Given the group's structure, there is no other information that needs to be disclosed.

## **SECTION 4 – Events after the reporting period**

No events took place after the reporting date that would have had a significant effect on the group's financial position, results of operations or cash flows or that would have required adjustments to the financial statements captions.

## **SECTION 5 – Other aspects**

There is no other information that needs to be disclosed, including with respect to the Bank of Italy/Consob/IVASS document no. 6 of 8 March 2013.

## A.2 - KEY FINANCIAL STATEMENTS CAPTIONS AT 31 DECEMBER 2017

### **Accounting policies**

#### **1 - Financial assets held for trading**

##### **Classification**

A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of selling it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is an effective hedging instrument).

Derivatives are recognised under assets when they have a positive fair value and under liabilities when they have a negative fair value.

##### **Recognition**

Debt and equity instruments are recognised at their settlement date while derivatives are recognised at their trading date.

Financial assets held for trading are initially recognised at fair value, which is usually the transaction price, net of any directly attributable transaction costs.

##### **Measurement**

After initial recognition, financial assets held for trading are measured at fair value. Any resulting fair value gains or losses are recognised in caption 80 "Trading income (expense)" of the income statement. Interest accrued on these assets is recognised in caption 10 of the income statement "Interest and similar income", although interest and/or other income and expense on trading derivatives are recognised in caption 80 "Trading income (expense)" of the income statement.

Section 17 - Other information provides information on the calculation of fair value of listed financial instruments. Equity instruments and derivatives hedging equity instruments are maintained at cost when it is not possible to calculate their fair value reliably.

##### **Derecognition**

Financial assets or parts of financial assets are recognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

#### **2 - Available-for-sale financial assets**

##### **Classification**

This category includes non-derivative financial assets that are not classified as loans and receivables, financial assets held for trading, held-to-maturity investments or financial assets at fair value through profit or loss.

##### **Recognition**

They are initially recognised at the settlement date and measured at fair value, which includes the directly related transaction costs.

## **Measurement**

AFS financial assets are subsequently measured at fair value with recognition of amortised cost in profit or loss and the fair value gains or losses in a specific equity reserve until the asset is derecognised or an impairment loss is recognised. Gains or losses recognised in equity are reclassified to profit or loss when the asset is sold. The interest coming from the application of amortized cost are accounted to profit and loss.

Realised gains or losses are recognised in caption 100 "Net profit (loss) on sale or repurchase" of the income statement.

Fair value is calculated using the same criteria applied to financial assets held for trading.

Equity instruments included in this category and derivatives hedging equity instruments are maintained at cost when it is not possible to calculate their fair value reliably.

The group tests its assets for impairment at each reporting date. When there is a significant or prolonged decline in fair value, the group recognises it in profit or loss as the difference between the asset's carrying amount (acquisition cost net of impairment losses already recognised in profit or loss) and fair value. Fair value losses are significant when they exceed 20% of the cost and prolonged if they have existed for over nine months.

If the fair value of a debt instrument increases in a subsequent period and this increase is objectively due to an event that took place in a period after that in which the impairment loss was recognised in profit or loss, the impairment loss is reversed and the related amount is recognised in the same income statement caption. The reversal may not generate a carrying amount higher than that which would have been obtained by measuring that asset at amortised cost had the loss not been recognised. Impairment losses on shares, recognised in profit or loss, cannot be reversed through profit or loss but only directly through equity.

## **Derecognition**

Financial assets or parts of financial assets are decategorised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

## **3 - Held-to-maturity investments**

### **Classification**

This category includes debt instruments with fixed or determinable payments and fixed maturities that the group has the ability and intention to hold to maturity. If it is no longer appropriate to maintain an asset as classified as held to maturity following a change in the group's intentions or ability, it is reclassified to "AFS financial assets".

### **Recognition**

HTM investments are initially recognised at cost, being the fair value of the amount traded, including any directly related costs and income.

### **Measurement**

After initial recognition, HTM investments are measured at amortised cost using the effective interest method. Fair value gains or losses are recognised in profit or loss when the investments are derecognised.

At each reporting date, the group tests the HTM investments for impairment. The impairment loss, if any, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate. Impairment losses are recognised in profit or loss. When the reasons for impairment are no longer valid as a result of an event that took place subsequent to recognition of the impairment loss, it is reversed through profit or loss.

### **Derecognition**

Financial assets or parts of financial assets are decategorised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

## 4 - Loans and receivables

### Classification

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

### Recognition

Loans and receivables are initially recognised at the agreement signing date, which is usually the disbursement date, based on the financial instrument's fair value, which usually equals the amount disbursed including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently. The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs.

### Measurement

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Interest is recognised in caption 10 "Interest and similar income" of the income statement.

Loans and receivables are tested for impairment at each reporting date to determine whether there is objective evidence of impairment due to events subsequent to initial recognition. Indication of impairment is based on one or more events that took place after initial recognition that have an impact on the estimate of future cash flows of a financial asset or a group of financial assets that can be measured reliably.

Loans and receivables tested individually for impairment include positions classified as non-performing, doubtful or restructured as per the Bank of Italy regulations. Assets not tested individually or for which impairment has not been identified are tested collectively.

The individual impairment test measures the difference between the carrying amount and present value of estimated future cash flows discounted at the position's original effective interest rate.

Estimated cash flows include guarantees securing the debtor's exposure and their probable enforcement. When enforcement of the guarantees is unlikely, the group uses their present value, while if it is probable that they will be enforced, the group considers their realisable value net of the costs to be incurred for enforcement.

Impairment losses are recognised in caption 130 "Net impairment losses" in the income statement.

Loans and receivables are reinstated to their original value in subsequent periods when the reasons for impairment are no longer valid, as long as this assessment is objectively linked to an event that took place after recognition of the impairment loss. Reversals of impairment losses are recognised in the income statement and may not exceed the position's amortised cost had the impairment loss not been recognised.

Loans and receivables that are not tested individually for impairment are tested collectively. They are grouped into categories based on their risk and the related impairment loss percentages are estimated considering historical data, based on elements observable at their measurement date, so as to estimate each category's unrealised loss. The impairment test considers the counterparty's country risk. Collective impairment losses are recognised in profit or loss.

### Derecognition

Financial assets or parts of financial assets are decategorised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

## **7 - Equity investments**

This caption includes equity-accounted investees as described in section 3 – Basis of consolidation.

Investments in entities other than subsidiaries and associates are classified as AFS financial assets and treated accordingly (see point 2).

## **8 - Property, equipment and investment property**

### **Classification**

This caption includes land, owner-occupied property, investment property, furniture and fittings and all equipment. It also comprises assets under finance lease.

### **Recognition**

Assets acquired on the market are recognised as assets when the main risks and rewards of title are transferred. Initial recognition is at cost, which includes all directly related charges.

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

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

### **Measurement**

Property, equipment and investment property are subsequently measured at cost adjusted by accumulated depreciation and any impairment losses/reversals of impairment losses.

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

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

- furniture and fittings: 8 years;
- owner-occupied buildings: maximum 33 years;
- investment property: maximum 33 years;
- POS and ATM, classified as electronic equipment, are depreciated over three and seven years, respectively, as these periods are held to reflect their useful lives.

Land is not depreciated as it has an indefinite life nor are works of art as their useful lives cannot be estimated and their value usually increases over time.

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

### **Derecognition**

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

## 9 - Intangible assets

### Classification

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

### Recognition

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

### Measurement

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

In particular:

- technology related intangibles, such as software acquired and software development cost, which are amortised on the basis of their expected technological obsolescence and over a maximum period of five years. In particular, the costs incurred for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, (ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, (iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process;
- intangible assets relating to the Depositary services, recorded following the acquisition of contracts or business units, have an estimated useful life of ten years depending on the contractual terms.

Their residual value is taken to be nil.

At least once a year, the Group perform the impairment test of goodwill for impairment with the comparison between Carrying Amount and Recoverable Amount.

For the intangible assets different from the goodwill, the Group tests the assets for impairment at every reporting date. If there is indication of impairment, it compares the asset's carrying amount to its recoverable amount being the higher of fair value and value in use.

### Derecognition

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

### Goodwill

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

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

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

Impairment losses on goodwill are recognised in caption 260 "Impairment losses on goodwill" of the income statement. They are not reversed in subsequent periods.

## **11 - Current and deferred taxes**

The group estimates current and deferred taxes.

Current taxes not yet paid in whole or in part at the reporting date are recognised as tax liabilities in the statement of financial position. If payments on account in the current or previous reporting period exceed the related tax expense, the difference is recognised as a tax asset.

Current and deferred taxes are recognised in caption 290 "Income taxes" of the income statement unless they relate to gains or losses on AFS financial assets and actuarial gains and losses, which are recognised directly in the valuation reserves, net of tax.

Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting as "Tax assets" and "Tax liabilities", respectively.

The income tax expense is calculated on the basis of an estimate of the current and deferred tax expense and income. Specifically, deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities and their tax bases. The group recognises deferred tax assets (in caption 140.b) for deductible temporary differences and carryforward tax losses that will reverse in subsequent periods when it is probable that it will make a taxable profit in the same period, according to its business plans, against which it can offset the deferred tax asset.

Deferred tax liabilities are calculated on all taxable temporary differences, excluding only reserves taxed upon distribution as, given the amount of the taxed available reserves, the group does not expect to undertake transactions that would require their taxation.

Deferred tax assets and liabilities are calculated using the tax rates expected to be enacted in the period in which the deferred tax asset will be recovered or the deferred tax liability extinguished, based on the ruling tax laws.

They are remeasured regularly to reflect any changes in the tax laws or rates or any subjective situations that not allow the recoverability.

## **12 - Provisions for risks and charges**

### **Pension and similar provisions**

Internal pension plans are considered to be defined benefit plans. The group calculates the related liabilities and current service cost using actuarial assumptions and the projected unit credit method. This method projects future payments using historical figures and the demographic curve and discounts these flows using a market interest rate. The discount rate is the average market rate at the measurement date. The present value of the group's liability at the reporting date is also adjusted by the fair value of any plan assets.

### **Other provisions**

The group recognises provisions for risks and charges when:

- it has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be necessary to settle the obligation; and
- the liability can be reliably estimated.

When the effect of the time value of money is material, the provision is discounted using the current market rates at the closing date. Accruals and increases due to the time factor are recognised in profit or loss. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

Provisions and contingent liabilities are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

## **13 - Liabilities and Securities issued**

### **Classification**

An issued financial instrument is classified as a liability when, based on the substance of the contractual agreement, the group has a contractual obligation to deliver cash or another financial asset to another party.

Due to banks and customers include funding obtained on the interbank market and from customers, including through repurchase agreements and the placing of bonds and certificates of deposit.

They also include finance lease liabilities.

### **Recognition**

Amounts due to banks are recognised at the contract agreement date, which is usually when the bank receives the funds and issues the debt instruments.

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

### **Measurement**

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

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

### **Derecognition**

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

They are also derecognised when previously issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in profit or loss.

If the repurchased security is subsequently placed on the market again, this is treated as a new issue and is recognised at the new placement price.

## **14 - Financial liabilities held for trading**

This caption includes derivatives held for trading with negative fair values.

All financial liabilities held for trading are measured at fair value and the fair value gains or losses are recognised in profit or loss. The measurement and recognition criteria are identical to those used for financial assets held for trading.

## **15 - Hedging transactions**

### **Classification**

Asset and liability items include financial hedging derivatives, which at the date of the financial statements or interim report showed a positive and negative fair value, respectively.

Hedges seek to neutralise potential losses recognisable on a given financial instrument or a group of financial instruments, attributable to a specific risk, by offsetting them with the gains recognisable on a different financial instrument or group of financial instruments in the event that said risk should actually materialise.

With reference IAS 39 hedges model, Company's hedging transactions only relate to a single fair value hedges transaction, which seek to hedge exposure to changes in the fair value of a specific financial asset, attributable to exchange rate and price risk.

As states by IFRS 9, the derivative instruments is designated as hedges provided that the hedging relationship between the hedged instrument and the hedging instruments is formally documented, and it is effective at the time of origination of the hedge and prospectively throughout its entire life. The hedge effectiveness is assessed at each balance sheet date or interim reporting date, using:

- prospective tests, that justify the application of hedging accounting in that they demonstrate its expected effectiveness;
- retrospective tests, demonstrating the hedge's actual effectiveness achieved over the period being examined.

## **Recognition**

The hedging derivative instrument is recognised at a value equal at the transaction date.

## **Measurement**

Hedging derivatives are designated at fair value and the changes in fair value of the hedged element are offset by the changes in fair value of the hedging instrument. Said offsetting is recognised by charging the changes in value referring both to the hedged element (referring to the changes generated by the underlying risk factor), as well as to the hedging instrument to the income statement, in the caption "hedging result". Any resulting difference, which represents the partial ineffectiveness of the hedge, represents the net effect on the income statement.

If the hedging transaction is discontinued, the hedged instrument returns to being measured based on the criteria in use in its original category.

## **Derecognition**

If hedging effectiveness test failed, the hedging transaction is discontinued and the derivative instrument is classified within trading transactions.

Moreover the hedging transaction is discontinued when:

- the derivative instrument expires;
- the hedging instrument is derecognized.

## **16 - Foreign currency transactions**

### **Initial recognition**

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

### **Subsequent measurement**

Foreign currency assets and liabilities are retranslated into Euros at each subsequent reporting date using the following criteria

- monetary items are retranslated using the closing rates;
- non-monetary items measured at historical cost are retranslated using the transaction-date exchange rates;
- non-monetary items measured at fair value are retranslated using the closing rates.

Exchange rate differences arising from the settlement of monetary items are recognised in profit or loss in the period in which they arise; exchange rate differences on non-monetary items are recognised in equity or in profit or loss in line with the method used to recognise the gains or losses that include this component.

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

## **18 - Other information**

### **Post-employment benefits**

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

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

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

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

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

Starting from the 2013 consolidated financial statements, the group has recognised actuarial gains and losses in the statement of comprehensive income as required by the revised IAS 19.

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

Interest accrued on the net liability continues to be recognised.

### **Treasury shares**

Repurchased treasury shares are directly offset against equity. No gain or loss on the repurchase, sale, issue or extinguishment of these shares can be recognised in profit or loss. Any amounts paid or received for these shares are recognised directly in equity.

The group has set up the specific reserve as per article 2357-ter of the Italian Civil Code.

### **Measurement of the fair value of financial instruments**

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

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The closing date bid price and ask price are used for financial assets and financial liabilities respectively.

The fair value of financial instruments not quoted on active markets is determined using prices of recent market transactions of instruments with similar characteristics or by using valuation techniques based mainly on discounting cash flows. These techniques include all the factors that the market considers to set the price. Accordingly, the models consider the time value of money measured using the risk-free interest rate, default risks, the prepayment risk and the volatility of the financial instrument price, as well as, if applicable, foreign currency exchange rates.

The valuation model adopted for a financial instrument is the same over time, adjusted only in the case of significant changes in market conditions or subjective changes affecting the issuer.

Valuation models based on market parameters are used for bonds and derivatives. The calculation method also considers the need to include the credit risk of both counterparties.

Specifically, bonds are measured by discounting the expected future cash flows of the contractual plan, adjusted for the issuer credit risk.

This method is also used for derivatives, being interest rate swaps (IRS), overnight interest rate swaps (OIS) and options.

A fair value hierarchy has been developed for shares and an application order for the measurement methods which considers any significant transactions involving the share in a sufficiently short time period compared to the measurement period, comparable transactions carried out by companies operating in the same sector and the application of financial, income and equity analytical valuation methods.

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

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

### **Measurement of fair value of non-financial assets**

The fair value of investment property is only calculated for disclosure in the notes. The group uses third party appraisals considering transactions at current prices in an active market for similar real estate assets in the same location and condition and that have the same lease and other contractual terms.

### **Determination of impairment losses on goodwill**

Impairment losses on goodwill are determined using the discounted cash flow method.

### **Guarantees issued**

Guarantees issued, credit derivatives and similar instruments as per IAS 39 and subsequent impairment losses are recognised in caption 100 "Other liabilities".

## **Income statement**

### **Interest income and expense**

Interest income and expense and related income and expense relate to cash and cash equivalents, non-derivative financial assets and liabilities held for trading, AFS financial assets, HTM investments, loans and receivables, liabilities and securities issued.

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

### **Fee and commission income and expense**

They are recognised on an accruals basis.

Specifically, trading commissions on securities are recognised when the service is rendered.

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

### **Dividends**

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

### **Other income and costs**

They are recognised on an accruals basis.

### **Business combinations**

Assets and liabilities deriving from business combinations are recognised at their acquisition-date fair value. After allocating the acquisition price to the assets acquired, liabilities assumed and contingent liabilities to obtain their fair value, any positive difference is recognised as goodwill. After initial recognition, goodwill is tested for impairment.

If the allocation of the acquisition cost to the assets acquired, liabilities assumed (and contingent liabilities) gives rise to a negative difference, this is taken to profit or loss.

## **Utilisation of estimates and assumptions in the preparation of the consolidated financial statements**

The consolidated financial statements captions are measured using the policies set out above.

Application of these policies sometimes involves the adoption of estimates and assumptions that may have a significant effect on the carrying amount of assets and liabilities, income and expenses.

The use of reasonable estimates is an essential part of the preparation of financial statements but must not affect their reliability.

The financial statements captions affected to a greater extent by the use of estimates and assumptions are:

- measurement of financial assets not listed on active markets;
- measurement of intangible assets and equity investments;
- quantification of accruals to provisions for risks and charges;
- quantification of deferred liabilities.

A change in an accounting estimate may occur due to changes in the circumstances on which the estimate was based or as a result of new information or more experience. The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss of the period of the change and, if the change affects future periods, also in future periods.

No significant changes to the accounting estimates were made in 2016.

### A.3 Transfers between portfolios of financial assets

#### A.3.1 Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

TYPE OF FINANCIAL INSTRUMENT	ORIGINAL PORTFOLIO	PORTFOLIO TO WHICH TRANSFER IS MADE	CARRYING AMOUNT AT 31.12.2016	FAIR VALUE AT 31.12.2016	INCOME OR EXPENSE IF TRANSFER HAD NOT TAKEN PLACE (BEFORE TAXES)		INCOME OR EXPENSE FOR THE YEAR (BEFORE TAXES)	
					(5)	FAIR VALUE GAIN/LOSS (6)	OTHER (7)	FAIR VALUE GAIN/LOSS (8)
(1)	(2)	(3)	(4)					
1. Debt instruments	Financial assets held for trading	Available-for-sale financial assets	-	-	152			-

#### A.3.2 Reclassified financial assets: effects on comprehensive income before transfer

No transfers among portfolios took place during the year.

#### A.3.3. Reclassified financial assets: effects on comprehensive income before transfer

In 2011, as the rare circumstances provided for by IAS 38 arose, the group reclassified Italian treasury credit certificates from the HFT portfolio to the AFS portfolio.

These rare circumstances related to the international sovereign debt crisis of June 2011 and the continuously widening spread of the German bund.

### A.4 Fair value disclosure

The IFRS require that financial products classified in the HFT or AFS portfolios be measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., not a forced liquidation or distress sale) on the principal market at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The fair value hierarchy has three input levels:

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

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

The group uses the reporting date market price for instruments listed on active markets (level 1).

The fair value of financial instruments not listed on active markets is measured using techniques mainly based on discounting cash flows. These techniques consider all the factors that the market uses to set the price which are mainly inputs observable on the market (level 2). Specifically:

- bonds are measured by discounting the expected future cash flows of the contractual plan, adjusted for the issuer credit risk;
- derivatives, including IRSs and OISs, and options are measured using the market models that mainly use market rates as their input, adjusted to reflect counterparty risk. This risk includes changes in the counterparty's credit standing and in the issuer's credit standing (own credit risk), if material;
- a fair value hierarchy has been developed for shares and an application order for the measurement methods which considers any significant transactions involving the share in a sufficiently short time period compared to the measurement period, comparable transactions carried out by companies operating in the same sector and the application of financial, income and equity analytical valuation methods.

The valuation model adopted for a financial instrument is the same over time, adjusted only in the case of significant changes in market conditions or subjective changes affecting the issuer.

The group did not have at the reporting date, nor did it trade in during the period, level 3 financial instruments, except for immaterial amounts.

### **Qualitative disclosure**

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

As noted above, the group does not have nor did it trade in level 3 financial instruments, except for immaterial amounts.

It measured level 2 financial instruments (mainly Swap, DCS and stock options) using market interest rates and volatility. Given the bank's limited operations in the unlisted derivatives segment, its transactions mainly with Italian institutional counterparties and, with the most relevant of them, its guarantees mitigating risk, the adjustments made to the level 2 instruments to reflect counterparty risk were immaterial.

#### **A.4.2 Measurement processes and sensitivity**

As noted above, the group does not have nor did it trade in level 3 financial instruments, except for immaterial amounts.

#### **A.4.3 Fair value hierarchy**

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

Transfers from level 1 to level 2 are made when there is an inadequate number of contributors or a limited number of investors that hold the outstanding float.

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

#### **A.4.4 Other disclosures**

The group did not avail of the exception under IFRS 13.48 to measure the net positions of groups of assets and liabilities managed on a net basis.

The group does not hold assets, the current use of which differs from their highest and best use.

## Quantitative disclosure

### A.4.5 Fair value hierarchy

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

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	31.12.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	15,944	1,480	-	11,445	1,748	-
2. Financial assets at fair value through profit or loss						
3. Available-for-sale financial assets	2,502,243	208,248	-	3,170,102	187,810	-
4. Hedging derivatives						
5. Property, equipment and investment property						
6. Intangible assets						
<b>Total</b>	<b>2,518,187</b>	<b>209,728</b>	<b>-</b>	<b>3,181,547</b>	<b>189,559</b>	<b>-</b>
1. Financial liabilities held for trading	1	6,721	-	438	7,629	-
2. Financial liabilities at fair value through profit or loss						
3. Hedging derivatives						
<b>Total</b>	<b>1</b>	<b>6,721</b>	<b>-</b>	<b>438</b>	<b>7,629</b>	<b>-</b>

Key  
L1 = level 1  
L2 = level 2  
L3 = level 3

The group did not transfer assets and liabilities between level 1 and level 2 during the period.

Given the group's limited operations in the unlisted derivative segment, the fact that it solely works with Italian institutional counterparties and the existence of guarantees that mitigate counterparty risk, the above fair value is not significantly influenced by adjustment factors for counterparty risk (credit value adjustments and/or debit value adjustments).

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

	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES	PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY	INTANGIBLE ASSETS
<b>1. Opening balance</b>					
<b>2. Increases</b>					
2.1 Purchases					
2.2 Gains recognised in:					
2.2.1 Profit or loss					
- including gains on sales					
2.2.2 Equity	X	X			
2.3 Transfers from other levels					
2.4 Other increases					
<b>3. Decreases</b>					
3.1 Sales					
3.2 Repayments					
3.3 Losses recognised in:					
3.3.1 Profit or loss					
- including losses on sales					
3.3.2 Equity	X	X			
3.4 Transfers to other levels					
3.5 Other decreases					
<b>D. Closing balance</b>					

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

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2017				31.12.2016			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity investments	4,966	4,966	-		15,933	15,933	-	
2. Loans and receivables with banks	835,116	-	835,116		747,676	-	747,676	-
3. Loans and receivables with customers	2,910,913	-	2,910,522	391	2,844,529	-	2,844,138	391
4. Investment property	69,979	-	76,130		71,569	-	75,320	-
5. Non-current assets held for sale and disposal groups	-		-		-		-	
6. Intangible assets	-	-	-		-	-	-	
<b>Total</b>	<b>3,820,974</b>	<b>4,966</b>	<b>3,821,768</b>	<b>391</b>	<b>3,679,707</b>	<b>15,933</b>	<b>3,667,134</b>	<b>391</b>
1. Due to banks	1,692,051	-	1,692,051		1,567,113	-	1,567,113	-
2. Due to customers	7,789,484	-	7,789,484		6,255,341	-	6,255,341	-
3. Securities issued	-		-		-		-	
4. Liabilities associated with assets held for sale	-	-	-		-	-	-	
<b>Total</b>	<b>9,481,535</b>	<b>-</b>	<b>9,481,535</b>		<b>7,822,454</b>	<b>-</b>	<b>7,822,454</b>	

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

**A.5 Information on “day one profit or loss”**

Pursuant to IFRS 7.28 and IAS 39.AG.76, a financial instrument shall be initially recognised at an amount that is equal to its fair value, which is generally considered to be the price paid/collected from its trading. In practice, there could be a difference between the two values. In these cases, the standard stipulates that a financial instrument can be recognised at a fair value different from the amount paid/collected only if it is measured:

- using prices from observable current market transactions in the same instrument;
- using valuation techniques exclusively based on observable market date as the variable factors.

In other words, IAS 39 states that the presumption that the fair value is equal to the price paid/collected can be rebutted only if it is determined using objective evidence that the price paid/collected does not represent the real market value of the financial instrument being traded.

The objective evidence shall be obtained using the most objective method available, i.e., reducing valuation discretion to the minimum.

The difference between fair value and the negotiated price, when the above conditions are met, is called the “day one profit or loss” and is immediately taken to profit or loss.

The group did not recognise transactions of this kind in the period.

## Part B - NOTES TO THE STATEMENT OF FINANCIAL POSITION

### ASSETS

#### SECTION 1 - Cash and cash equivalents - Caption 10

##### 1.1 CASH AND CASH EQUIVALENTS: BREAKDOWN

	31.12.2017	31.12.2016
a) Cash	516	470
b) Demand deposits with central banks	3,242,765	1,798,314
<b>Total</b>	<b>3,243,281</b>	<b>1,798,784</b>

#### SECTION 2 - Financial assets held for trading - Caption 20

##### 2.1 FINANCIAL ASSETS HELD FOR TRADING: BREAKDOWN BY PRODUCT

CAPTIONS/AMOUNTS	31.12.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
<b>A. Assets</b>						
1. Debt instruments	<b>15,896</b>	-	-	11,406	-	-
1.1 Structured instruments	182	-	-	314	-	-
1.2 Other instruments	15,714	-	-	11,092	-	-
2. Equity instruments	30	-	-	13	-	-
3. OEIC units	18	-	-	26	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total A</b>	<b>15,944</b>	-	-	<b>11,445</b>	-	-
<b>B. Derivatives</b>						
1. Financial derivatives	-	<b>1,480</b>	-	-	1,748	-
1.1 Trading	-	<b>1,480</b>	-	-	1,748	-
1.2 Associated with fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Associated with fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
<b>Total B</b>	-	<b>1,480</b>	-	-	<b>1,748</b>	-
<b>Total (A + B)</b>	<b>15,944</b>	<b>1,480</b>	-	<b>11,445</b>	<b>1,748</b>	-

## 2.2 FINANCIAL ASSETS HELD FOR TRADING: BREAKDOWN BY DEBTOR/ISSUER

CAPTIONS/AMOUNTS	31.12.2017	31.12.2016
<b>A. Assets</b>		
1. Debt instruments		
a) Governments and central banks	312	190
b) Other government agencies	1,348	92
c) Banks	11,697	10,212
d) Other issuers	2,539	912
2. Equity instruments		
a) Banks	6	9
b) Other issuers:	24	4
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	24	4
- other	-	-
3. OEIC units	18	26
<b>4. Financing</b>		
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>Total A</b>	<b>15,944</b>	<b>11,445</b>
<b>B. Derivatives</b>		
a) Banks	1,094	1,598
- Fair value	1,094	1,598
b) Customers	386	150
- Fair value	386	150
<b>Total B</b>	<b>1,480</b>	<b>1,748</b>
<b>Total (A + B)</b>	<b>17,424</b>	<b>13,193</b>

## SECTION 4 - Available-for-sale financial assets - Caption 40

### 4.1 AVAILABLE-FOR-SALE FINANCIAL ASSETS: BREAKDOWN BY PRODUCT

CAPTIONS/AMOUNTS	31.12.2017			31.12.2016		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	2,501,990	-	-	3,169,903	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other instruments	2,501,990	-	-	3,169,903	-	-
2. Equity instruments	253	187,332	-	199	147,575	-
2.1 FVTPL	253	104,158	-	199	99,992	-
2.2 Cost	-	83,174	-	-	47,583	-
3. OEIC units	-	20,916	-	-	40,235	-
4. Financing	-	-	-	-	-	-
<b>Total</b>	<b>2,502,243</b>	<b>208,248</b>	-	<b>3,170,102</b>	<b>187,810</b>	-

## 4.2 AVAILABLE-FOR-SALE FINANCIAL ASSETS: BREAKDOWN BY DEBTOR/ISSUER

CAPTIONS/AMOUNTS	31.12.2017	31.12.2016
<b>1. Debt instruments</b>		
a) Governments and central banks	<b>2,501,990</b>	3,169,903
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>2. Equity instruments</b>		
a) Banks	<b>336</b>	352
b) Other issuers:	<b>187,249</b>	147,423
- insurance companies	-	-
- financial companies	<b>88,531</b>	48,540
- non-financial companies	<b>98,718</b>	98,844
- other instruments	-	39
<b>3. OEIC units</b>	<b>20,916</b>	<b>40,235</b>
<b>4. Financing</b>		
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>Total</b>	<b>2,710,491</b>	<b>3,357,913</b>

## SECTION 5 - Held-to-maturity investments - Caption 50

### 5.1 HELD-TO-MATURITY INVESTMENTS: BREAKDOWN BY PRODUCT

	31.12.2017				31.12.2016			
	CA	FV			CA	FV		
		LEVEL 1	LEVEL 2	LEVEL 3		LEVEL 1	LEVEL 2	LEVEL 3
1. Debt instruments								
- structured instruments	<b>4,966</b>	<b>4,916</b>	-	-	4,948	4,948	-	-
- other instruments	-	-	-	-	10,985	10,985	-	-
2. Financing	-	-	-	-	-	-	-	-
<b>Total</b>	<b>4,966</b>	<b>4,916</b>	-	-	<b>15,933</b>	<b>15,933</b>	-	-

Key  
 FV = fair value  
 CA = carrying amount

The decrease is due to the repayment of matured securities.

## 5.2 HELD-TO-MATURITY INVESTMENTS: BREAKDOWN BY DEBTOR/ISSUER

TYPE OF OPERATIONS/AMOUNTS	31.12.2017	31.12.2016
<b>1. Debt instruments</b>		
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	4,966	15,933
d) Other issuers	-	-
<b>2. Financing</b>	-	-
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>Total</b>	<b>4,966</b>	<b>15,933</b>
<b>Total fair value</b>	<b>4,966</b>	<b>15,933</b>

## SECTION 6 - Loans and receivables with banks - Caption 60

### 6.1 LOANS AND RECEIVABLES WITH BANKS: BREAKDOWN BY PRODUCT

TYPE OF OPERATIONS/ AMOUNTS	31.12.2017				31.12.2016			
	FV				FV			
	CA	LEVEL 1	LEVEL 2	LEVEL 3	CA	LEVEL 1	LEVEL 2	LEVEL 3
<b>A. Loans and receivables with central banks</b>	<b>179,264</b>	-	<b>179,264</b>	-	<b>170,519</b>	-	<b>170,519</b>	-
1. Term deposits	-	X	X	X	-	X	X	X
2. Minimum reserve	<b>179,264</b>	X	X	X	170,519	X	X	X
3. Reverse repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
<b>B. Loans and receivables with banks</b>	<b>655,851</b>	-	<b>655,851</b>	-	<b>577,158</b>	-	<b>577,157</b>	-
1. Financing	<b>651,625</b>	-	-	-	573,103	-	-	-
1.1 Current accounts and demand deposits	<b>330,297</b>	X	X	X	180,698	X	X	X
1.2 Term deposits	<b>2,460</b>	X	X	X	862	X	X	X
1.3 Other financing:	<b>318,868</b>	X	X	X	391,543	X	X	X
- Reverse repurchase agreements	<b>136,217</b>	X	X	X	231,707	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	<b>182,651</b>	X	X	X	159,836	X	X	X
2. Debt instruments	<b>4,226</b>	X	X	X	4,055	X	X	X
2.1 Structured instruments	-	X	X	X	-	X	X	X
2.2 Other instruments	<b>4,226</b>	X	X	X	4,055	X	X	X
<b>Total (carrying amount)</b>	<b>835,116</b>	-	<b>835,116</b>	-	<b>747,676</b>	-	<b>747,676</b>	-

Key  
FV = fair value  
CA=carrying amount

## SECTION 7 - Loans and receivables with customers - Caption 70

### 7.1 LOANS AND RECEIVABLES WITH CUSTOMERS: BREAKDOWN BY PRODUCT

TYPE OF OPERATIONS/AMOUNTS	31.12.2017						31.12.2016					
	CARRYING AMOUNT			FAIR VALUE			CARRYING AMOUNT			FAIR VALUE		
	NON-PERFORMING						NON-PERFORMING					
	PERFORMING	PURCHASED	OTHER	L1	L2	L3	PERFORMING	PURCHASED	OTHER	L1	L2	L3
<b>Financing</b>	<b>2,910,137</b>	-	776	-	2,910,137	776	2,843,429	-	1,100	-	2,843,429	1,100
1. Current accounts	41,427	-	391	X	X	X	117,650	-	391	X	X	X
2. Reverse repurchase agreements	204,548	-	-	X	X	X	207,517	-	-	X	X	X
3. Loans	-	-	-	X	X	X	-	-	-	X	X	X
4. Credit cards, personal loans and salary backed loans	2,318,430	-	170	X	X	X	2,236,874	-	151	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
7. Other financing	345,732	-	215	X	X	X	281,388	-	558	X	X	X
<b>Debt instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
8. Structured instruments	-	-	-	X	X	X	-	-	-	X	X	X
9. Other instruments	-	-	-	X	X	X	-	-	-	X	X	X
<b>Total</b>	<b>2,910,137</b>	-	<b>776</b>	-	<b>2,910,137</b>	<b>776</b>	<b>2,843,429</b>	-	<b>1,100</b>	-	<b>2,843,429</b>	<b>1,100</b>

"Other financing" mainly relates to guarantee deposits.

### 7.2 LOANS AND RECEIVABLES WITH CUSTOMERS: BREAKDOWN BY DEBTOR/ISSUER

TYPE OF OPERATIONS/AMOUNTS	31.12.2017			31.12.2016		
	NON-PERFORMING			NON-PERFORMING		
	PERFORMING	PURCHASED	OTHER	PERFORMING	PURCHASED	OTHER
<b>1. Debt instruments</b>	-	-	-	-	-	-
a) Governments	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-
c) Other	-	-	-	-	-	-
- non-financial companies	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-
- other issuers	-	-	-	-	-	-
<b>2. Financing to:</b>	<b>2,910,137</b>	-	<b>776</b>	<b>2,843,429</b>	-	<b>1,100</b>
a) Governments	-	-	-	-	-	-
b) Other government agencies	1	-	-	-	-	-
c) Other	<b>2,910,136</b>	-	<b>776</b>	<b>2,843,429</b>	-	<b>1,100</b>
- non-financial companies	<b>144,736</b>	-	<b>215</b>	<b>33,554</b>	-	<b>558</b>
- financial companies	<b>435,962</b>	-	<b>391</b>	<b>572,812</b>	-	<b>391</b>
- insurance companies	<b>10,721</b>	-	-	<b>50</b>	-	-
- other	<b>2,318,717</b>	-	<b>170</b>	<b>2,237,012</b>	-	<b>151</b>
<b>Total</b>	<b>2,910,137</b>	-	<b>776</b>	<b>2,843,429</b>	-	<b>1,100</b>

## SECTION 10 - Equity investments - Caption 100

### 10.1 Investments in equity-accounted jointly-controlled entities and associates

#### 10.1 EQUITY INVESTMENTS

COMPANY NAME	REGISTERED OFFICE	OPERATING OFFICE	INVESTMENT		VOTING RIGHTS %
			INVESTOR	INVESTMENT %	
<b>B. Associates</b>					
1. Hi-Mtf Sim Spa	Milano	Milano	Nexi SpA	25	25
2. Unione Fiduciaria	Milano	Milano	Nexi SpA	24	24
3. Win Join	Lecce	Lecce	Bassilichi SpA	24	24
4. Rs Record store	Piacenza	Piacenza	Bassilichi SpA	30	30
5. ICT Logistica	Empoli	Empoli	Bassilichi SpA	33	33
6. BASSNET SrL	Monteriggioni	Monteriggioni	Bassilichi SpA	49.68	49.68
7. CONSORZIO ENGBAS	Firenze	Firenze	Bassilichi SpA	50	50
8. ALFAZERO SpA	Firenze	Firenze	Bassilichi SpA	39.74	39.74
9. K.Red	Milano	Milano	Bassilichi SpA	50	50

#### 10.2 SIGNIFICANT EQUITY INVESTMENTS: CARRYING AMOUNT, FAIR VALUE AND DIVIDENDS RECEIVED

COMPANY NAME	CARRYING AMOUNT	FAIR VALUE	DIVIDENDS RECEIVED
<b>B. Associates</b>			
1. Hi-Mtf Sim Spa	1,523	X	
2. Unione Fiduciaria	8,690	X	363
3. Win Join	48	X	
4. Rs Record store	1,364	X	
5. ICT Logistica	258	X	
6. BASSNET SrL	-	X	
7. CONSORZIO ENGBAS	-	X	
8. ALFAZERO SpA	-	X	
9. K.Red	219	X	
<b>Total</b>	<b>12,102</b>	<b>-</b>	<b>363</b>

## 10.5 EQUITY INVESTMENTS: CHANGES

	31.12.2017	31.12.2016
<b>A. Opening balance</b>	<b>10,105</b>	<b>106,417</b>
<b>B. Increases</b>		
B.1 Purchases		
B.2 Reversals of impairment losses		
B.3 Fair value gains	492	18
B.4 Other increases	1,890	24,094
<b>C. Decreases</b>		
C.1 Sales		
C.2 Impairment losses		
C.3 Other decreases	385	120,424
<b>D. Closing balance</b>	<b>12,102</b>	<b>10,105</b>
<b>E. Total fair value gains</b>		
<b>F. Total impairment losses</b>		

## 10.6 Significant assumptions used for the assessment of the existence of joint control or significant influence

None.

## 10.7 Commitments for interests in jointly controlled entities

None.

## 10.8 Commitments for investments in associates

None.

## 10.9 Significant restrictions

None.

## 10.10 Other information

None.

## SECTION 12 - Property, equipment and investment property - Caption 120

### 12.1 PROPERTY AND EQUIPMENT: BREAKDOWN OF ASSETS MEASURED AT COST

ASSETS/AMOUNTS	31.12.2017	31.12.2016
<b>1. Owned</b>		
a) land	18,804	18,804
b) buildings	66,091	48,816
c) furniture	1,410	2,022
d) electronic systems	54,551	42,270
e) other	4,601	1,631
<b>2. Under finance lease</b>	-	-
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	1,294	-
e) other	928	-
<b>Total</b>	<b>147,679</b>	<b>113,543</b>

### 12.2 INVESTMENT PROPERTY: BREAKDOWN OF ASSETS MEASURED AT COST

ASSETS/AMOUNTS	31.12.2017			31.12.2016		
	CARRYING AMOUNT	FAIR VALUE			CARRYING AMOUNT	FAIR VALUE
		L1	L2	L3		
<b>1. Owned</b>						
a) land	39,898	-	-	-	39,898	-
b) buildings	30,080	-	-	-	31,671	-
<b>2. Under finance lease</b>	-	-	-	-	-	-
a) land	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-
<b>Total</b>	<b>69,979</b>	<b>-</b>	<b>76,130</b>	<b>-</b>	<b>71,569</b>	<b>-</b>

## 12.5 PROPERTY AND EQUIPMENT: CHANGES

	LAND	BUILDINGS	FURNITURE	ELECTRONIC SYSTEMS	OTHER	TOTAL
<b>A. Gross opening balance</b>	<b>23,453</b>	<b>96,760</b>	<b>8,710</b>	<b>204,516</b>	<b>42,571</b>	<b>376,011</b>
A.1 Total net impairment losses	4,649	47,944	6,689	162,246	40,941	262,470
A.2 Net opening balance	18,804	48,816	2,022	42,270	1,631	113,543
<b>B. Increases</b>	<b>-</b>	<b>20,085</b>	<b>817</b>	<b>36,455</b>	<b>6,291</b>	<b>63,647</b>
B.1 Purchases	-	25	774	21,786	1,529	24,114
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	20,060	42	14,669	4,763	39,534
- including business combinations	-	20,060	-	14,669	4,640	39,369
- other changes	-	-	42	-	123	165
<b>C. Decreases</b>	<b>-</b>	<b>2,810</b>	<b>1,427</b>	<b>22,881</b>	<b>2,393</b>	<b>29,511</b>
C.1 Sales	-	-	1,210	497	119	1,825
C.2 Depreciation	-	2,805	217	22,384	2,249	27,656
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	5	-	-	25	30
- business combinations	-	-	-	-	-	-
<b>D. Net closing balance</b>	<b>18,804</b>	<b>66,091</b>	<b>1,411</b>	<b>55,844</b>	<b>5,529</b>	<b>147,679</b>
D.1 Total net impairment losses	4,649	50,754	8,116	185,127	43,334	291,981
<b>D.2 Gross closing balance</b>	<b>23,453</b>	<b>116,845</b>	<b>9,527</b>	<b>240,971</b>	<b>48,863</b>	<b>439,660</b>
<b>E. Cost</b>	-	-	-	-	-	-

**12.6 INVESTMENT PROPERTY: CHANGES**

	<b>TOTAL</b>	LAND	BUILDINGS
<b>A. Opening balance</b>	<b>39,898</b>		<b>31,671</b>
<b>B. Increases</b>		-	-
B.1 Purchases		-	-
B.2 Capitalised improvement costs		-	-
B.3 Fair value gains		-	-
B.4 Reversals of impairment losses		-	-
B.5 Exchange rate gains		-	-
B.6 Transfers from property and equipment		-	-
B.7 Other increases		-	-
<b>C. Decreases</b>		-	-
C.1 Sales		-	-
C.2 Depreciation		-	1,590
C.3 Fair value losses		-	-
C.4 Impairment losses		-	-
C.5 Exchange rate losses		-	-
C.6 Transfers to other portfolios		-	-
a) property and equipment		-	-
b) non-current assets held for sale		-	-
C.7 Other decreases		-	-
<b>D. Closing balance</b>	<b>39,898</b>		<b>30,081</b>
<b>E. Fair value</b>		<b>76,130</b>	

Investment property is covered by IAS 40 and includes property held to earn rental and/or obtain appreciation of invested capital.

Investment property is measured at cost, net of depreciation.

The bank's investment properties granted under operating leases are listed below:

- building in via Verziere 11, Milano;
- building in via Cavallotti 14, Milano;
- building in via Zurigo 3, Milano;
- building in via Broletto 37, Milano;
- building in Corso Europa 18, Milano;
- building in Strada Uno Milanofiori, Assago;
- building in via Nazionale 3, San Giovanni al Natisone.

At the reporting date, there are no:

- restrictions to the sale of investment property or the collection of lease payments;
- obligations/contractual commitments to purchase, build, develop, repair or maintain owner-occupied property.

## SECTION 13 - Intangible assets - Caption 130

### 13.1 INTANGIBLE ASSETS: BREAKDOWN BY ASSET

ASSETS/AMOUNTS	31.12.2017		31.12.2016	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
<b>A.1 Goodwill</b>	-	<b>1,760,623</b>	-	1,064,160
A.1.1 attributable to the owners of the parent	-	<b>1,760,623</b>	-	1,064,160
A.1.2 attributable to non-con- trolling interests	-	-	-	-
<b>A.2 Other intangible assets</b>	-	-	-	-
A.2.1 Assets measured at cost:	-	-	-	-
a) Internally generated assets	-	-	-	-
b) Other	<b>128,686</b>	-	101,167	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated assets	-	-	-	-
b) Other	-	-	-	-
<b>Total</b>	<b>128,686</b>	<b>1,760,623</b>	<b>101,167</b>	<b>1,064,160</b>

**13.2 INTANGIBLE ASSETS: CHANGES**

	<b>OTHER INTANGIBLE ASSETS: INTERNALLY GENERATED ASSETS</b>		<b>OTHER INTANGIBLE ASSETS: OTHER</b>			
	<b>GOODWILL</b>	<b>FIN.</b>	<b>IND.</b>	<b>FIN.</b>	<b>IND.</b>	<b>TOTAL</b>
<b>A. Opening balance</b>	<b>1,064,160</b>	-	-	<b>218,228</b>	-	<b>1,282,388</b>
A.1 Total net impairment losses	-	-	-	117,060	-	117,060
<b>A.2 Net opening balance</b>	<b>1,064,160</b>	-	-	<b>101,168</b>	-	<b>1,165,328</b>
<b>B. Increases</b>	<b>696,463</b>	-	-	<b>67,137</b>	-	<b>763,600</b>
B.1 Purchases	-	-	-	48,524	-	48,524
B.2 Increase in internally generated assets	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	696,463	-	-	18,613	-	715,076
- including business combinations	696,463	-	-	18,613	-	715,076
<b>C. Decreases</b>	-	-	-	<b>39,619</b>	-	<b>39,619</b>
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	-	-	-
- Amortisation	-	-	-	38,578	-	38,578
- Fair value losses	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	1,041	-	1,041
<b>D. Net closing balance</b>	<b>1,760,623</b>	-	-	<b>128,686</b>	-	<b>1,889,309</b>
D.1 Total net impairment losses	-	-	-	39,619	-	39,619
<b>E. Gross closing balance</b>	<b>1,760,623</b>	-	-	<b>168,305</b>	-	<b>1,928,928</b>
F. Cost	-	-	-	-	-	-

Key  
 FIN.=finite life  
 IND.=indefinite life

## Impairment test

Nexi Group has performed the impairment test on the intangible asset with an indefinite useful life.

The impairment test has been performed for the following CGUs (cash-generating unit) that, except from 2017 changes in the Group/business perimeter, have not been changed in respect to test performed for 2016 Financial Statements:

<b>CGUS</b>	<b>GOODWILL</b> €'mln
CGU Cards	789.7
MPS Acquiring	517.0
DB Acquiring	41.5
CGU Payment	200.7
CGU Securities Services	45.9
CGU Outsourcing	27.8
Bassilichi - Triveneto	137.9
<b>Total</b>	<b>1,760.5</b>

The recoverable amount a CGU is the higher of its:

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

The estimate of Value in Use has been carried out by applying the Dividend Discount Model in its Excess Capital version which was developed starting from Nexi Group 2017-2021 Business Plan, which has been approved by the Board of Director (BoD) of the Parent Company on February 9th, 2017. The Business Plan will be applied on a pro-forma basis to take into account the updates approved by the BoD, the changes in the Group perimeter and the items included in the Budget 2018.

As regards the Fair Value determination, it was applied the trading multiples method, using the median P/E adjusted multiple of a panel of comparable companies.

The main parameter used to estimate the cost of Capital in the calculation of the Value in Use are the follows:

<b>COST OF CAPITAL (KE)</b>	<b>CARDS/ MPS/DB/ BASSILICHI</b>	<b>PAYMENTS</b>	<b>SECURITIES SERVICES</b>	<b>OUTSOURCING</b>
Risk free rate 31.12.2017	1.97%	1.97%	1.97%	1.97%
Equity Risk Premium	5.50%	5.50%	5.50%	5.50%
Beta	1.12	1.15	1.15	0.96
<b>Ke</b>	<b>8.15%</b>	<b>8.32%</b>	<b>8.27%</b>	<b>7.24%</b>

They have been determined as follows:

- Risk free: gross yield of Italian BTP 10Y at December 31<sup>st</sup> 2017 (Source: Info provider);
- Beta used on consolidated DDM: weighted average of median betas of listed comparable companies identified for each CGU;
- Equity Market Risk Premium: in line with the best professional valuation praxis.

In order to determine the Terminal Value of the CGUs:

- g rate: 2.0%, in line with ECB's target for the inflation rate of the Euro Zone.
- a prudential add-on of 100 bps to the discount rate has been applied.

The Distributable dividends during the explicit projections period and sustainable dividend for Terminal Value calculation have been determined considering the compliance with a minimum CET 1 target of 14.0% as established by Bank of Italy. CET1 of 14% is a target ratio for Nexi Group to be calculated on the basis of Mercury UK HoldCo consolidation perimeter.

Valuation activities on goodwill submitted to impairment test resulted in any indication of impairment loss.

It was carried out a sensitivity analysis, for each CGU, to assess the change of the value in use at consolidated level, respect the changes in valuation parameters Ke and g (+/- 25 bps). The analysis, except in some cases and in some extreme scenarios, did not show any critical situation.

## **SECTION 14 - Tax assets and liabilities - Caption 140 of assets and Caption 80 of liabilities**

### **14.1 DEFERRED TAX ASSETS: BREAKDOWN**

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>IRAP</b>		
Net impairment losses on loans and receivables	308	337
Provisions	210	190
Substitute tax on goodwill	3,505	3,543
Amortisation/depreciation	1,459	1,272
Fair value reserve	16	81
Other	309	3
<b>IRES</b>		
Net impairment losses on loans and receivables	11,156	12,183
Provisions	8,377	7,128
Substitute tax on goodwill	17,307	17,490
Impairment losses on intangible assets, P&E and investment property	12,811	11,460
Fair value reserve	77	398
Other	2,795	1,080

### **14.2 DEFERRED TAX LIABILITIES: BREAKDOWN**

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>IRAP</b>		
Building revaluations	3,757	3,894
Other	2,651	858
Fair value reserve	1,314	1,594
<b>IRES</b>		
Building revaluations	19,590	19,931
Other	13,949	5,185
Fair value reserve	8,743	7,868

### 14.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN PROFIT OR LOSS)

	31.12.2017	31.12.2016
<b>1. Opening balance</b>	<b>53,766</b>	<b>52,108</b>
<b>2. Increases</b>		
2.1 Deferred tax assets recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) reversals of impairment losses		
d) other	5,675	6,457
2.2 New taxes or increases in tax rates		
2.3 Other increases	1,143	616
<b>3. Decreases</b>		
3.1 Deferred tax assets derecognised in the year		
a) reversals	3,267	5,127
b) impairment due to non-recoverability		
c) change in accounting policies		
d) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
a) conversion into tax credits as per Law no. 214/2011		
b) other	288	
<b>4. Closing balance</b>	<b>57,317</b>	<b>53,766</b>

#### 14.3.1 Change in deferred tax assets as per Law no. 214/2011 (recognised in profit or loss)

	31.12.2017	31.12.2016
<b>1. Opening balance</b>	<b>40,344</b>	<b>40,560</b>
<b>2. Increases</b>	<b>1,304</b>	<b>1,323</b>
<b>3. Decreases</b>		
3.1 Reversals	1,395	1,539
3.2 Conversions into tax assets		
a) arising from the loss for the year		
b) arising from tax losses		
3.3 Other information		
<b>4. Closing balance</b>	<b>40,253</b>	<b>40,344</b>

**14.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNISED IN PROFIT OR LOSS)**

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>1. Opening balance</b>	<b>29,857</b>	<b>26,128</b>
<b>2. Increases</b>		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	10,647	8,591
2.2 New taxes or increases in tax rates		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	567	4,862
b) due to changes in accounting policies		
c) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
<b>4. Closing balance</b>	<b>39,937</b>	<b>29,857</b>

**14.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN EQUITY)**

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>1. Opening balance</b>	<b>1,398</b>	<b>1,008</b>
<b>2. Increases</b>		
2.1 Deferred tax assets recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other		2,697
2.2 New taxes or increases in tax rates		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax assets derecognised in the year		
a) reversals	385	2,307
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
d) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
<b>4. Closing balance</b>	<b>1,013</b>	<b>1,398</b>

## 14.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNISED IN EQUITY)

	31.12.2017	31.12.2016
<b>1. Opening balance</b>	<b>9,472</b>	<b>26,031</b>
<b>2. Increases</b>		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	2,019	8,460
2.2 New taxes or increases in tax rates		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax liabilities derecognised in the year		
a) reversals		
b) due to changes in accounting policies		
c) other	1,424	25,019
3.2 Decrease in tax rates		
3.3 Other decreases		
<b>4. Closing balance</b>	<b>10,067</b>	<b>9,472</b>

## SECTION 16 - Other assets - Caption 160

### 16.1 OTHER ASSETS: BREAKDOWN

ASSETS/AMOUNTS	31.12.2017	31.12.2016
Withholding taxes paid on interest charged to customers and other tax assets	89,809	89,286
Negotiated cheques to be cleared	34,844	11,644
Matured securities and accrued interest to be collected	4,855	70
Commissions and other income to be charged	239,580	160,534
BIREL, transfers, SETIF, received messages to be charged, e-money	195,080	139,310
Sundry and residual items	84,222	44,535
<b>Total</b>	<b>648,390</b>	<b>445,378</b>

## LIABILITIES

### SECTION 1 - Due to banks - Caption 10

#### 1.1 DUE TO BANKS: BREAKDOWN BY PRODUCT

TYPE OF OPERATIONS / GROUP' COMPONENTS	31.12.2017	31.12.2016
<b>1. Due to central banks</b>	<b>1,774</b>	862
<b>2. Due to banks</b>	<b>1,690,277</b>	1,566,251
2.1 Current accounts and demand deposits	878,371	818,979
2.2 Term deposits	124,428	215,440
2.3 Financing	387,228	212,982
2.3.1 repurchase agreements	-	-
2.3.2 other	387,228	212,982
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other liabilities	300,250	318,850
<b>Total</b>	<b>1,692,051</b>	<b>1,567,113</b>
<b>Fair value - level 1</b>		
<b>Fair value - level 2</b>	<b>1,692,051</b>	<b>1,567,113</b>
<b>Fair value - level 3</b>		
<b>Total fair value</b>	<b>1,692,051</b>	<b>1,567,113</b>

### SECTION 2 - Due to customers - Caption 20

#### 2.1 DUE TO CUSTOMERS: BREAKDOWN BY PRODUCT

TYPE OF OPERATIONS / GROUP' COMPONENTS	31.12.2017	31.12.2016
1. Current accounts and demand deposits	6,848,814	5,153,539
2. Term deposits	174	209
3. Financing	341,448	231,676
3.1 repurchase agreements	340,792	231,676
3.2 other instruments	656	-
4. Commitments to repurchase own equity instruments	-	-
5. Other liabilities	599,048	869,918
<b>Total</b>	<b>7,789,484</b>	<b>6,255,341</b>
<b>Fair value - level 1</b>		
<b>Fair value - level 2</b>	<b>7,789,484</b>	<b>6,255,341</b>
<b>Fair value - level 3</b>		
<b>Total fair value</b>	<b>7,789,484</b>	<b>6,255,341</b>

## SECTION 4 - Financial liabilities held for trading - Caption 40

### 4.1 FINANCIAL LIABILITIES HELD FOR TRADING: BREAKDOWN BY PRODUCT

TYPE OF OPERATIONS / GROUP' COMPONENTS	31.12.2017					31.12.2016				
	FV					FV				
	NA	L1	L2	L3	FV*	NA	L1	L2	L3	FV*
<b>A. Financial liabilities</b>										
1. Due to banks	-	-	-	-	-	69	90	-	-	-
2. Due to customers	1	1	-	-	-	302	348	-	-	-
3. Debt instruments	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
<b>Total A</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>		<b>371</b>	<b>438</b>	<b>-</b>	<b>-</b>	
<b>B. Derivatives</b>										
1. Financial derivatives	-	-	-	-	-	-	-	-	-	-
1.1 Trading	X	-	<b>6,721</b>	-	X	X	-	7,629	-	X
1.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	-	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
<b>Total B</b>	<b>X</b>	<b>-</b>	<b>6,721</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>-</b>	<b>7,629</b>	<b>-</b>	<b>X</b>
<b>Total (A + B)</b>	<b>X</b>	<b>1</b>	<b>6,721</b>	<b>-</b>	<b>X</b>	<b>371</b>	<b>438</b>	<b>7,629</b>	<b>-</b>	<b>X</b>

Key:

FV = fair value

NA = nominal or notional amount

FV\* = fair value calculated by excluding changes in value due to changes in the issuer's credit standing compared to the issue date.

L1 = level 1

L2 = level 2

L3 = level 3

## SECTION 6 - Hedging derivatives - Caption 60

### 6.1. HEDGING DERIVATIVES: BREAKDOWN BY TYPE OF HEDGE AND LEVEL

TYPE OF DERIVATIVES / UNDERLYING ASSETS	FAIR VALUE 31.12.2017			VN 31.12.2017	FAIR VALUE 31.12.2016			VN 31.12.2016
	L1	L2	L3		L1	L2	L3	
<b>A. Financial derivatives</b>								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
<b>B. Credit derivatives</b>								
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	5,520	-	6,044	-	-	-	-
<b>Total</b>	-	5,520	-	6,044				

### 6.2. HEDGING DERIVATIVES: BREAKDOWN BY HEDGED PORTFOLIO AND TYPE OF HEDGE

OPERATIONS/TYPE OF HEDGE	FAIR VALUE					CASH FLOW				
	SPECIFIC									
	INTEREST RATE	FOREIGN EXCHANGE RISK	CREDIT RISK	PRICE RISK	VARIOUS RISK	GENERIC	SPECIFIC	GENERIC	FOREIGN INVESTM	
1. Financial assets available for sale	-	-	-	5,520	-	X	-	X	X	
2. Loans	-	-	-	X	-	X		X	X	
3. Investments held to maturity	X	-	-	X	-	X		X	X	
4. Portfolio	X	X	X	X	X		X		X	
5. Other transactions	-	-	-	-	-	-	-	-	-	
<b>Total assets</b>	-	-	-	5,520	-	-	-	-	-	
1. Financial liabilities	-	-	-	-	-	-	X	X	X	
2. Portfolio	X	X	X	X	X	-	X	-	X	
<b>Total liabilities</b>	-	-	-	-	-	-	-	-	-	
1. Forecast transactions	X	X	X	X	X	X	-	X	X	
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	

## SECTION 8 - Tax liabilities - Caption 80

See section 14 of Assets.

## SECTION 10 - Other liabilities - Caption 100

### 10.1 OTHER LIABILITIES: BREAKDOWN

	<b>31.12.2017</b>	<b>31.12.2016</b>
Tax liabilities, withholding taxes and other amounts to be paid	33,820	24,080
Cheques, cheque truncation flows to be credited	18,540	11,314
Securities, currency and premium transactions paid for options to be credited	1,934	1,757
Due to employees	95,536	25,906
Other liabilities for expenses, commissions and interest to be paid	257,724	163,987
Prepaid debit cards	45,554	56,769
Currency differences on portfolio transactions	5,264	17,202
BIREL, transfers, payment flows to be credited	367,244	277,868
Sundry and residual items	93,692	67,259
<b>Total</b>	<b>919,308</b>	<b>646,141</b>

## SECTION 11 - Post-employment benefits - Caption 110

### 11.1 POST-EMPLOYMENT BENEFITS: CHANGES

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>A. Opening balance</b>	<b>20,596</b>	<b>21,677</b>
<b>B. Increases</b>		
B.1 Accruals	276	231
B.2 Other increases	6,916	18
- including business combinations	6,916	
<b>C. Decreases</b>		
C.1 Payments	4,629	577
C.2 Other decreases	592	753
<b>Post-employment benefits</b>	<b>22,567</b>	<b>20,596</b>
<b>Total</b>	<b>22,567</b>	<b>20,596</b>

### 11.2 OTHER INFORMATION

<b>MAIN DEMOGRAPHIC AND ACTUARIAL ASSUMPTIONS USED TO MEASURE POST-EMPLOYMENT BENEFITS AS AT 31 DECEMBER 2017</b>	
Mortality among aged pensioners	Rates relating to Italians broken down by age and gender, published by ISTAT in 2000 and reduced by 25%.
Mortality among total and permanent disability pensioners	Rates inferred from the invalidity tables currently used by the reinsurance practice, broken down by age and gender.
Annual rate of advances	1,72%
Turnover annual	1,65%
Retirement	Rate based on the satisfaction of the first requirement for the mandatory general insurance.
Inflation	1,5%
Annual discount rate	"1.30% inferred, in accordance with par. 83 of IAS 19, the index Iboxx Corporate AA 10+ duration detected at the measurement date. To this end it was decided the performance with a duration comparable to the duration of the collective of the evaluated employees.

## Sensitivity analysis

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

€'000	CHANGE IN POST-EMPLOYMENT BENEFITS IN ABSOLUTE TERMS	CHANGE IN POST-EMPLOYMENT BENEFITS IN PERCENTAGE TERMS
<b>Change in actuarial assumptions:</b>		
- Discount rate:		
-0.50%	1,397	6.11%
0.50%	-1,284	-5.62%

## SECTION 12 - Provisions for risks and charges - Caption 120

### 12.1 PROVISIONS FOR RISKS AND CHARGES: BREAKDOWN

CAPTIONS/COMPONENTS	31.12.2017	31.12.2016
1. Internal pension plans	881	940
2. Other provisions for risks and charges	51,022	36,377
<b>Total</b>	<b>51,903</b>	<b>37,317</b>

### 12.2 PROVISIONS FOR RISKS AND CHARGES: CHANGES

CAPTIONS/COMPONENTS	TOTAL	
	PENSION PLANS	OTHER PROVISIONS
<b>A. Opening balance</b>	<b>940</b>	<b>36,377</b>
<b>B. Increases</b>		
B.1 Accruals	-	5,509
B.2 Discounting	8	-
B.3 Changes due to variations in discount rate	-	-
B.4 Other increases	6	18,550
<b>C. Decreases</b>	<b>-</b>	<b>-</b>
C.1 Utilisations	68	8,154
C.2 Changes due to variations in discount rate	5	-
C.3 Other decreases	-	1,260
<b>D. Closing balance</b>	<b>881</b>	<b>51,022</b>

### 12.3 DEFINED BENEFIT INTERNAL PENSION PLANS

#### 1. Description and related risks

The liability for defined benefit internal pension plans includes the accruals made for the group's obligation to its former employees.

#### 2. Changes in the plans

The present value of the defined benefit liability at 31 December 2016 leave for manager amounts to € 940 thousand. The group paid benefits totalling €68 thousand during the year.

### 3. Fair value of plan assets

There are no plan assets.

### 4. Cash flow amount, timing and uncertainty

The plan is based on the latest remuneration.

## SECTION 15 - Equity - Captions 140, 160, 170, 180, 190, 200 and 220

### 15.1 "SHARE CAPITAL" AND "TREASURY SHARES": BREAKDOWN

CAPTIONS/AMOUNTS	31.12.2017	31.12.2016
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves	1,690,553	1,698,454
4. (Treasury shares)		
a) parent	-32	-32
b) subsidiaries		
5. Valuation reserves	90,429	65,863
6. Equity instruments		
7. Profit for the year	79,092	103,998
<b>Total</b>	<b>2,050,841</b>	<b>2,059,082</b>

### 15.2 SHARE CAPITAL - NUMBER OF SHARES: CHANGES

CAPTIONS/TYPES	ORDINARY	OTHER
<b>A. Opening balance</b>		
- fully paid-in	14,185,790	
- not fully paid-in		
A.1 Treasury shares (-)	75,191	
<b>A.2 Outstanding shares: opening balance</b>	<b>14,110,599</b>	
<b>B. Increases</b>		
B.1 New issues	-	
- against consideration:	-	
- business combinations	-	
- bond conversions	-	
- exercise of warrants	-	
- other	-	
- bonus issues:	-	
- to employees	-	
- to directors	-	
- other	-	
B.2 Sale of treasury shares	-	
B.3 Other increases	-	
<b>C. Decreases</b>		
C.1 Cancellations	-	
C.2 Repurchases of treasury shares	-	
C.3 Disposals of equity investments	-	
C.4 Other decreases	-	
<b>D. Outstanding shares: closing balance</b>	<b>14,110,599</b>	
D.1 Treasury shares (+)	75,191	
D.2 Closing balance	14,185,790	
- fully paid-in	14,185,790	
- not fully paid-in		

The outstanding and fully paid-in shares number 14,185,790, while treasury shares in portfolio amount to 75,191.

## SECTION 16 - Equity attributable to non-controlling interests - Caption 210

### 16.1 CAPTION 210 "EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS"

COMPANY NAME	31.12.2017	31.12.2016
Investments in consolidated companies with significant non-controlling interests:		
- Help Line	867	2,553
- Nexi Payments	3,004	9,826
- Bassilichi	1,111	
<b>Total</b>	<b>4,982</b>	<b>12,379</b>

### 16.2 EQUITY INSTRUMENTS: BREAKDOWN AND CHANGES

CAPTIONS/AMOUNTS	31.12.2017	31.12.2016
1. Share capital	1,654	1,349
2. Share premium	72	68
3. Reserves	3,483	9,782
4. (Treasury shares)		
5. Valuation reserves	400	50
6. Equity instruments		
7. Profit for the year attributable to non-controlling interests	-627	1,130
<b>Total</b>	<b>4,982</b>	<b>12,379</b>

## Other disclosures

### 1. GUARANTEES AND COMMITMENTS

OPERATIONS	31.12.2017	31.12.2016
1) Financial guarantees issued	2,421	322
a) Banks	2,421	322
b) Customers	-	-
2) Commercial guarantees issued	911	1,093
a) Banks	-	83
b) Customers	911	1,010
3) Irrevocable commitments to disburse funds	179,145	110,930
a) Banks	129,402	1,247
i) certain use	129,402	1,247
ii) uncertain use	-	-
b) Customers	49,743	109,683
i) certain use	9,052	2,934
ii) uncertain use	40,691	106,749
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as collateral for third party commitments	-	-
6) Other commitments	-	-
<b>Total</b>	<b>182,477</b>	<b>112,345</b>

## 2. ASSETS PLEDGED AS GUARANTEE FOR LIABILITIES AND COMMITMENTS

<b>PORTFOLIOS</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
1. Financial assets held for trading	-	-
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	<b>102,100</b>	98,288
4. Held-to-maturity investments	-	-
5. Loans and receivables with banks	-	-
6. Loans and receivables with customers	-	-
7. Property, equipment and investment property	-	-

## 5. MANAGEMENT AND TRADING ON BEHALF OF THIRD PARTIES: BANKING GROUP

<b>TYPE OF SERVICES</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>1. Execution of customer orders</b>		
a) Purchases		
1. settled	<b>24,954,867</b>	21,844,663
2. unsettled	-	-
b) sales	-	-
1. settled	<b>24,355,604</b>	22,076,792
2. unsettled	-	-
<b>2. Asset management</b>		
a) individual	-	-
b) collective	-	-
<b>3. Securities custody and administration</b>		
a) third party securities held as part of depository bank services (excluding asset management)	<b>51,546,933</b>	48,247,564
1. securities issued by the consolidated entities	-	-
2. other securities	<b>51,546,933</b>	48,247,564
b) third party securities on deposit (excluding asset management): other	<b>65,791,721</b>	72,051,407
1. securities issued by the consolidated entities	<b>39,694</b>	39,694
2. other securities	<b>65,752,027</b>	72,011,713
c) third party securities deposited with third parties	<b>100,324,138</b>	103,822,347
d) securities owned by the group deposited with third parties	<b>2,471,922</b>	3,116,743
<b>4. Order collection and transmission</b>		
a) Purchases		
1. settled	<b>1,604,579</b>	1,277,278
2. unsettled	-	-
b) Sales	-	-
1. settled	<b>1,457,839</b>	1,372,114
2. unsettled	-	-
<b>- Placement of secured and unsecured securities</b>		
a) Placement of unsecured securities	<b>461,790</b>	506,738
b) Placement of secured securities	<b>6,500</b>	3,803

## Part C - Notes to the income statement

### SECTION 1 - Interest - Captions 10 and 20

#### 1.1 INTEREST AND SIMILAR INCOME: BREAKDOWN

CAPTIONS/CATEGORIES	DEBT INSTRUMENTS	FINANCING	OTHER	2017	2016
1. Financial assets held for trading	443	-	-	<b>443</b>	396
2. Available-for-sale financial assets	27,697	-	-	<b>27,697</b>	26,240
3. Held-to-maturity investments	131	-	-	<b>131</b>	337
4. Loans and receivables with banks	195	7,705	1,720	<b>9,620</b>	6,136
5. Loans and receivables with customers	-	1,466	21,573	<b>23,039</b>	24,964
6. Hedging derivatives	-	-	-	-	-
7. Other assets	-	-	11,802	<b>11,802</b>	7,021
<b>Total</b>	<b>28,466</b>	<b>9,171</b>	<b>35,095</b>	<b>72,732</b>	<b>65,095</b>

#### 1.4 INTEREST AND SIMILAR EXPENSE: BREAKDOWN

CAPTIONS/CATEGORIES	LIABILITIES	SECURITIES	OTHER	2017	2016
1. Due to central banks	-	-	-	-	-
2. Due to banks	19,061	-	-	<b>19,061</b>	20,141
3. Due to customers	4,101	-	-	<b>4,101</b>	1,872
4. Securities issued	-	-	-	-	-
5. Financial liabilities held for trading	60	-	-	<b>60</b>	41
6. Financial liabilities at fair value through profit or loss	-	-	-	-	-
7. Other liabilities and provisions	-	-	10,496	<b>10,496</b>	6,065
8. Hedging derivatives	-	-	-	-	-
<b>Total</b>	<b>23,222</b>	-	<b>10,496</b>	<b>33,718</b>	<b>28,119</b>

## SECTION 2 - Fees and commissions - Captions 40 and 50

### 2.1 FEE AND COMMISSION INCOME: BREAKDOWN

TYPE OF SERVICES/AMOUNTS	2017	2016
a) guarantees issued	177	65
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	70,673	67,806
1. trading in financial instruments	10,556	10,452
2. foreign currency transactions	-	-
3. asset management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. securities custody and administration	5,086	4,889
5. depository services	51,449	48,779
6. securities placement	1,482	1,861
7. order collection and transmission	1,863	1,618
8. consultancy services	237	207
8.1 concerning investments	-	-
8.2 concerning financial structure	237	207
9. distribution of third party services	-	-
9.1 asset management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	-	-
9.3 other products	-	-
d) collection and payment services	906,421	815,466
e) servicing services for securitisations	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) keeping and management of current accounts	-	-
j) other services	101,235	100,736
<b>Total</b>	<b>1,078,507</b>	<b>984,073</b>

## 2.2 FEE AND COMMISSION EXPENSE: BREAKDOWN

<b>SERVICES/SECTORS</b>	<b>2017</b>	<b>2016</b>
a) guarantees received	55	50
b) credit derivatives	-	-
c) management and brokerage services:	-	-
1. trading in financial instruments	513	343
2. foreign currency transactions	64	53
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	6,166	5,780
5. placement of financial instruments	1,293	1,695
6. securities settlement	1,743	1,924
d) collection and payment services	579,605	560,227
e) agents' commissions	-	-
f) other services	3,385	3,515
<b>Total</b>	<b>592,824</b>	<b>573,587</b>

## SECTION 3 - Dividends and similar income - Item 70

### 3.1 DIVIDENDS AND SIMILAR INCOME: BREAKDOWN

<b>CAPTIONS/INCOME</b>	<b>2017</b>	<b>2016</b>		
	<b>DIVIDENDS</b>	<b>INCOME FROM OEIC UNITS</b>	<b>DIVIDENDS</b>	<b>INCOME FROM OEIC UNITS</b>
A. Financial assets held for trading	17	-	4	
B. Available-for-sale financial assets	1,453	-	112	
C. Financial assets at fair value through profit or loss	-	-	-	
D. Equity investments	24	-	-	
<b>Total</b>	<b>1,494</b>	<b>-</b>	<b>116</b>	

## SECTION 4 - Net trading income - Caption 80

### 4.1 NET TRADING INCOME: BREAKDOWN

OPERATIONS/EARNING COMPONENTS	GAINS (A)	TRADING INCOME (B)	LOSSES (C)	TRADING LOSSES (D)	NET TRADING INCOME [(A+B) - (C+D)]
<b>1. Financial assets held for trading</b>					
1.1 Debt instruments	143	3,116	235	363	2,661
1.2 Equity instruments	-	662	3	414	245
1.3 OEIC units	-	-	0	13	-13
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
<b>2. Financial liabilities held for trading</b>					
2.1 Debt instruments	-	-	-	-	-
2.2 Liabilities	-	-	-	-	-
2.3 Other	-	-	-	-	-
<b>3. Other financial assets and liabilities: net exchange rate gains</b>					
	X	X	X	X	1,086
<b>4. Derivatives</b>					
4.1 Financial derivatives:					
- On debt instruments and interest rates	-	-	-	-	-
- On equity instruments and equity indexes	80	8,116	63	8,446	-313
- On currencies and gold	-	-	-	-	-
- Other	98	-	-	-	98
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>321</b>	<b>11,894</b>	<b>301</b>	<b>9,236</b>	<b>3,764</b>

## SECTION 5 - Fair value adjustments in hedge accounting - Caption 90

### 5.1 FAIR VALUE ADJUSTMENTS IN HEDGE ACCOUNTING: BREAKDOWN

EARNING COMPONENTS/AMOUNTS	TOTAL 2017	TOTAL 2016
<b>A. Income from:</b>		
A.1 fair value hedge derivatives		
A.2 financial assets hedged (fair value)	999	-
A.3 financial liabilities hedged (fair value)		
A.4 cash flow hedge: derivatives		
A.5 currency assets and liabilities		
<b>Total income from hedging (A)</b>	<b>999</b>	<b>-</b>
<b>B. Expenses for:</b>		
B.1 fair value hedge derivatives		
B.2 financial assets hedged (fair value)		
B.3 financial liabilities hedged (fair value)		
B.4 cash flow hedge: derivatives		
B.5 currency assets and liabilities		
<b>Total expense from hedging (B)</b>	<b>-</b>	<b>-</b>
<b>C. Fair value adjustments in hedge accounting (A - B)</b>	<b>999</b>	<b>-</b>

## SECTION 6 - Gain (loss) from sales/repurchases - Caption 100

### 6.1 NET GAIN (LOSS) FROM SALES OR REPURCHASES: BREAKDOWN

CAPTIONS/EARNING COMPONENTS	2017			2016		
	GAIN	LOSS	NET GAIN (LOSS)	GAIN	LOSS	NET GAIN (LOSS)
<b>Financial assets</b>						
1. Loans and receivables with banks	-	-	-	-	-	-
2. Loans and receivables with customers	-	-	-	-	-	-
3. Available-for-sale financial assets	-	-	-	-	-	-
3.1 Debt instruments	-	-	-	-	-	-
3.2 Equity instruments	210	-	210	300	-	300
3.3 OEIC units	6,800	-	6,800	-	-	-
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
<b>Total assets</b>	<b>7,010</b>	-	<b>7,010</b>	<b>300</b>	-	<b>300</b>
<b>Financial liabilities</b>						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	-	<b>-</b>	<b>-</b>	-	<b>-</b>

## SECTION 8 - Net impairment losses - Caption 130

### 8.1 NET IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES: BREAKDOWN

OPERATIONS/EARNING COMPONENTS	IMPAIRMENT LOSSES (1)			REVERSALS OF IMPAIRMENT LOSSES (2)			
	INDIVIDUAL			INDIVIDUAL		COLLECTIVE	
	DERECOGNITION	OTHER	COLLECTIVE	A	B	A	B
A. Loans and receivables with central banks							
- Financing	-	-	-				-
- Debt instruments	-	-	-				-
2. Loans and receivables with customers							
Impaired loans acquired	-	-	-				-
- Financing	-	-	-	X	X	-	-
- Debt instruments	-	-	-	X	X	X	X
Other	-	-	-				-
- Financing	-	-	2,796			2,796	2,246
- Debt instruments	-	-	-			-	-
<b>C. Total</b>	<b>-</b>	<b>-</b>	<b>2,796</b>	<b>-</b>	<b>-</b>	<b>2,796</b>	<b>2,246</b>

Key:  
A = from interest  
B = other reversals

Portfolio value adjustments are mainly related to credit card debt and revolving loans.

## 8.2 NET IMPAIRMENT LOSSES ON AFS FINANCIAL ASSETS: BREAKDOWN

OPERATIONS/EARNING COMPONENTS	IMPAIRMENT LOSSES (1)		REVERSALS OF IMPAIRMENT LOSSES (2)		2017 (3)=(1)-(2)	2016 (3)=(1)-(2)		
	INDIVIDUAL		INDIVIDUAL					
	DERECOGNITION	OTHER	A	B				
A. Debt instruments	-	-	-	-	-	-		
B. Equity instruments	-	3,899	-	-	3,899	2,212		
C. OEIC units	-	-	-	-	-	-		
D. Financing to banks	-	-	-	-	-	-		
E. Financing to customers	-	-	-	-	-	-		
<b>F. Total</b>	-	<b>3,899</b>	-	-	<b>3,899</b>	<b>2,212</b>		

Key  
A = from interest  
B = other reversals

## SECTION 11 - Administrative expenses - Caption 180

### 11.1 PERSONNEL EXPENSE: BREAKDOWN

TYPE OF EXPENSE/SECTORS	2017	2016
1) Employees		
a) wages and salaries	<b>157,766</b>	110,873
b) social security charges	<b>33,174</b>	26,815
c) post-employment benefits	<b>1,849</b>	785
d) pension costs	<b>161</b>	196
e) accrual for post-employment benefits	<b>227</b>	236
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	<b>41</b>	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	-	-
- defined contribution plans	<b>7,945</b>	7,633
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	<b>57,310</b>	5,064
2) Other personnel	<b>1,117</b>	1,743
3) Directors and statutory auditors	<b>2,184</b>	2,263
4) Retired personnel	-	-
5) Cost recoveries for employees seconded to other companies	<b>-5</b>	-
6) Cost reimbursements for third party employees seconded to the bank	<b>80</b>	-
<b>Total</b>	<b>261,849</b>	<b>155,608</b>

## 11.2 AVERAGE NUMBER OF EMPLOYEES PER CATEGORY

	<b>2017</b>	<b>2016</b>
a) managers	69	58
b) junior managers	635	610
c) other employees	944	1,030

## 11.5 OTHER ADMINISTRATIVE EXPENSES: BREAKDOWN

<b>TYPE OF EXPENSE</b>	<b>2017</b>	<b>2016</b>
- data processing	85,047	94,758
- post office, valuables transportation and couriers	21,717	23,523
- external services	16,865	18,834
- interbank network traffic	8,134	11,412
- IT connections and automation costs	4,057	3,923
- access to markets	2,212	2,145
- professional services	42,823	41,776
- agents' commissions	1,503	1,446
- bank draft books	71	124
- maintenance and lease	43,374	36,837
- building running costs, leases, heating and lighting	5,886	5,660
- stationery and printed matter	644	574
- insurance	1,793	1,687
- telegraph, telephone and telex	5,333	5,421
- card processing	36,342	31,493
- membership fees	1,477	1,481
- surveillance and cleaning	832	857
- other	141,754	62,618
- taxes and duties	75,869	57,368
<b>Total</b>	<b>495,733</b>	<b>401,937</b>

The fees paid in 2017 to the independent auditors engaged for the legally required audit pursuant to Legislative decree no. 39 of 27 January 2010 are detailed below:

<b>TYPE OF SERVICE</b>	<b>SERVICE PROVIDER</b>	<b>€'000</b>
Audit of the parent's financial statements	KPMG SPA	390
Audit of the subsidiaries' financial statements	KPMG SPA	360
<b>In addition</b>		<b>750</b>

The fees reported include the audit of the separate and consolidated financial statements, the limited review of the interim financial statements and the procedures required by tax legislation to the independent auditors.

**SECTION 12 - Net accruals to provisions for risks and charges - Caption 190****12.1 NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES: BREAKDOWN**

<b>TYPE OF EXPENSE</b>	<b>2017</b>	<b>2016</b>
Accruals to provisions	-2,522	2,981
<b>Total</b>	<b>-2,522</b>	<b>2,981</b>

**SECTION 13 - Depreciation and net impairment losses on property, equipment and investment property - Caption 200****13.1 DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY: BREAKDOWN**

<b>ASSETS/EARNING COMPONENTS</b>	<b>DEPRECIATION (A)</b>	<b>IMPAIRMENT LOSSES (B)</b>	<b>REVERSALS OF IMPAIRMENT LOSSES (C)</b>	<b>CARRYING AMOUNT (A + B - C)</b>
A. Property, equipment and investment property				-
A.1 Owned				-
- Property and equipment	26,972			26,972
- Investment property	1,590			1,590
A.2 Under finance lease				-
- Property and equipment	684			684
- Investment property				-
<b>Total</b>	<b>29,246</b>	-	-	<b>29,246</b>

**SECTION 14 - Amortisation and net impairment losses on intangible assets - Caption 210****14.1 AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS: BREAKDOWN**

<b>ASSETS/EARNING COMPONENTS</b>	<b>AMORTISATION (A)</b>	<b>IMPAIRMENT LOSSES (B)</b>	<b>REVERSALS OF IMPAIRMENT LOSSES (C)</b>	<b>CARRYING AMOUNT (A + B - C)</b>
A. Intangible assets				-
A.1 Owned				-
- Generated internally				-
- Other	38,578	-		38,578
A.2 Under finance lease				-
<b>Total</b>	<b>38,578</b>	-	-	<b>38,578</b>

## SECTION 15 - Other operating expense and income - Caption 220

### 15.1 OTHER OPERATING EXPENSE: BREAKDOWN

	31.12.2017	31.12.2016
Transfer of revenue from services	18,212	19,996
Other costs	7,634	11,140
<b>Total</b>	<b>25,846</b>	<b>31,136</b>

### 15.2 OTHER OPERATING INCOME: BREAKDOWN

	2017	2016
Lease income	854	901
Services	251,192	238,877
Recoveries of stamp duties from customers and post office expenses	71,069	70,586
Other income	80,305	6,205
<b>Total</b>	<b>403,420</b>	<b>316,570</b>

## SECTION 16 - Share of profits (losses) of investees - Caption 240

### 16.1 SHARE OF PROFITS OF INVESTEES: BREAKDOWN

EARNING COMPONENTS/SECTORS	2017	2016
<b>1) Jointly-controlled entities</b>		
A. Income		
1. Fair value gains	13,230	
2. Gains on sales	14,590	
3. Reversals of impairment losses		
4. Other income	470	
B. Costs		
1. Fair value losses	10,923	
2. Impairment losses		
3. Losses on sales		
4. Other costs		
<b>Net profits (losses)</b>	<b>17,367</b>	-
<b>2) Associates</b>		
A. Income		
1. Fair value gains		
2. Gains on sales		
3. Reversals of impairment losses		
4. Other income		18
B. Costs		
1. Fair value losses		
2. Impairment losses		
3. Losses on sales		
4. Other costs		-
<b>Net losses</b>	<b>-</b>	<b>18</b>
<b>Total</b>	<b>17,367</b>	<b>18</b>

## SECTION 19 - Gains (losses) on sales of investments - Caption 270

### 19.1 NET GAINS ON SALES OF INVESTMENTS: BREAKDOWN

EARNINGS COMPONENTS/SECTORS	2017	2016
A. Property		
- Gains on sales		
- Losses on sales		
B. Other assets		
- Gains on sales	-	-
- Losses on sales	7	-
<b>Net gains</b>	<b>-7</b>	<b>-</b>

## SECTION 20 - Income taxes - Caption 290

### 20.1 INCOME TAXES: BREAKDOWN

EARNINGS COMPONENTS/SECTORS	2017	2016
1. Current taxes	-19,459	-22,489
2. Change in current taxes from previous years (+/-)	2,274	537
3. Decrease in current taxes for the year (+)		
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 (+/-)	2,408	-596
5. Change in deferred tax liabilities (+/-)	-10,078	3,280
6. Tax expense for the year (-)	-24,855	-19,268

### 20.2 RECONCILIATION BETWEEN THE THEORETICAL AND EFFECTIVE TAX EXPENSE

	2017	2016
Reconciliation between the theoretical and effective tax rate		
Theoretical tax rate	33.1%	33.1%
Tax exempt income and other decreases	-21.6%	-34.7%
Non-deductible costs	12.7%	17.0%
Effective tax rate	24.2%	15.4%

## SECTION 22 - Profit for the year attributable to non-controlling interests - Caption 330

### 22.1 CAPTION 330 "PROFIT FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS"

COMPANY NAME	2017	2016
Consolidated investments with significant non-controlling interests		
- Help Line	1,697	10
- Nexi Payments	-1,046	1,576
- Bassilichi	-25	
<b>Total</b>	<b>626</b>	<b>1,586</b>

## Part D - Breakdown of comprehensive income

### BREAKDOWN OF COMPREHENSIVE INCOME

CAPTIONS		(€'000)	GROSS AMOUNT	INCOME TAX	NET AMOUNT
10. Profit for the period			X	X	78,466
<b>Items that will not be reclassified subsequently to profit or loss</b>					
20. Property, equipment and investment property					
30. Intangible assets					
40. Defined benefit plans			-51		16
50. Non-current assets held for sale					-35
60. Share of valuation reserves of equity-accounted investees					
<b>Items that will be reclassified subsequently to profit or loss</b>					
70. Hedges of investments in foreign operations					
a) fair value gains (losses)					
b) reclassification to profit or loss:					
c) other changes					
80. Exchange rate gains (losses)					
a) fair value gains (losses)					
b) reclassification to profit or loss					
c) other changes					
90. Cash flow hedges:					
a) fair value gains (losses)					
b) reclassification to profit or loss					
c) other changes					
100. Available-for-sale financial assets					
a) fair value gains (losses)		25,931		-980	24,950
b) reclassification to profit or loss					
- impairment losses					
- gains/losses on sales					
c) other changes					
110. Non-current assets held for sale					
a) fair value gains (losses)					
b) reclassification to profit or loss					
c) other changes					
120. Share of valuation reserves of equity-accounted investees					
a) fair value gains (losses)					
b) reclassification to profit or loss					
- impairment losses					
- gains/losses on sales					
c) other changes					
<b>130. Other comprehensive income (expense)</b>		<b>25,880</b>	<b>-965</b>	<b>24,915</b>	
<b>140. Comprehensive income (expense) (10 + 130)</b>		<b>25,880</b>	<b>-965</b>	<b>103,381</b>	
150. Comprehensive income attributable to non-controlling interests		X		X	-277
<b>160. Comprehensive income attributable to the owners of the parent</b>		<b>X</b>	<b>X</b>	<b>103,658</b>	

## Part E - Risks and related hedging policies

### Introduction

Nexi Group attaches great importance to the management and risk control as conditions to ensure reliable and sustainable value creation in a context of controlled risk.

The risk management strategy aims to achieve a comprehensive and coherent vision of the risks, considering both the macroeconomic scenario and the Group's risk profile, fostering a culture of risk and strengthening a transparent and accurate representation of the risks of Group portfolios.

This section includes information related to the Nexi banking group, which includes:

- **Nexi S.p.A.** ("Nexi" or the "parent"), holding, included in the banks register: as well as management, coordination and control activities, NEXI provides the group companies with centralised financial, lending and administrative assistance services and the market with payment and securities services;
- **Nexi Payments S.p.A.**, financial company included in the register of payment institutes as per article 114-septies of the Consolidated Banking Act: it provides payment services in accordance with article 1.1.b.3/4/5 of Legislative decree no. 11 of January 27th, 2010 and related services;
- **Help Line S.p.A.** ("Help Line"), operating company: a contact centre business
- **Oasi Diagram - Outsourcing Applicativo e Servizi Innovativi S.p.A.** ("Oasi"), operating company: it performs, inter alia, data security and supervisory reporting activities on an outsourcing basis;
- **Bassilichi S.p.A.** ("Bassilichi"), operating company: in the Nexi Group since July 2017, it provides payment services and business services market. The subsidiaries of Bassilichi and included in the Nexi Group are: Consorzio Triveneto, MoneyNet, BassimArt, BassilichiCEE e ArsBlue.

### Risk Management at Nexi Group

The bank's internal controls form a system designed to provide reasonable security about attainment of the efficiency and effectiveness objectives for its operations, the reliability of financial statements disclosures and compliance with the ruling laws and regulations. They include organisational, regulatory and methodological controls designed to efficiently and economically ensure management and strategic control, operating and technical-operational activities.

The internal controls are organised on different levels:

- **line controls**, aimed at ensuring correct operating practices; these are hierarchical type controls performed by the same production unit which are usually part of the same procedures or performed as back office activities;
- **risk management controls**, designed to define risk measurement methods, check compliance with their assigned limits by the various operating units (second level controls) and check consistency of each production unit's operations with their risk/return objectives;
- **compliance controls**, to monitor risks of non-compliance with external and internal regulations;
- **internal audit procedures**, designed to identify irregularities, violations of procedures, internal and external regulations and to assess the overall working of the internal controls.

Non-operational, independent units carry out the risk management, compliance and internal audit activities.

Responsibility for the internal controls lies with the board of directors that establishes the risk appetite and, accordingly, provides for the definition and approval of the risk strategies and management policies. The board of directors is also responsible for ensuring the internal controls are consistent with the risk management policy.

The group monitors and manages the risks to which it is exposed using well-defined methods and processes, applicable throughout the economic cycle.

The parent's risk management unit monitors and controls the group's risks, working closely with the boards of statutory auditors and general managers of the parent and its subsidiaries. It reports to the group companies' boards of statutory auditors and the parent's risk committee and managing director.

The risk management unit's activities mainly consist of measuring, monitoring and reporting risks related to the business activities of all the group companies. It also checks the suitability of the parent's and group's own funds to cover the various types of risks.

The unit is specialised in the related regulations and provides assistance with the methods set out in the policy to manage non-compliance risk approved by the board of directors.

As part of the internal controls, the bank has a Risk Policy, which sets out the principles, aims and methods to manage (methodology and tools) the main risks to which it is exposed. It also has a Risk Appetite Framework (RAF), which reconciles its strategic planning and risk management as it defines the level and type of risk acceptable to the bank when pursuing its strategic objectives.

In Risk Appetite Framework (RAF) of the Group, introduced in 2012 to ensure that the risk-bearing assets remain in line with the expectations of shareholders and regulatory requirements, the risk-taking strategies are summarized. The general principles are as follows:

- the Group's objective is not to eliminate risk, but to understand them and manage them in such a way as to guarantee an adequate return in the face of risks taken, ensuring stability and continuity in the long term;
- the Nexi Group has a moderate risk profile where capital adequacy, earnings stability, strong liquidity position and strong reputation are the cornerstones to preserve their current and future profitability;
- the Nexi Group intends to maintain a strong presence on the major specific risks (not necessarily related to macroeconomic shocks) which the Group may be exposed;
- the Group attaches great importance on compliance risks and reputation. With regard to compliance risk, the Group aims to respect the procedural and substantive rules in order to avoid sanctions and to maintain a solid relationship of trust with all its stakeholders. With regard to the reputation risk, Bank of Italy circular 285 defines it as the current or prospective risk of a decline in profits or capital deriving from a negative perception of the bank's image by customers, counterparties and shareholders of the bank, investors or supervisory authorities. The Group pursues the active management of its image among all stakeholders and aims to prevent and limit any negative effects on it, monitoring this risk through a specific "integrated Group framework for the assessment and control of Reputation" which is divided into the following phases:
  - Identification of the stakeholders deemed relevant, to which the potential impacts of reputation deriving from the analyzes carried out are associated;
  - Assessment of reputational risk by integrating the methods adopted within the Group in relation to ordinary activities and events, as well as the continuous analysis of indicators ad hoc identified;
  - Aggregation of assessments aimed at monitoring the perception of the Group's reputation;
  - Management of deviations from the normal perception of the Group's reputation and identification, in the event that any anomalous situations occur, of specific corrective actions to be implemented;
  - Implementation of task forces in case of risk events with potential high impact on the Group's reputation.

The Risk Appetite Framework represents the overall framework within which it is intended to manage the risks taken by the Group with the definition of the general principles of risk appetite and the subsequent articulation of the presidium:

- the overall risk profile;
- the Group's main specific risks.

The management of overall risk profile derived from the definition of the general principles and consists of a structure of limits to ensure that the Group, even under severe stress conditions, respecting the minimum levels of solvency, liquidity and profitability. It is also to ensure the required reputational risk and compliance profiles.

The framework defines parameters for each category that are the maximum risk limit the Group intends to assume, the best risk limit (risk target) and an early warning level (risk trigger), which when breached, triggers contingency plans and/or mitigation actions to avoid reaching the risk limit.

Given the importance of risk management to strategic planning, the bank also defined the operating methods in a specific regulatory folder, which also sets out the roles and responsibilities of the internal units involved in identifying, assessing and monitoring the most important transactions. Risk assessment based on the most important transactions consists of an assessment of the consistency of the most important transactions' risk profile with the bank's risk appetite. The risk profile of these transactions considers the risk appetite policies approved by the board of directors as well as the rules and regulations issued by the regulators for supervised intermediaries.

The aforementioned Risk Policy and Regulatory Folder n. 157 also govern the Nexi Group ICAAP Process, which was carried out taking into account the requirements of the Bank of Italy Circular No. 285 of December 17th, 2013 "Supervisory Provisions for Banks" and subsequent updates, the EBA indications "Guidelines on ICAAP and ILAAP information collected for SREP purposes" and the expectations of the European Central Bank on ICAAP and ILAAP published through a letter to the market of January 8th, 2016 sent to the so-called "Significant" banks.

Responsibility for the capital adequacy assessment process lies with the board of directors that establishes the risk appetite and, accordingly, provides for the definition and approval of the risk strategies and management policies.

The guidelines for the Group's risk, defined in the Risk Policy document are received by the Boards of Directors of the Group companies. The guidelines are subject to annual review, or "per event" in case of significant changes at the organizational and / or strategic level.

Nexi also analysed the activities performed, which are mainly related to the providing of products and services to banks and major corporate customers, and identified operational risk as the main risk faced by it. In order to handle this risk and comply with the capital requirement, the bank activated an operational risk framework, which is a specific process that identifies risk factors, assesses the level of exposure to risks and the effectiveness of the actions taken to control and monitor these risks.

Finally, from 2015 it has been introduced an integrated stress test model in order to verify the simultaneous impacts of different risk factors as a result of assumptions of exceptional but plausible events. Object of the integrated stress tests are two regulatory indicators: the Common Equity Tier 1 Ratio - Ratio CET1 - and the Liquidity Coverage Ratio - LCR (calculated according to the QIS diagram).

For the purposes of stress, regulatory indicators have been broken down into their components calculation; the latter were then broken down in turn in primitive variables, which represent the variables to stress.

The identified stress scenarios are primarily carried out through static shock and, in a second moment, through the Monte Carlo simulation.

### **The Basel 3 rules**

From January 1st, 2014 the reforms of the Basel Committee agreements ("Basel 3") were transposed into law of the European Union with the objective to strengthen the capacity of banks to absorb shocks arising from financial and economic tensions, regardless of their origin, to improve the risk management and governance, to strengthen the transparency and disclosure of the banks.

Doing so, the Committee has maintained the three pillars approach, which was the basis of the previous capital agreement known as "Basel 2", integrating and strengthening it to increase the quantity and quality of the capital base of the intermediaries, as well as introducing countercyclical supervision tools and rules on the management of liquidity risk and on containment of leverage.

At Community level, the contents of "Basel 3" were transposed into two legal instruments:

- Regulation (EU) No. 575/2013 of June 26th 2013 (CRR), governing the prudential supervision of the First Pillar and public disclosure rules (Third Pillar);
- Directive 2013/36 / EU of June 26th 2013 (CRD IV), which deals, inter alia, the conditions for access to banking activity, the freedom of establishment and the freedom to provide services, the process of prudential supervision, the additional capital reserves.

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

The Group, in order to adapt to the rules laid down by Basel 3, has taken appropriate project initiatives in order to improve the measurement systems and the related risk management systems.

The adequacy of the risk control system is also represented in the annual report of the supervisory review process for the purpose of capital adequacy (ICAAP), which was approved and sent to the Bank of Italy in the month of April 2017.

As part of the adoption of "Basel 3", the Group has published the document entitled "PUBLIC DISCLOSURE BY ENTITIES ACCORDING TO REGULATION (EU) No 575/2013", which is published annually on the website ([www.nexi.it](http://www.nexi.it)) and contains information on capital adequacy, risk exposure and the general characteristics of the systems used to identify, measure and manage these informations.

## SECTION 1 - Credit risk

### QUALITATIVE DISCLOSURE

#### General issues

Credit risk is the risk that an unexpected variation in a counterparty's credit standing may lead to its default, generating unexpected losses on cash exposures or endorsement credits (risk of default), or that generates a related unexpected variation in the asset's market value (migration risk).

Lending is not the Nexi Group's core business but it is an important part of its operations and mainly affects the Treasury unit, the Securities Services BU and some business units of the parent, Nexi, and the subsidiary Nexi Payments.

In fact, the group's core business is not to grant financing but it does grant credit facilities, mainly to third parties that, due to the products/services provided to them and the operating/financial rules thereof, require credit facilities in the form of cash (credit facilities) or commitments (endorsement credits).

With respect to the first level controls, the head of the Treasury unit and the head of the Securities Services BU check and monitor that the lending transactions performed by the treasury and finance unit comply with the maximum operating limits and/or caps. As part of the second level controls, the risk management unit checks compliance with the operating limits and large exposures. It also calculates the exposure with related parties every day.

The risk management unit also assesses the correct monitoring of the individual credit exposures, the consistency of classifications, the adequacy of accruals and the adequacy and tracing of the recovery process.

Nexi Payments has a specific credit risk profile in respect of the direct issue of credit cards, which entails its exposure to its customers.

The issue of credit cards only takes place after suitable investigations of the customers and Nexi Payments' Fraud and Credit Management unit continuously monitors credit risk over the period of the credit card's validity (first level controls).

In order to strengthen controls over credit risk, relevant information about the credit exposure (amount of credit facilities, use of credit facilities, overruns, any non-performing positions) is collected in a structured and organic manner by the various IT procedures.

NEXI does not operate in innovative financial products such as credit derivatives.

Also because of the limited number of exposures normally taken on by the group, its credit risk measurement methods and the related controls over credit risk trends are simple and lean; it does not use scoring systems or external and/or internal ratings.

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

#### Organisational aspects

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

- board of directors;
- managing director/general manager;
- Credit & Financial Committee;
- Credit and Branches unit.

## **Management, measurement and control systems**

### **Credit management by Nexi**

The parent is a “second level” bank, whose core business is the providing of products and services mainly in the sector of payment systems and administrative services for the custody, administration and settlement of securities.

Its lending policies are regulated by a specific regulation and it provides credit to:

- banks;
- stock brokerage companies;
- financial companies included in the lists covered by the Consolidated Banking Act;
- large corporate customers;
- OEICs;
- fund management companies.

Nexi only provides credit facilities to retail customers who are group employees and employees of the former NEXI (Equens) Group in the form of current account overdrafts and personal loans. It does not provide loans.

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

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

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

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

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

The group grants banks that provide issuing and acquiring services for the Nexi payment cards with appropriate overdrafts on the accounts held for these activities in order to monitor its exposure to them.

All the applications for credit and allocations of operating limits are reviewed by the Credit office, together with the service manager and then approved by the Credit & Financial Committee. If no obstacles are identified, the Credit & Financial Committee expresses its assessment of the application, including about the guarantee acquired or to be acquired for the board of directors to take its decision.

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

After the credit facility is provided, risks are checked and monitored as follows:

- periodic assessments of the customers and reviews of their positions;
- checks of overruns;
- checks of information from Bank of Italy's credit information centre;
- identification of indications that the risk is more serious;
- periodic checks of the adequacy of the credit facilities used within the bank and the banking sector compared to equity for the mutual fund sector (to check the legal limit imposed by Bank of Italy's regulation).

### **Management of overruns**

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

Positions with particular difficulties are subjected to the activation of the credit reclassification procedure, by means of an instruction of suitable practice for the resolution by the duly authorized bodies, with the consequent reports in the Central Credit Register pursuant to Bank of Italy regulations.

In addition, following the introduction of Circular 285/2013, a structured process for continuous monitoring of impaired loans has been defined and the perimeter of the Risk Management Service competence activities has been revised. The perimeter has been enriched, among other things, of the credit quality monitoring: the results, from the second quarter of 2014, are included, together with those of the credit risk monitoring, in a special section of the Tableau de Bord.

The examination of the data reported in the Tableau de Bord, sent on a quarterly basis to the Bank of Italy, shows a certain variability of the entity of overruns, which may be relevant in the various surveys, due to the limited number of counterparties entrusted, but however, it is very limited at the overall level compared to total credit lines.

### **Operating limits**

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

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

During 2017 there were 4 overruns of the assigned operating limit, of limited size and returned to the limits in the month in which they are highlighted, for the most part due to the overlapping of operations performed by the various Desk.

### **Risk concentration limits**

The risk management unit monitors compliance with the risk concentration limits (large exposures, regulated by the Bank of Italy in Part Two, Chapter 10, of Circular 285 of December 17, 2013 and subsequent updates) on a daily basis, assisted by the level 1 controls already performed by the relevant units.

In the course of 2017 there were 2 overruns of the limit to the concentration of risks, both lasting one day, towards a bank counterparty.

### **Limits to exposures to risk activities and conflicts of interest with related parties**

Regulations covering the limits to risky transactions with related parties and parties related to them introduced exposure limits for Nexi and the group (considering separate and group regulatory capital) vis-à-vis "Company personnel", "Investors exercising control or significant influence", "Other investors" and "Parties subject to control or significant influence".

Controls over the risky transactions take place daily together with the controls over large exposures, including positions with all the group companies. Any excesses of the regulatory limits generate alerts for the various units involved.

In addition to the controls over exposures to the individual related parties, the group also calculates the overall exposure to all the related parties and the parties related to them each day (this procedure was introduced in 2013) as a percentage of the consolidated regulatory capital. This is part of the RAF.

During 2017, the monitoring carried out showed, starting from the month of October, the exceeding of the limit of exposures to related parties with Unione Fiduciaria, of which Nexi holds a significant shareholding (24%), and to which it does not there are credit exposures, due to the reduction in the consolidated regulatory capital at the level of the Banking Group, which consequently determined the proportional decrease in the regulatory exposure limit. no overruns of the limits for exposures to related parties.

### **Credit quality monitoring**

The monitoring of the Nexi credit quality, reported for the first time in the Tableau de Bord of the first quarter of 2015, is performed, in the absence of a significant number of non-performing loans, on the persistence and amount (at the reference date of the end of the month) of negative balances of corporate accounts and banking accounts (besides the eventual credit granted).

During the year 2017, the monitoring did not show exposures to banks, while, as far as corporate exposures are concerned, the presence in all the surveys of the same non-performing position already present in previous years was recorded, as well as, during the second quarter, the exceeding of part of a counterpart of the "negative balance > €1 million plus credit for at least 30 days" limit, partly determined by technical problems (suspended by regulation)).

### **Nexi payments' credit management**

Nexi Payments has a specific credit risk profile in respect of the direct issue of credit cards, which entails its exposure to its customers.

The other receivables are generated by operating irregularities in the activities of:

- issuing through banks, when amounts can be debited to blocked cards for which the bank is relieved from the related credit risk after the block has been communicated;
- acquiring, such as:
  - recharges to merchants after complaints by cardholders or banks for any reason through the charge-back cycle;
  - non-payment of commissions by the merchants.

These types of risks generated by operating irregularities are operational risks.

Credit risk is monitored constantly, checking that the exposures are within the set budget limits at the beginning of each year. Nexi Payments also carefully rates each new merchant or cardholder in the case of directly issued cards before agreeing new contracts.

The risk management unit monitors credit risk trends and their effect on the risk policy and set range. The risk management unit also monitors the compliance with the specific limits approved by the board of directors and described in the "Nexi Payments S.p.A. risk quantification limits" document, annually prepared with the first level units and the risk management unit.

The document sets out the reference values and ranges for each first and second level indicator assigned to monitor Nexi Payments' credit risks, calculated on the basis of analysis of historical series, projections about the company's future performance and that of the market and indications present in the group's risk policy.

These values, calculated to contain risk, are approved by the parent's Risk Committee and Nexi Payments' board of directors.

The risk management unit reports on compliance with these values to the risk committee and to the Nexi Payments' board of directors and identifies any irregularities or critical issues arising from controls of the first and second level limits.

The group has specific maximum gross and net insolvency limits and limits to the related cost to check and measure risk. It monitors these limits constantly as well as expected losses compared to actual losses and losses incurred for business reasons.

This credit risk control consists of preliminary checks by the first level units, starting with the analysis of the credit application. It includes:

- internal controls;
- consistency controls;
- positive and negative information from the credit bureau;
- credit scoring algorithms.

Another process relevant for credit risk is the monitoring and recovery of receivables from cardholders and merchants, in order to contain the impact of risk events. The following controls are performed:

- daily monitoring of negative events (unpaid direct debits) using a flag to limit the card's spending limit and possible revoke of the banking counterparties;
- automatic checks of the use of cash advances in excess of the maximum contractual limits.

The credit risk analysis model for directly issued cards uses the historical trends, starting from 2010, of recorded losses and estimated losses (non-performing positions adjusted by the recovery percentage) normalised by the total exposure for the current month. Its results are VaR and the annual expected and unexpected loss.

The operating management methods for prior years (before 2010) are not consistent with the currently used one and, therefore, they cannot be used as a comparison.

Time series analysis is performed; the output is then processed, using Monte Carlo methodology for the calculation of the expected and unexpected losses on an annual basis.

The expected and unexpected losses, calculated using an annual confidence interval of 99%, are subjected to second level controls described in the Quantitative risk limits document.

With respect to its servicing activities, Nexi Payments does not have risks related to receivables due directly from retail customers as it provides issuing servicing and acquiring servicing activities. Therefore, the related credit risk falls on the banks that have the issuing and/or acquiring licences.

With two customer servicing banks, which are subject to supervision, the credit risk closes within 30 days (the time period between issue of one account statement and the next) with an average exposure of 15 days, while for all the others it lasted one working day. This exposure is borne by NEXI, which carries out settlement with a compensated currency.

### **Credit risk mitigation techniques**

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

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

The acquired guarantees do not have specific limits that could affect their legal validity.

There were no significant changes in the management of guarantees compared to the previous year.

Nexi does not make use of any guarantees granted by counterparties on 31.12.2017 in order to mitigate the impact on the Internal Capital of credit risk (so-called "Credit Risk Mitigation"). The only type of exposure for which the credit risk mitigation guarantees are used is that relating to the balance cards issued by Nexi Payments in bank issuing mode, for which there is a contractual guarantee by the issuing bank: the debit to the holder is made through SDD to act on the account of the holder at the issuing bank, without the possibility of cancellation by the bank itself, and consequently no contractual or operational problems arise when the guarantee is used.

### **Impaired financial assets**

The Credit & Financial Committee regularly reviews all potentially irregular positions and decides on the recovery activities to be taken as well as changes in the position's status, based on the relevant parameters. These decisions are reviewed by the board of directors.

Classification of assets by debtor quality complies with the categories established by Bank of Italy.

With respect to impaired positions, impairment losses are recognised after the individual measurement of each position.

With respect to Nexi Payments, impairment losses are made collectively. Assets are tested for impairment by category and the loss percentages are estimated considering historical figures that allow an estimate of possible losses.

**Country risk**

Country risk is the risk of losses caused by events that take place in countries other than Italy. This concept is wider than that for sovereign risk as it covers all exposures regardless of the type of counterparty involved, be they natural persons, businesses, banks or public administrations.

The group includes country risk as part of credit risk and it is not a significant risk given that:

- most of weighted exposures to non-Italian subjects is the equity investment held in EquensWorldline. As Equens is a leading international payment operator, we can reasonably assume its strong economic independence from the country of the main office (the Netherlands);
- the other Nexi's exposures are, for the most part, with parties that offer settlement and custody services, such as Clearstream and Euroclear, or international banks (e.g., Barclays, BNP Paribas), that can reasonably be assumed to be very independent economically of the country where their head office is;
- Nexi Payments' exposures are solely with international circuits (Mastercard and Visa, both of which have their registered office in the US) as part of the process to settle card transactions. Once again, it is reasonable to assume that they are very independent of the countries where their head office is in economical terms;
- the exposures are mostly with parties based in countries with high ratings;
- the exposures to subjects resident in Croatia (rating BB) are almost exclusively from Mercury Processing, which has its headquarters and part of its operations in Croatia, and which therefore can be considered to have sufficient responsiveness in the event of problems inherent to its country;
- the capital requirement for credit risk is calculated without using the counterparty rating parameter but solely the rating of the counterparty's country of residence. Therefore, the capital requirement includes the country risk component.

Both for country and issuer risks, the risk management unit checks that the securities in portfolio have the characteristics indicated in the financial regulation once a month and prepares a quarterly report for the manager of the relevant department and the managing director.

## QUALITATIVE DISCLOSURE

### A. CREDIT QUALITY

#### **A.1 IMPAIRED AND UNIMPAIRED LOANS: CARRYING AMOUNT, IMPAIRMENT LOSSES, PERFORMANCE, BUSINESS AND GEOGRAPHICAL DISTRIBUTION**

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

PORTFOLIOS/QUALITY	BANKING GROUP					TOTAL
	NON-PERFORMING LOANS	PROBABLE DEFAULTS	IMPAIRED PAST DUE LOANS	OTHER IMPAIRED EXPOSURES	UNPAIRED PAST DUE LOANS	
1. Available-for-sale financial assets	-	-	-	-	-	2,501,990 <b>2,501,990</b>
2. Held-to-maturity investments	-	-	-	-	-	4,966 <b>4,966</b>
3. Loans and receivables with banks	-	-	-	-	-	835,116 <b>835,116</b>
4. Loans and receivables with customers	391	385	-	-	-	2,910,137 <b>2,910,913</b>
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
<b>Total at 31.12.2017</b>	<b>391</b>	<b>385</b>	<b>-</b>	<b>-</b>	<b>6,252,208</b>	<b>6,252,985</b>
<b>Total at 31.12.2016</b>	<b>391</b>	<b>709</b>	<b>-</b>	<b>1</b>	<b>6,776,940</b>	<b>6,778,041</b>

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

PORTFOLIOS/QUALITY	IMPAIRED ASSETS			UNIMPAIRED ASSETS			TOTAL (CARRYING AMOUNT)
	GROSS AMOUNT	INDIVIDUAL IMPAIRMENT	CARRYING AMOUNT	GROSS AMOUNT	COLLECTIVE IMPAIRMENT	CARRYING AMOUNT	
1. Available-for-sale financial assets	-	-	-	2,501,990	-	2,501,990	<b>2,501,990</b>
2. Held-to-maturity investments	-	-	-	4,966	-	4,966	<b>4,966</b>
3. Loans and receivables with banks	-	-	-	835,116	-	835,116	<b>835,116</b>
4. Loans and receivables with customers	4,305	3,915	391	2,915,036	4,513	2,910,522	<b>2,910,913</b>
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
<b>Total at 31.12.2017</b>	<b>4,305</b>	<b>3,915</b>	<b>391</b>	<b>6,257,108</b>	<b>4,513</b>	<b>6,252,595</b>	<b>6,252,985</b>
<b>Total at 31.12.2016</b>	<b>4,987</b>	<b>4,596</b>	<b>391</b>	<b>6,783,678</b>	<b>6,028</b>	<b>6,777,650</b>	<b>6,778,041</b>

PORTFOLIOS/QUALITY	ASSETS WITH POOR CREDIT QUALITY		CARRYING AMOUNT	CARRYING AMOUNT	OTHER ASSETS
	CUMULATED IMPAIRMENT LOSSES	CARRYING AMOUNT			
1. Financial assets held for trading				17,376	
2. Hedging derivatives				-	
<b>Total at 31.12.2017</b>				<b>17,376</b>	
<b>Total at 31.12.2016</b>				<b>13,153</b>	

**A.1.3 Banking group - Loans and receivables with banks on and off-statement of financial position: gross amounts, carrying amounts and due dates**

TYPE OF EXPOSURES/ AMOUNTS	GROSS AMOUNT						CARRYING AMOUNT	
	IMPAIRED ASSETS							
	FROM UP TO 3 MONTHS	FROM 3 TO 6 MONTHS	MONTHS AFTER 1 MONTHS TO 1 YEAR	UNIMPAIRED	INDIVIDUAL ASSETS	COLLECTIVE ASSETS		
<b>A. ON-STATEMENT OF FINANCIAL POSITION</b>								
a) Non-performing loans	-	-	-	-	-	-	-	
- including: negotiated exposures	-	-	-	-	-	-	-	
b) Probable defaults	-	-	-	-	-	-	-	
- including: negotiated exposures	-	-	-	-	-	-	-	
c) Impaired past due loans	-	-	-	-	-	-	-	
- including: negotiated exposures	-	-	-	-	-	-	-	
d) Unimpaired past due loans	-	-	-	-	-	-	-	
- including: negotiated exposures	-	-	-	-	-	-	-	
e) Other unimpaired exposures	-	-	-	-	851,779	-	851,779	
- including: negotiated exposures	-	-	-	-	-	-	-	
<b>Total A</b>	-	-	-	<b>851,779</b>	-	-	<b>851,779</b>	
<b>B. OFF-STATEMENT OF FINANCIAL POSITION</b>								
a) Impaired	-	-	-	-	-	-	-	
b) Other	-	-	-	-	5,687	-	5,687	
<b>Total B</b>	-	-	-	<b>5,687</b>	-	-	<b>5,687</b>	
<b>Total A + B</b>	-	-	-	<b>857,467</b>	-	-	<b>857,467</b>	

**A .1.6 Banking group - Loans and receivables with customers on and off-statement of financial position: gross amounts, carrying amounts and due dates**

TYPE OF EXPOSURES/ AMOUNTS	GROSS AMOUNT							
	IMPAIRED ASSETS							
	UP TO 3 MONTHS	FROM 3 TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	AFTER 1 YEAR	UNIMPAIRED ASSETS	INDIVIDUAL ASSETS IMPAIRMENT	COLLECTIVE ASSETS IMPAIRMENT	CARRYING AMOUNT
<b>A. ON-STATEMENT OF FINANCIAL POSITION</b>								
a) Non-performing loans	-	-	-	2,088	-	1,697	-	391
- including: negotiated exposures	-	-	-	-	-	-	-	-
b) Probable defaults	3,010	-	-	-	-	2,625	-	385
- including: negotiated exposures	-	-	-	-	-	-	-	-
c) Impaired past due loans	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
d) Unimpaired past due loans	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
e) Other unimpaired exposures	-	-	-	-	5,418,214	-	1,888	5,416,326
- including: negotiated exposures	-	-	-	-	-	-	-	-
<b>Total A</b>	<b>3,010</b>	-	-	<b>2,088</b>	<b>5,418,214</b>	<b>4,322</b>	<b>1,888</b>	<b>5,417,102</b>
<b>B. OFF-STATEMENT OF FINANCIAL POSITION</b>								
a) Impaired	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	497,983	-	-	497,983
<b>Total B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>497,983</b>	<b>-</b>	<b>-</b>	<b>497,983</b>
<b>Total A + B</b>	<b>3,010</b>	-	-	<b>2,088</b>	<b>5,916,198</b>	<b>4,322</b>	<b>1,888</b>	<b>5,915,086</b>

**A.1.7 Banking group - On-statement of financial position loans and receivables with customers: gross impaired positions**

PURPOSES/CATEGORIES	NON-PERFORMING LOANS	PROBABLE DEFAULTS	IMPAIRED PAST DUE LOANS
<b>A. Gross opening balance</b>	<b>4,987</b>	<b>4,820</b>	
- including: positions transferred but not derecognised			
<b>B. Increases</b>			
B.1 transfers from performing loans	1,023		-
B.2 transfers from other impaired loan categories			
B.3 Other increases	234		779
<b>C. Decreases</b>			
C.1 transfers to performing loans			
C.2 derecognitions	1,251		2,132
C.3 collections	505		457
C.4 gains on sales			
C.5 losses on sales			
C.6 transfers to other impaired loan categories			
C.7 other decreases	182		-
<b>D. Gross closing balance</b>	<b>4,305</b>	<b>3,010</b>	
- including: positions transferred but not derecognised			

**A.1.8 Banking group - On-statement of financial position loans and receivables with customers: changes in impaired positions**

<b>PURPOSES/CATEGORIES</b>	<b>NON-PERFORMING LOANS</b>		<b>PROBABLE DEFAULTS</b>		<b>IMPAIRED PAST DUE LOANS</b>	
	<b>TOTAL</b>	<b>INCLUDING: NEGOTIATED EXPOSURES</b>	<b>TOTAL</b>	<b>INCLUDING: NEGOTIATED EXPOSURES</b>	<b>TOTAL</b>	<b>INCLUDING: NEGOTIATED EXPOSURES</b>
<b>A. Opening balance</b>	<b>4,596</b>			<b>4,111</b>		
- including: positions transferred but not derecognised						
<b>B. Increases</b>						
B.1 Impairment losses	495			968		
B.2 losses on sales						
B.3 transfers from other impaired loan categories						
B.4 other increases						
<b>C. Decreases</b>						
C.1 fair value gains						
C.2 reversals of impairment losses due to collection						
C.3 gains on sales	51					
C.4 derecognitions						
C.5 transfers to other impaired loan categories	1,126			2,454		
C.6 other decreases						
<b>D. Closing balance</b>	<b>3,914</b>			<b>2,625</b>		
- including: positions transferred but not derecognised						

### A.3 BREAKDOWN OF GUARANTEED EXPOSURE BY TYPE OF GUARANTEE

### **A.3.1 Guaranteed loans and receivables with banks**

### **A.3.2 Banking group - Guaranteed loans and receivables with customers**

**B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE****B.1 BANKING GROUP - BREAKDOWN OF LOANS AND RECEIVABLES WITH CUSTOMERS ON AND OFF-STATEMENT OF FINANCIAL POSITION BY BUSINESS SEGMENT (CARRYING AMOUNT)**

EXPOSURES/ COUNTERPARTS	GOVERNMENTS			OTHER GOVERNMENT AGENCIES			FINANCIAL COMPANIES		
	CARRYING AMOUNT	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT	CARRYING AMOUNT	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT	CARRYING AMOUNT	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT
<b>A. ON-STATEMENT OF FINANCIAL POSITION</b>									
A.1 Non-performing loans	-	-	-	-	-	-	391	1,491	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	2,502,302	-	-	3,843	-	75	2,157,089	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
<b>Total A</b>	<b>2,502,302</b>	-	-	<b>3,843</b>	-	<b>75</b>	<b>2,157,480</b>	<b>1,491</b>	-
<b>B. Off-statement of financial position</b>									
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	129,063	-	-	263	-	-	41,121	-	-
<b>Total B</b>	<b>129,063</b>	-	-	<b>263</b>	-	-	<b>41,121</b>	-	-
<b>Total (A + B) AT 31.12.2017</b>	<b>2,631,366</b>	-	-	<b>4,105</b>	-	<b>75</b>	<b>2,198,601</b>	<b>1,491</b>	-
<b>Total (A + B) AT 31.12.2016</b>	<b>3,172,292</b>	-	-	<b>1,852</b>	-	<b>45</b>	<b>1,800,809</b>	<b>1,491</b>	-

<b>EXPOSURES/ COUNTERPARTS</b>	<b>INSURANCE COMPANIES</b>			<b>NON-FINANCIAL COMPANIES</b>			<b>OTHER</b>		
	<b>CARRYING AMOUNT</b>	<b>INDIVIDUAL IMPAIRMENT</b>	<b>COLLECTIVE IMPAIRMENT</b>	<b>CARRYING AMOUNT</b>	<b>INDIVIDUAL IMPAIRMENT</b>	<b>COLLECTIVE IMPAIRMENT</b>	<b>CARRYING AMOUNT</b>	<b>INDIVIDUAL IMPAIRMENT</b>	<b>COLLECTIVE IMPAIRMENT</b>
<b>A. On-statement of financial position</b>									
A.1 Non-performing loans									
- including: negotiated exposures	-	-	-	-	206	-	-	2,217	-
A.2 Probable defaults	-	-	-	-	-	-	385	-	2,625
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	10,866	-	-	97,554	-	-	644,672	-	1,813
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
<b>Total A</b>	<b>10,866</b>	-	-	<b>97,554</b>	<b>206</b>	-	<b>645,057</b>	<b>2,217</b>	<b>4,438</b>
<b>B. Off-statement of financial position</b>									
B.1 Non-performing loans									
B.2 Probable defaults	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	7,128	-	-	694	-	-	-	-	-
<b>Total B</b>	<b>7,128</b>	-	-	<b>694</b>	-	-	-	-	-
<b>Total (A + B) AT 31.12.2017</b>	<b>17,994</b>	-	-	<b>98,248</b>	<b>206</b>	-	<b>645,057</b>	<b>2,217</b>	<b>4,438</b>
<b>Total (A + B) AT 31.12.2016</b>	<b>153</b>	-	-	<b>2,033</b>	<b>257</b>	-	<b>1,149,444</b>	<b>2,848</b>	<b>5,983</b>

**B.2 BANKING GROUP - BREAKDOWN OF LOANS AND RECEIVABLES WITH CUSTOMERS ON  
AND OFF-STATEMENT OF FINANCIAL POSITION BY GEOGRAPHICAL SEGMENT (CARRYING  
AMOUNT)**

EXPOSURES/ GEOGRAPHICAL AREAS	ITALY	OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT
<b>A. On-statement of financial position</b>									
A.1 Non-performing loans	391	3,915	-	-	-	-	-	-	-
A.2 Probable defaults	385	2,625	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	5,231,057	1,813	76,577	-	107,824	-	831	-	37
<b>Total</b>	<b>5,231,833</b>	<b>8,353</b>	<b>76,577</b>	<b>-</b>	<b>107,824</b>	<b>-</b>	<b>831</b>	<b>-</b>	<b>37</b>
<b>B. Off-statement of financial position</b>									
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	178,236	-	18	-	16	-	-	-	-
<b>Total</b>	<b>178,236</b>	<b>-</b>	<b>18</b>	<b>-</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total at 31.12.2017</b>	<b>5,410,069</b>	<b>8,353</b>	<b>76,595</b>	<b>-</b>	<b>107,840</b>	<b>-</b>	<b>831</b>	<b>-</b>	<b>37</b>
<b>Total at 31.12.2016</b>	<b>5,996,533</b>	<b>10,579</b>	<b>60,396</b>	<b>-</b>	<b>68,280</b>	<b>-</b>	<b>749</b>	<b>-</b>	<b>624</b>

**B.3 BANKING GROUP - BREAKDOWN OF LOANS AND RECEIVABLES WITH CUSTOMERS ON AND OFF-STATEMENT OF FINANCIAL POSITION BY GEOGRAPHICAL SEGMENT (CARRYING AMOUNT)**

EXPOSURES/ GEOGRAPHICAL AREAS	ITALY	OTHER EUROPEAN COUNTRIES	AMERICAS	ASIA	REST OF THE WORLD			
	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT	TOTAL IMPAIRMENT
<b>A. On-statement of financial position</b>								
A.1 Non- performing loans	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	774,479	-	37,542	-	27,359	-	8,736	-
<b>Total</b>	<b>774,479</b>	<b>-</b>	<b>37,542</b>	<b>-</b>	<b>27,359</b>	<b>-</b>	<b>8,736</b>	<b>-</b>
<b>B. Off-statement of financial position</b>								
B.1 Non- performing loans	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	4,633	-	1,055	-	-	-	-	-
<b>Total</b>	<b>4,633</b>	<b>-</b>	<b>1,055</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total at 31.12.2017</b>	<b>779,112</b>	<b>-</b>	<b>38,597</b>	<b>-</b>	<b>27,359</b>	<b>-</b>	<b>8,736</b>	<b>-</b>
<b>Total at 31.12.2016</b>	<b>723,246</b>	<b>-</b>	<b>39,314</b>	<b>-</b>	<b>8,004</b>	<b>-</b>	<b>5,303</b>	<b>-</b>

**C. SECURITISATIONS OF ASSETS**

The group has not undertaken these types of transaction.

**D. DISCLOSURE ON STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION VEHICLES)**

**D.1 CONSOLIDATED STRUCTURED ENTITIES**

Nothing to report.

**D.2 STRUCTURED ENTITIES NON CONSOLIDATED FOR ACCOUNTING PURPOSES**

**D.2.1 Structured entities consolidated for supervisory purpose**

Nothing to report.

The information of qualitative and quantitative nature referred to in this section are not to be provided by the banks that issue consolidated financial statements in accordance with Circular 262 of the Bank of Italy.

## D.2.2 Other structured entities

CAPTION TYPE OF STRUCTURED ENTITY	RECOGNISED ASSETS	TOTAL ASSETS (A)	RECOGNISED LIABILITIES	TOTAL LIABILITIES (B)	CARRYING AMOUNT (C = B-A)	MAXIMUM EXPOSURE AT RISK TO LOSS (D)	DIFFERENCE BETWEEN EXPOSURE AT RISK TO LOSS AND CARRYING AMOUNT (E = D-C)
Available-for-sale 2. OEIC units	financial assets	20,916	-	-	20,916	75,000	54,084

## E. TRANSFERS

The group has not performed any transfers.

## F. CREDIT RISK MEASUREMENT MODELS

The group does not have state-of-the-art tools to measure credit risk given its profile.

## 1.2 BANKING GROUP – MARKET RISKS

### 1.2.1 Interest rate and price risk - regulatory trading book

#### QUALITATIVE DISCLOSURE

##### Market risk

Market risk is the risk of incurring losses generated by operating on the market for financial instruments (regulatory trading book), currencies and commodities, due to fluctuations in market factors or the issuer's situation. This risk is applicable only to Nexi as it manages financial instruments on the group's behalf. Activities that generate market risk are performed by the Chief Financial Officer (CFO) Area, the Treasury unit and the Securities Services BU.

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

The governance model in place to manage and monitor risks is based on the segregation between the management processes and the risk control processes on the one hand and, on the other, development of same processes in line with the group's hierarchical structure and by assigning proxies.

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

The risk management unit also checks and processes ex post the data related to the group's total risk positions each day and prepares the reports necessary to check the limits set by the finance regulation. It also performs specific tests to check the level of existing risk scenarios or future scenarios for the current portfolio. If the VaR limits are exceeded, the risk management unit manager promptly informs the relevant unit, its manager and the managing director. The risk management unit also informs the Treasury unit and/or the Securities Services BU manager of situations that are close to exceeding their limits. The unit ensures that sufficient information about transactions involving derivatives is provided in its reports.

It monitors positions in securities and foreign currency using VaR with a confidence interval of 99% and a time horizon of 10 days, calculated using a parametric model. This test is performed on the entire portfolio, separating the Other portfolio from the HTC portfolio and the HTCS portfolio, which are monitored directly by the board of directors.

The VaR, defined to obtain a reasonable estimate of potential losses in normal market conditions, is not designed to, nor does it, include an analysis of extreme events. Stress tests are used to check the impact of extreme conditions on the portfolio and violations of the assumptions underlying the model used by identifying the remaining risk and providing information complementary to VaR.

Daily stress tests are performed on the VaR of securities and currencies as well as the daily calculation of VaR.

### **Basis risk**

The basis risk is defined as the risk of losses caused by unmatched variations in the spot and future price that are similar but not identical. This risk is especially pertinent to banks that calculate their capital requirements using standard methods by offsetting positions in one or more equities included in an equity index with one or more future positions/other derivatives linked to this index or that offset opposing positions in futures on equity indexes that do not have the same expiry date, composition or both.

The group is not exposed to this risk as it does not use futures/derivatives to hedge positions exposed to market risk and, therefore, these instruments are not included in the calculation of the capital requirement for market risk using the standard method. The group's operations in banking book derivatives is limited to trading in OTC options which, as per its internal regulations, does not generate positions. The risk positions for other financial instruments are hedged by specular hedges.

### **General aspects about interest rate risk**

This risk is inherent in the group's core banking business as it is part of the process of change over time, space and form of financial resources and in the financial assets trading business.

The objectives and strategies underlying trading activities in place to manage the securities portfolio are designed to maximise profitability and exploit investment opportunities as part of an approach to contain risks. This leads the group to have a bonds portfolio with a relatively short duration.

The trading book includes financial instruments subject to regulatory capital requirements for market risk, as defined in the supervisory communication regulations.

### **Interest rate risk management processes and measurement methods**

Interest rate risk is calculated using the method already provided for by Circular 263/2006 and currently by Circular 285/2013 for class 2 banks, revising, as required by the same legislation, the simplified assumptions concerning the estimate of the stable share (so-called "core component") and its distribution in the time bands, so as to make the calculation of risk more consistent with its operations. This method requires that the exposure to interest rate risk related to the banking book is assessed "by referring to the annual changes in interest rates recorded in a 6-year observation period, considering alternatively the 1st percentile (fall) or the 99 °(upside)".

### **General aspects about price risk**

Price risk is the risk of fluctuations in the prices of financial instruments due to variations in market variables or specific factors of the issuers or counterparties. It can be general, due to a change in the price of an equity instrument caused by fluctuations in the reference market, or specific, caused by a change in the price of a specific equity instrument compared to its reference market following changes in expectations about the financial soundness or future profitability of the issuer.

### **Management and measurement of price risk**

Like for the other risks, the group's strategy adopted to manage price risk is prudent.

This risk is monitored through specific reports and by calculating the VaR (which is performed daily by the risk management unit).

## QUANTITATIVE DISCLOSURE

### 1. REGULATORY TRADING BOOK: BREAKDOWN BY RESIDUAL MATURITY (REPRICING DATE) OF ON-STATEMENT OF FINANCIAL POSITION FINANCIAL ASSETS AND LIABILITIES AND DERIVATIVES -

CURRENCY: EURO

TYPE/RESIDUAL TERM	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
<b>1. Assets</b>								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	107	-	112	-
- other	1,016	3,707	1,409	2,248	4,402	1,024	130	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>								
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>								
3.1 With underlying security								
- Options	-	-	-	2	-	-	-	-
+ long positions	-	-	-	2	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	274	58,250	703	651	92,900	15,692	-	-
+ short positions	294	151,712	808	359	301	15,745	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	37,987	45,251	-	-	-	-	-
+ short positions	-	842,812	45,285	-	-	-	-	-

**CURRENCY: OTHER**

<b>TYPE/RESIDUAL TERM</b>	<b>ON DEMAND</b>	<b>UP TO 3 MONTHS</b>	<b>FROM 3 TO 6 MONTHS</b>	<b>FROM 6 MONTHS TO 1 YEAR</b>	<b>FROM 1 TO 5 YEARS</b>	<b>FROM 5 TO 10 YEARS</b>	<b>AFTER 10 YEARS</b>	<b>OPEN TERM</b>
<b>1. Assets</b>								
1.1 Debt instruments								
- with early repayment option	50	-	-	-	8	128	26	-
- other	169	1	-	174	547	196	268	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>								
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	1	-
<b>3. Financial derivatives</b>								
3.1 With underlying security								
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	839,400	45,037	-	-	-	-	-
+ short positions	-	37,902	45,037	-	-	-	-	-

**1.2.2 INTEREST RATE AND PRICE RISKS - BANKING BOOK****QUALITATIVE DISCLOSURE****A. General aspects, management and measurement of interest rate risk**

The banking book's interest rate risk is the risk of losses in its value due to potential changes in interest rates.

The main source of this type of risk is the repricing risk, i.e., the risk arising from the mismatch of maturity dates and repricing of assets and liabilities, the main aspects of which are:

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

This risk relates solely to the parent for its banking book.

The group's funding and lending have historically mainly being obtained or granted through current accounts or with short-term maturities (nearly all within three months). As most of the liquidity in current accounts is that in the giro accounts, which are used for operating purposes and not for funding and/or lending transactions, the group's actual exposure to this risk is rather limited.

The risk management unit monitors this risk daily to assess its impact using a method based on the guidance set out in Annex C of Title III, Chapter 1 of Bank of Italy Circular no. 285, which assesses the absorption in terms of internal capital of a variation of 200 bp on the return curve on the banking book, weighing the various exposures depending on their residual life and adopting an internal method to classify current accounts, as required by the above-mentioned supervisory regulations.

With respect to Nexi Payments and its business, positions are concentrated in the "within one month" category with minimum exposure. Moreover, the mismatching due to the issuing and acquiring activities solely relates to the settlement date and not to the value date, which is the same for credit and debit movements.

With regard to monitoring interest rate risk, the Risk Management Service of NEXI carries out stress tests on interest rate risk, assuming parallel movements of the rate curves and analyzing the consequent effects.

**General aspects, management and measurement of price risk**

The banking book's price risk mainly refers to the equity investments held for the long term and financial instruments, mostly Italian government bonds, which are not included in the trading book as they are also held for investment purposes.

The board of directors is the sole body responsible for the related internal controls for the latter instruments.

**B. Fair value hedges**

Not applicable.

**C. Cash flow hedges**

The group's hedging strategies are generic and may also refer to the interest rate risk applicable to the on-demand items.

## QUANTITATIVE DISCLOSURE

### 1. BANKING BOOK: BREAKDOWN BY RESIDUAL MATURITY (BY REPRICING DATE) OF FINANCIAL ASSETS AND LIABILITIES

CURRENCY: EURO

TYPE/RESIDUAL TERM	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
<b>1. Assets</b>								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	781,194	4,966	15,897	-	1,709,124	-	-	-
1.2 Financing to banks	270,122	480,215	-	2,460	-	-	-	-
1.3 Financing to customers								
- current accounts	1,746,450	-	-	-	391	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	724,456	252,710	20,814	53,219	97,714	-	-	-
<b>2. Liabilities</b>								
2.1 Due to customers								
- current accounts	6,088,255	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	20,159	344,421	-	-	-	-	-	-
2.2 Due to banks								
- current accounts	1,401,430	-	-	-	-	-	-	-
- other payables	212,671	-	-	-	-	-	-	-
2.3 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>								
3.1 With underlying security								
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
<b>4. Other off-statement of financial position transactions</b>								
+ long positions	-	1,014	-	-	-	-	-	6,069
+ short positions	-	7,083	-	-	-	-	-	-

## CURRENCY: OTHER

### **1.2.3 CURRENCY RISK**

#### *A. General aspects, management and measurement of currency risk*

Currency risk arises on the mismatch between foreign currency assets and liabilities (cash and forward) for each currency, originating from positions taken on by the centres specialised in market risk, within the assigned limits and proxies.

Currency risk nearly entirely originates from trading activities on behalf of customers and / or from foreign currency trading activities carried out through trading in various market instruments. The risk management unit monitors this risk constantly by calculating the VaR while the Treasury unit performs the relevant first level controls.

The group's exposure to currency risk, calculated using the net foreign currency positions and a method in line with the supervisory regulations, is contained because every significant foreign currency transaction with institutional counterparties is usually hedged on the market with an offsetting transaction. Transactions involving small amounts carried out on behalf of customers or for trading purposes that generate a position open to exchange rate risk are monitored in real time by the Treasury unit in compliance with the limits set by the current Rules.

It only maintains positions exposed to currency risk within very limited ceilings (which are always fully respected) set for the total maximum exposure, for each currency and VaR.

#### *B. Currency hedges*

The trading book is completely hedged with spot forex positions.

The risk management unit checks that the VaR on existing positions is always within the limits set by the finance regulation every day.

#### *Transfer risk*

The transfer risk is defined as the risk that a bank, exposed to a party that finances itself in a currency different to that in which it earns most of its income, makes losses due to the debtor's difficulties in converting its currency into the currency of its exposure.

The group is potentially exposed to this risk due to its credit exposures in foreign currencies and Euro credit exposures of parties based in countries with a legal tender that is not the Euro.

In both cases, these exposures mostly relate to the parent, as the other group and consolidation area companies' exposures are only in Euros (net of those of Mercury Processing denominated in its reference currency) and the counterparties (cardholders and merchants) for Nexi Payments are parties with tax residence in Italy, for which it is presumed that they have liquidity in Euros.

A detailed analysis of these exposures shows that: 1) the overall exposure is mainly denominated in currencies of countries belonging to the EU that do not adopt the Euro, for which there are in fact no problems of conversion; 2) among the individual exposures, over a quarter is with operators, such as Euroclear, Clearstream, BNP Paribas and Bank of New York, which operating as multi-currency settlement houses currently have the possibility of converting currencies.

Therefore, the group's transfer risk is very modest, especially if compared to the entire credit risk (of which it can be considered to be an additional component). The amount and composition of exposures potentially exposed to transfer risk are monitored to identify any changes.

## QUANTITATIVE DISCLOSURE

### 1.BREAKDOWN OF ASSETS, LIABILITIES AND DERIVATIVES BY CURRENCY

CAPTIONS	CURRENCY					
	US DOLLAR	YEN	POUND STERLING	SWISS FRANC	CANADIAN DOLLAR	OTHER CURRENCIES
<b>A. Financial assets</b>						
A.1 Debt instruments	1,598	-	-	-	-	-
A.2 Equity instruments	2,565	-	-	23	-	153
A.3 Financing to banks	11,795	5,476	12,497	7,218	3,237	37,870
A.4 Financing to customers	15,030	-	-	-	-	129
A.5 Other financial assets	-	-	-	-	-	-
<b>B. Other assets</b>	<b>15</b>	<b>8</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>11</b>
<b>C. Financial liabilities</b>						
C.1 Due to banks	46,380	11,241	224	6,870	1,426	11,809
C.2 Due to customers	476,603	134,987	112,327	18,095	18,062	61,022
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
<b>D. Other liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>E. Financial derivatives</b>						
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ long positions	524,840	181,802	100,093	24,037	16,297	37,368
+ short positions	33,985	40,930	-	6,099	23	1,902
<b>Total assets</b>	<b>555,842</b>	<b>187,286</b>	<b>112,595</b>	<b>31,282</b>	<b>19,537</b>	<b>75,532</b>
<b>Total liabilities</b>	<b>556,969</b>	<b>187,158</b>	<b>112,552</b>	<b>31,063</b>	<b>19,510</b>	<b>74,733</b>
<b>Difference</b>	<b>-1,127</b>	<b>129</b>	<b>43</b>	<b>219</b>	<b>27</b>	<b>799</b>

#### 1.2.4 DERIVATIVES

The group's operations in derivatives and foreign currency mainly relate to matching trades performed on behalf of its customers.

Nexi does not have innovative or complex financial instruments.

In addition, in order to hedge the risk of a reduction in the price and the exchange rate of the Visa C Class shares (which are convertible into Visa Series A shares at a variable conversion factor according to the charges deriving from the potential liabilities of the former Visa Europe, acquired by Visa Inc.) in the portfolio of Nexi Payments, a collar was stipulated on a number of shares that does not take into account the discount applied in the balance sheet, but which has a strike such that, from an economic point of view, the pay off the derivative, in the event of a reduction in the value in Euro of the Class A Shares below the book value, is exactly equal to the reduction in the value of the security compared to the hedging target.

**A. FINANCIAL DERIVATIVES****A.1 REGULATORY TRADING BOOK: NOTIONAL AMOUNTS AT THE REPORTING DATE AND AVERAGE AMOUNTS**

UNDERLYING ASSETS/TYPE OF DERIVATIVES	31.12.2017		31.12.2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
1. Debt instruments and interest rates				
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indexes				
a) Options	<b>764</b>	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold				
a) Options	-	-	-	-
b) Swaps	<b>5,461</b>	-	62,731	-
c) Forwards	<b>822,399</b>	-	1,101,122	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	<b>12</b>	-	-	-
<b>Total</b>	<b>828,636</b>	-	<b>1,163,853</b>	-

**A.3 FINANCIAL DERIVATIVES: GROSS POSITIVE FAIR VALUE - BREAKDOWN BY PRODUCT**

PORTFOLIOS/TYPE OF DERIVATIVES	POSITIVE FAIR VALUE			
	31.12.2017		31.12.2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
A. Regulatory trading book				
a) Options	382	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	1,094	-	1,374	-
f) Futures	-	-	-	-
g) Other	4	-	373	-
B. Banking book - hedging				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>1,480</b>	<b>-</b>	<b>1,748</b>	<b>-</b>

**A.4 FINANCIAL DERIVATIVES: GROSS NEGATIVE FAIR VALUE - BREAKDOWN BY PRODUCT**

PORTFOLIOS/TYPE OF DERIVATIVES	NEGATIVE FAIR VALUE			
	31.12.2017		31.12.2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
A. Regulatory trading book				
a) Options	382	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	5,240	-	7,350	-
f) Futures	-	-	-	-
g) Other	48	-	278	-
B. Banking book - hedging				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>5,670</b>	<b>-</b>	<b>7,629</b>	<b>-</b>

**A.5 OTC FINANCIAL DERIVATIVES - REGULATORY TRADING BOOK: NOTIONAL AMOUNTS,  
GROSS POSITIVE AND NEGATIVE FAIR VALUE BY COUNTERPARTY - CONTRACTS NOT  
INCLUDED IN NETTING AGREEMENTS**

CONTRACTS NOT INCLUDED IN COMPENSATION AGREEMENTS	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER
<b>1) Debt instruments and interest rates</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>2) Equity instruments and share indexes</b>							
- notional amount	-	-	382	382	-	-	-
- positive fair value	-	-	-	382	-	-	-
- negative fair value	-	-	382	-	-	-	-
- future exposure	-	-	-	57	-	-	-
<b>3) Currencies and gold</b>							
- notional amount	-	-	782,824	45,037	-	-	-
- positive fair value	-	-	1,094	-	-	-	-
- negative fair value	-	-	4,739	549	-	-	-
- future exposure	-	-	6,608	450	-	-	-
<b>4) Other assets</b>							
- notional amount	12	-	-	-	-	-	-
- positive fair value	4	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>Total</b>	<b>16</b>	<b>-</b>	<b>796,029</b>	<b>46,857</b>	<b>-</b>	<b>-</b>	<b>-</b>

**A.9 RESIDUAL MATURITY OF OTC FINANCIAL DERIVATIVES: NOTIONAL AMOUNTS**

UNDERLYING/RESIDUAL TERM	UP TO 1 YEAR	FROM 1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
<b>A. Regulatory trading book</b>				
A.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
A.2 Financial derivatives on equity instruments and share indexes	764	-	-	764
A.3 Financial derivatives on currencies and gold	827,861	-	-	827,861
A.4 Financial derivatives on other assets	-	-	12	12
<b>B. Banking book</b>				
B.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
B.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
B.3 Financial derivatives on currencies and gold	-	-	-	-
B.4 Financial derivatives on other assets	-	-	-	-
<b>Total at 31.12.2017</b>	<b>828,625</b>	<b>-</b>	<b>12</b>	<b>828,637</b>
<b>Total at 31.12.2016</b>	<b>1,163,853</b>	<b>-</b>	<b>-</b>	<b>1,163,853</b>

## 1.3 BANKING GROUP - LIQUIDITY RISK

### QUALITATIVE DISCLOSURE

#### ***General aspects, management and measurement of liquidity risk***

Liquidity is the ability of a bank to finance the growth of its assets and to meet its payment obligations, without incurring unacceptable losses or costs.

The liquidity risk is defined as the risk for which the bank is not able to meet its obligations when they expire, due to the inability to raise funds or the presence of limits in the sale of assets. With reference to internationally agreed definitions, a distinction is made between funding liquidity risk and market liquidity risk.

*Funding liquidity* risk means the risk that the bank will not be able to raise funds to meet its expected and unexpected current and future cash outflows, without compromising the day-to-day operations of the bank itself.

*Market liquidity* risk means the risk that the bank will not be able to liquidate a financial asset without incurring capital losses due to the lack of liquidity of the reference market or of unrest in it.

The two forms of liquidity risk are often correlated and can manifest themselves in the face of the same triggering factors.

It also distinguishes between:

- *Mismatch liquidity risk*: the liquidity risk implicit in the structure of the bank's assets and liabilities.
- *Contingency liquidity risk*: the risk that future events may require levels of liquidity much higher than those previously planned by the bank; in other words, the risk of not being able to cope with sudden payment commitments in the short term.

Liquidity risk is borne by the parent that manages, as a bank, its liquidity and the liquidity requirements of various group companies. Regarding instrumental and marginal financing needs:

- Nexi Payments can access credit lines and loans granted by other entities, even for small amounts (less than 10%) of their own needs.
- Bassilichi has autonomy as regards the lines of credit necessary to meet the financial needs; however, the Parent granted an intragroup line that replaced most of the lines in place with the other banks.
- Mercury Payment can access the lines of credit and loans granted by Intesa Sanpaolo, of which it was part before the acquisition and which is still the primary customer of the company.
- Mercury Processing (a Croatian company) has an independent liquidity management, with no need for funding from the Parent Company.

The group's general liquidity risk management policy is characterised by modest risk appetite and prudently privileges a balance between assets and liabilities as part of its strategy to increase profitability. Deadlines and amounts of its cash flows allow it to limit liquidity risk with the balanced return of funds, notwithstanding the fact that the group is very capable of financing itself in very short periods (one to three days).

The Parent Company's Board of Directors supervises the strategic management of the liquidity risk to which the Group is exposed and ensures the adoption of the crisis management plans, ensuring the effectiveness and efficiency of the solutions to be undertaken. The Parent Company's Chief Executive Officer is responsible for defining the guidelines for the liquidity risk management process and for implementing strategic guidelines, as part of maintaining an effective liquidity risk management and control system. The Board of Statutory Auditors and the Risk Committee are responsible for overseeing the adequacy and compliance of the liquidity risk management process with the requirements established by the regulations.

The management of liquidity, carried out by the Treasury Service, aims to ensure the Group's financial balance in the various time buckets, maintaining an adequate dynamic relationship between liabilities and assets, in order to avoid pressure on current and future sources of liquidity. The parent, Nexi, has regular and ongoing access to credit when the market is stable and liquidity flow are normal.

Therefore, the group is not significantly exposed to liquidity risk. Its liabilities mainly consist of current accounts with banks or customers set up to be used as part of its core business rather than for funding purposes. An analysis of its due dates does not show any critical issues, given the nature of the underlying transactions. Moreover, with respect to its positions other than current accounts, there are no critical issues relating to acceleration clauses or clauses requiring additional guarantees if the group companies are downgraded; also the acquisitions made in the last few years and the consequent funding needs of the Group companies did not entail and do not lead to problems in the matter.

With regard to the coverage of intraday liquidity risk, rules are defined for the maintenance of a minimum portfolio of eligible securities, functional to guarantee the intraday and period refinancing needs at Central Banks.

The related "liquidity risk policy and contingency funding and recovery plan", approved by the parent's board of directors, sets the guidelines for liquidity management (liquidity policy) and the rules to be adopted in a liquidity crisis (contingency funding plan). It incorporates the most recent regulatory updates (Bank of Italy Circular no. 285/2013) and the principles of the group's risk policy, thus integrating and completing the rules defined in the finance regulation.

The liquidity risk policy (LRP) defines the liquidity risk management process, which is aimed at ensuring over time the maintenance of a sufficient amount of liquid instruments even in the presence of stress scenarios. It includes a vast range of indicators to facilitate the monitoring of the bank's liquidity profile and to promptly identify any deterioration caused by internal factors or systemic factors.

The contingency funding and recovery plan (CFRP) on the other hand, is a tool to mitigate the potential impacts generated by situations of strong liquidity drainage; the possible strategies to be implemented for crisis management and the procedures for obtaining sources of financing are defined; the actions to be taken are indicated with reference to any contingent situation on the market and to internal causes within the Group, in order to identify and describe the actions to be implemented to deal promptly and effectively with emergency situations. The CFRP specifies the criteria for identifying the state of crisis and defines the roles and responsibilities of the actors called to intervene so that the appropriate measures can be taken immediately and the necessary information flow is guaranteed to the corporate governance bodies and those of control. The CFRP is drawn up in accordance with the Recovery Plan.

### **Liquidity reserves**

The holding of liquid assets reserves is one of the main instruments for mitigating liquidity risk. Bank of Italy Circular 285 defines the reference criteria to be followed for the identification and determination of liquid reserves, giving the banks the responsibility to evaluate "*limitations or uncertainties of any kind regarding the use of a financial instrument in the scope of liquidity reserves, its negotiability and the determination of its value*".

The reserves are registered in specific portfolios under the direct management of the Treasury Service, which is the function in charge of the centralized management of the Group's liquidity risk. The calculation of the reserves excludes securities that, although having liquidity characteristics, are registered in the Other portfolio, precisely because they are not subject to the control of the Treasury unit and related to the operations performed by other units.

### **Short-term liquidity monitoring**

The short-term liquidity monitoring aims to ensure the ability to meet expected or unexpected cash payment commitments over the four-month time horizon<sup>3</sup>.

For this purpose, and consistently with the approved maximum tolerance threshold for liquidity, and therefore also with the nature, objectives and operational complexity of the Nexi Group, the limits and early warning system is divided into two indicators aimed to monitoring in a complementary way the sustainability of the short-term equilibrium, both in normal business conditions (on going) and in stress scenarios:

- **Cumulative net balance "critical bucket"**, referring to the period with the greatest drainage of liquidity, ie the day before the charge of the Nexi Payments transaction;
- **Minimum cumulative net balance**, referred to the weekly analysis of the time buckets up to four months, on the basis of the Bank of Italy liquidity scheme.

The Risk Management unit monitors, on a daily basis, the cumulative balance relating to the daily situation which, for the typical operating methods of the Nexi Group, has been assessed as the most critical, and refers to the day before the charge of the Nexi Payments transaction (which occurs on the 15th of the month and, if it is a public holiday, on the first following working day), in order to allow a timely intervention in case the liquidity position is worsening.

In addition, the Nexi Group is part of the panel of national banks that participate in the weekly monitoring of short-term liquidity (3-month time horizon) activated by the Bank of Italy. The survey consists of three schemes: the first one analyzes the "Maturity Ladder" compiled on the basis of expected cash flows, distinguishing by type of counterparty. The main categories of funding are detailed in the second report, "Main Deadlines", while the third report, "Assetable assets", analyzes the property portfolio composition, distinguishing between eligible / non-eligible assets and registered / non-recognized assets. The reports "Maturity Ladder" and "Assetable assets" are ordinarily weekly, while the "Principal Deadlines" report usually requires a monthly update, to be carried out concurrently with the first report of each month.

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3. The reference time horizon for short-term liquidity can be up to 12 months, but for the Nexi Group the relevance is up to four months, since the aggregates with higher maturities are residual and only concern securities in the portfolio of properties that are due to expire.

Liquidity monitoring is carried out both in a normal "going concern" business and in a stress scenario. The results of stress tests are used to verify:

- the ability of the Group to cope autonomously (time to survival) with unforeseen liquidity crises in the first period in which they occur and before launching structural measures aimed at modifying the structure of assets / liabilities;
- if the level of limits / early warning determines the maintenance of liquidity reserves such as to allow the Group to cope with the initial period of systemic or idiosyncratic stress;
- the effectiveness of management in the event of a crisis.

### **Structural liquidity monitoring**

As mentioned above, for the Nexi Group almost all of the items are sold out over the four-month time horizon (with the exception of securities in the proprietary portfolio) and, therefore, it is not possible to monitor medium / long-term liquidity.

Therefore, it is more appropriate to evaluate the structural liquidity, understood as the financial equilibrium of the Group's structure, which is monitored on a quarterly basis using the Basel III Net Stable Funding Ratio as part of the Risk Appetite Framework.

### **Intra-day liquidity monitoring**

The intraday liquidity risk derives from the temporal mismatch between payment flows (with settlement in daily cut-off or following provisions received from customers) and incoming flows (the latter being regulated to various intraday cut-offs).

To mitigate this risk, the Supervisory Authorities provide, inter alia, that the banks:

- have an appropriate intra-day reserve (consisting of eligible and easily liquidated securities) to meet their obligations (specific risk), or a sudden illiquidity of the markets or the bankruptcy of a counterparty of the settlement system (systemic risk). To this purpose, the Nexi Group holds, as an intraday reserve, government bonds and bank bonds eligible for an amount deemed appropriate to the period's specific operating needs, based on estimates of outgoing intraday flows;
- perform continuous monitoring and control of cash flows, providing reliable and timely forecasts of the aforementioned flows within the individual working day. The cash flows monitoring and control, with an estimate of their performance within the working day, is performed by the Treasury unit through a specific "Treasury Dashboard", which reports the forecasts and then the evidence of the aforementioned flows. The Dashboard also checks the ability to meet its commitments at various cut-off deadlines with the available economic resources (stock in the management account, intra-day advances, etc.).

The Treasury unit also constantly monitors the liquidity situation on the account with the Central Bank in order to meet the commitments deriving from the Target movements.

On a monthly basis, the Treasury unit also processes the indicators relating to intraday liquidity, in order to comply with the provisions of the BCBS document "Monitoring tools for intraday liquidity management" of April 2013.

### **The TIT system**

The liquidity risk governance and management tools used by the group include the TIT system (internal transfer of funds system), introduced to comply with the provisions of Bank of Italy Circular no. 285 (title IV, chapter 6, section IV). As the group's only bank, NEXI S.p.A. has used this system since 2012 and revises it annually.

### **Liquidity and risk appetite framework**

The Risk Appetite Framework defines the level and type of risk that the Group is willing to bear in order to pursue its strategic objectives, as defined in the Business Plan. The Risk Appetite Framework of the Nexi Group is divided into a selection of dimensions, relevant for the Group and reflecting its operating reality.

With regard to liquidity, the metrics are as follows:

- **Liquidity Coverage Ratio – LCR**, i.e., the ratio of liquid assets (HQLA - high quality liquid assets) to net cash flows in the 30 days of a very acute stress scenario;
- **Net Stable Funding Ratio - NSFR**, equal to the ratio between stable funding in relation to the composition of assets and off-balance sheet transactions;
- **Ratio between the minimum cumulative net balance "critical range" and total assets**, the ratio between the minimum cumulative net balance (minimum weekly value of the quarter) and the total assets of the Group (last available data).

The framework defines parameters for each category that are the maximum risk limit the group intends to assume, the best risk limit (risk target) and an early warning level (risk trigger), which when breached, triggers contingency plans and/or mitigation actions to avoid reaching the risk limit.

The liquidity risk tolerance threshold<sup>4</sup>, defined as the maximum risk exposure possible in a normal business situation (going concern) integrated by a stress scenario, is the risk limit.

The risk limits associated with the three ratios are:

- **Liquidity Coverage Ratio** – LCR: 100%.

This ratio has been calculated assuming a severe stress scenario (combined idiosyncratic and market shock scenario simulation) with a risk limit above the legal minimum<sup>5</sup>.

The group monitors the indicator using the monthly supervisory report, which requires the risk management unit to perform own checks (consistency and performance) before the reporting unit sends it to Bank of Italy.

- **Net Stable Funding Ratio**: 100%.

The indicator is monitored starting from the detail items of assets and liabilities and of off-balance sheet items at the consolidation area level, integrated with data from other sources (eg LCR reporting data, data supplied by other Group companies and of the scope of consolidation companies) for items that require further detail (eg in terms of duration, stability, type) with respect to that shown in the balance sheet.

- **Ratio of the cumulative net minimum balance and total assets**: 7%.

The cumulated net minimum balance is the minimum amount recorded each quarter of the smaller liquidity situation compared to a normal business scenario.

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4. See Bank of Italy Circular no. 285 and subsequent amendments.

5. The LCR indicator became applicable in October 2015 with a minimum threshold of 60%, which increases to 70% from January 2016, 80% from January 2017 and 100% from January 2018.

## QUANTITATIVE DISCLOSURE

## **1. BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL CONTRACTUAL Maturity**

## CURRENCY: EURO

## CURRENCY: OTHER

## 1.4 BANKING GROUP – OPERATIONAL RISKS

### A. General aspects, management and measurement of operational risk

Operational risk is the risk of losses arising from errors or shortfalls in internal procedures, human resources or systems and external factors, including judicial risk. This risk also comprises IT risk, legal risk, model risk and the risk related to financial transactions including those related to market risk.

Operational risk is characterised by cause-effect relationships whereby if one or more trigger events occur, this leads to a detrimental event which is directly linked to an economic loss. Therefore, an *operating loss* is the result of negative economic effects created by operating events, recorded by the bank and that affect its profit or loss.

The main characteristic of operational risks is that they are inherent to the group's business and are, therefore, unavoidable and omnipresent. This implies that they are inherent in the decision to perform a certain activity and, in general, the bank's operations rather than, in the case of the other risks, the group intentionally takes credit or financial positions based on its risk appetite to achieve its target risk/return profile. In order to measure the bank's exposure to operational risks and the effects of any mitigating actions, it has to combine the qualitative and quantitative information.

In this context, the Internal Control System must be the main safeguard for the prevention and containment of these risks. In particular, company policies and procedures must be approved and implemented to define, identify, assess and manage exposure to operational risks, including those deriving from events characterized by low frequency and particular seriousness.

### *The Operational Risk Management Framework*

The operational risk governance framework consists of a structured set of processes, functions and resources for the identification, assessment and control of operational risks, with particular regard to the objective of ensuring effective prevention and mitigation measures for risks themselves.

Elements of this framework, in line with the provisions of prudential supervisory regulations, are:

- the assessment of exposure to operational risks as a process that is tightly integrated into the risk management process in all company activities;
- the formalization and attribution of responsibilities;
- the reporting system.

Considering the Group's specific activities, mainly related to the offer to the financial system of high technological innovation services and payment systems, Operational Risk is the main risk to which the Group is exposed.

In addition to what is required in terms of capital requirement, the Nexi Group has activated a specific process aimed to fully analyzing the operational risks to which it is exposed, identifying any areas of vulnerability and setting up adequate management and control systems. The framework consists of four basic elements:

- Identification;
- Measurement;
- Monitoring and Reporting;
- Management.

The **Identification** of operational risks takes place through the collection of operational risk information and the coherent and coordinated processing of all relevant sources of information; the objective pursued is the establishment of a complete information base. The necessary information is internal loss data with all the information relevant for management purposes and the subjective assessments acquired through the self-assessment of risks and controls. The collection of this information takes place on the basis of specific classification models, designed to guarantee a homogeneous representation of the data. The Identification phase consists of the following processes:

- Collection of operational loss data. The Nexi Group has set up a system for the collection and storage of the Operational Risks data, including significant losses and the related recoveries, which are suitable for conferring effectiveness on the management system. The Loss Data Collection (LDC) process of the Nexi Group provides for the collection of all the injurious events of the processes of each business line for all Group companies.
- Identification and assessment of operational risks. The Nexi Group has implemented a system to identify potential losses related to operational events that, regardless of past events, present a plausible probability of occurrence. The process of identifying and assessing Operational Risks is carried out during:
  - a. Design of new services / products, identifying the possible types of injurious events related to the initiative, their possible impact in terms of project and / or product / service and the objectives and actions of control and mitigation to be;
  - b. Identification and evaluation of the coherence of the risk profile of the Most Significant Transactions (MRO) with the risk appetite defined by the Group (Risk Appetite Framework, "RAF");

- c. Periodic assessment of the operational risk profile of existing processes: at least once a year, an overall assessment is carried out, for the relevant business segments, of the level of exposure to Operational Risks through the Risk Control Self-Assessment process (RCSA);
- d. Periodic assessment of the IT risk for the best qualification of operational risk by identifying the specific risks inherent in the ICT sphere and the indication, based on the evidence of the most critical areas, of countermeasures aimed to improve the risk profile.

**Measurement** is the risk assessment activity aimed to quantify the capital to be allocated for operational risk. Regulatory capital corresponds to the minimum capital required by the Supervision to meet operational risks. Economic capital, on the other hand, is the capital actually needed to meet the expected and unexpected losses induced by the risks themselves. The measurement of economic and regulatory capital should converge towards a homogeneous unit of measure. Currently the Nexi Group calculates regulatory capital for Operational Risks using the basic method, in consideration of the degree of compliance with the minimum qualitative-quantitative requirements defined for access to the most advanced models (standardized and advanced). In addition, for a better assessment of the exposure to risks, the Nexi Group has implemented a quantitative process for assessing operational risks by which expected and unexpected losses are calculated on various percentiles.

The **Monitoring** phase of the risk profile has the objective of defining a set of risk indicators that allow the reporting of any critical issues and / or anomalies by means of an adequate reporting system. These indicators include both the specific qualitative and quantitative indicators relating to the expected operability within the Risk Appetite Framework, described above, and the operational risk indicators in the field of e-money, aimed at monitoring the most significant operational risks at which Nexi Payments is exposed to, as well as the indicators of conduct risk, defined as *the current or prospective risk of losses resulting from inappropriate supply of financial services, including cases of inadequate conduct (fraud / negligence) by the bank*.

The **Reporting** phase aims to ensure timely and appropriate communication to support the management decisions of the corporate bodies and the organizational functions. Reporting includes the results of the following activities:

- identification and monitoring of loss events identified through the Loss Data Collection (LDC) and Risk Control Self Assessment (RCSA) processes;
- the assessment of operational risks to which the Group processes are exposed (eg evaluation of New Products / Services, Transactions of Greater Surveys);
- the definition of action plans undertaken in the management and mitigation of risks, with indication of the time horizon of the plan, of the contact person responsible for managing the same, as well as any supporting operating documents;
- any deviations from the monitoring indicators (RAF, specific indicators of e-money, indicators for monitoring risk measurement and control systems).

Planning and development of the controls are subjected to follow-up processes through their inclusion in a dashboard and are monitored by the control units (risk management, compliance and internal audit), which check all the actions taken to improve the internal controls. The findings of the monitoring process are assembled once a quarter and communicated regularly to the internal bodies to provide a complete picture of the main critical issues the group is exposed to and the status of the remedial actions taken or to be implemented, and then sent to Bank of Italy.

The Operational Risk **Management** phase aims to continuously evaluate risk control and reduction strategies, deciding, based on the nature and extent of the risk, whether to take it, implement mitigation policies or transfer it to third parties, in relation to the risk propensity expressed by the company's top management. The decision-making process of choosing the most appropriate and cost-effective ways to manage risk is based on a rational, conscious, targeted and objective cost / benefit analysis.

A fundamental operational risk mitigation tool is the business continuity and disaster recovery plan, which is revised annually as required by the supervisory instructions about internal controls. Bank of Italy extended the concept of business continuity to all critical "business processes", not just the technological component but all the factors (human resources, logistics, essential services, etc.) that assist the mitigation of operational risks in new crisis situations.

Business continuity includes all those measures designed to reduce to an acceptable level the damage caused by accidents or catastrophes that could directly or indirectly affect the bank while the disaster recovery plan sets out the technical and organisational methods to resolve events that cause the unavailability of data processing centres. It is designed to ensure that the important IT procedures can continue to be performed at alternative sites.

Finally, a further mitigation tool, in particular with regard to unexpected risks, consists of insurance coverage, that the Nexi Group uses for certain areas of risk that are inherent to the business and to cases (typically low frequency and high impact) that are not effectively mitigated with the sole prevention of operational line controls.

## Part F - Equity

### SECTION 1 - Consolidated equity

#### B. QUANTITATIVE DISCLOSURE

##### B.1 EQUITY: BREAKDOWN BY TYPE OF ENTITY

CAPTIONS/AMOUNTS	BANKING GROUP	INSURANCE COMPANIES	OTHER COMPANIES	ELIMINATIONS AND CONSOLIDATION ADJUSTMENTS	TOTAL
Share capital	44,211				44,211
Share premium	148,314				148,314
Reserves					
- income-related	1,683,188				1,683,188
a) legal					-
b) statutory					-
c) treasury shares					-
d) other	10,848				10,848
- other					-
Equity instruments					-
(Treasury shares)	-32				-32
Valuation reserves	90,828				90,828
- Available-for-sale financial assets	45,827				45,827
- Property, equipment and investment property					-
- Intangible assets					-
- Hedges of investments in foreign operations					-
- Cash flow hedges					-
- Exchange rate gains (losses)					-
- Non-current assets held for sale					-
- Net actuarial losses on defined benefit pension plans	-1,221				-1,221
- Share of valuation reserves of equity-accounted investees					-
- Special revaluation laws	46,222				46,222
Group profit (loss) for the year and NCI	78,466				78,466
<b>Equity</b>	<b>2,055,823</b>				<b>2,055,823</b>

## B.2 FAIR VALUE RESERVES (AFS FINANCIAL ASSETS): BREAKDOWN

ASSETS/AMOUNTS	BANKING GROUP		INSURANCE COMPANIES		OTHER COMPANIES		ELIMINATIONS AND CONSOLIDATION ADJUSTMENTS		TOTAL	
	FAIR VALUE GAINS	FAIR VALUE LOSSES	FAIR VALUE GAINS	FAIR VALUE LOSSES	FAIR VALUE GAINS	FAIR VALUE LOSSES	FAIR VALUE GAINS	FAIR VALUE LOSSES	FAIR VALUE GAINS	FAIR VALUE LOSSES
1. Debt instruments	14,107	-189							14,107	-189
2. Equity instruments	31,476								31,476	-
3. OEIC units	433								433	-
4. Financing									-	-
<b>31.12.2017</b>	<b>46,016</b>	<b>-189</b>							<b>46,016</b>	<b>-189</b>
<b>31.12.2016</b>	<b>22,770</b>								<b>20,770</b>	

## B.3 FAIR VALUE RESERVES (AFS FINANCIAL ASSETS): CHANGES

	DEBT INSTRUMENTS	EQUITY INSTRUMENTS	OEIC UNITS	FINANCING
<b>1. Opening balance</b>	<b>17,702</b>	<b>3,178</b>		-
<b>2. Increases</b>				
2.1 Fair value gains	-	-	433	
2.2 Reclassification of fair value losses to profit or loss:	-	-	-	
due to impairment	-	-	-	
on sale	-	-	-	
2.3 Other increases	-	28,298	-	
<b>3. Decreases</b>				
3.1 Fair value losses				
3.2 Impairment losses	-	-	-	
3.3 Reclassification of fair value gains to profit or loss: on sale	-	-	-	
3.4 Other decreases	3,784	-	-	
<b>4. Closing balance</b>	<b>13,918</b>	<b>31,476</b>	<b>433</b>	

## B.4 ACTUARIAL RESERVES: CHANGES

The actuarial reserve solely refers to the Italian post-employment benefits vested before 1 January 2006. As there are no plan assets, the reserve only includes the actuarial gains or losses on the liability, which changed as follows:

	ACTUARIAL RESERVE			INCLUDING ATTRIBUTABLE TO THE OWNERS OF THE PARENT
	GROSS ACTUARIAL LOSSES	INCOME TAXES	TOTAL	
<b>Opening balance</b>	<b>-1,636</b>	<b>450</b>	<b>-1,186</b>	<b>-1,195</b>
Actual gains				
Actuarial losses	-51	16	-35	-46
<b>Closing balance</b>	<b>-1,687</b>	<b>465</b>	<b>-1,221</b>	<b>-1,241</b>

## Part G - Business combinations regarding companies or divisions

### SECTION 1 - Transactions achieved during the year

#### **Acquisition of Bassilichi Group**

On 3 July 2017 there has been the closing of the transaction related to the acquisition of 98,2% of Bassilichi S.p.A. by Nexi S.p.A.. Following this transaction Nexi S.p.A. has obtained the control of the Bassilichi Group.

As the transaction meets the definition of a business combination, it has been accounted for in accordance with IFRS 3: Business Combinations. This standard defines a business combination as "*a transaction or other event in which an acquirer obtains control of one or more businesses*", and provides for the consolidation of the assets, liabilities and contingent liabilities of the acquired company at their fair value at the acquisition date, including any identifiable intangible assets not recognized in the acquired company's balance sheet, and the assessment of goodwill as the difference between the aggregation cost and the fair value net of assets, liabilities and identified contingent liabilities. This Purchase Price allocation process has to be performed during the "measurement period" that cannot be longer than one year from the date of acquisition.

At the year end the purchase price allocation process has been completed and the goodwill arising from this business combination amount to € 138.0 million.

After the business combination of Bassilichi Group, Nexi S.p.A. has acquired the minorities in Bassilichi S.p.A. and the minorities of Consorzio Triveneto (subsidiary of Bassilichi S.p.A.). As a result of these transaction, Nexi Group holds 100% of Bassilichi S.p.A. and 100% of Consorzio Triveneto. These transactions, that result in change in ownership interest while retaining control, based on IFRS 10, have to be accounted for as transactions with equity holders in their capacity as equity holders. As a result no change in the carrying amounts of assets (including goodwill) or liability has been recognized and the goodwill relate to the minority interest acquired, amounting to Euro 7 million, has been recognized in equity.

#### **Acquisition of MPS and DB business units**

On May 31st 2017 Nexi Payments S.p.A. completed the acquisition of Deutsche Bank AG Cards Acquiring business and on June 30th 2017 Banca Monte dei Paschi di Siena S.p.A. Acquiring Services ("MPS and DB acquiring businesses").

The two acquisitions of MPS and DB acquiring businesses are very similar in their nature. Substantially, Nexi Payments purchased relationships with merchants as direct customers, both in acquiring and in POS terminals servicing, earning the power to take relevant decisions, in terms of pricing and eventual closure of relationship.

As the transactions meet the definition of a business combination, they have been accounted for in accordance with IFRS 3: Business Combinations as above described.

At the year end the purchase price allocation process has not been completed and it will be completed between 2018 half year.

The goodwill arising from these business combinations amounts to Euro 558.5 million.

## Other information

As requested by IFRS 3, we report below, for the above described 2017 business combinations, pro-forma figures of revenue and costs as if the transactions would have been made at the begin of 2017:

## OTHER INFORMATION

DESCRIPTION (€'000)	NEXI GROUP 2017 WITHOUT THE CONTRIBUTION OF NEW BUSINESS (MPS/DB BOOKS/ BASSILICHI)	MPS AND DB BOOKS H2 2017	BASSILICHI H2 2017	NEXI GROUP 2017	MPS AND DB HI 2017 PROFORMA	BASSILICHI H1 2017 PROFORMA	NEXI PAYMENTS PROFORMA 2017
<b>Operating revenue</b>	<b>734,345</b>	<b>44,702</b>	<b>76,898</b>	<b>855,945</b>	<b>36,821</b>	<b>57,100</b>	<b>949,866</b>
<b>Operating costs (net of DA)</b>	<b>-464,961</b>	<b>-18,426</b>	<b>-68,615</b>	<b>-552,001</b>	<b>-14,159</b>	<b>-55,416</b>	<b>-621,577</b>
<b>Operating Profit</b>	<b>269,384</b>	<b>26,277</b>	<b>8,283</b>	<b>303,944</b>	<b>22,662</b>	<b>1,684</b>	<b>328,290</b>
Depreciation and amortization	-60,277	-588	-6,959	-67,824	-200	-12,822	-80,846
Share of gains/losses of investees	22,065	-	2,307	24,372	-	-2,559	21,813
Non recurring/ extraordinary items	-154,420	-	-2,752	-157,172	-	4,702	-152,470
<b>Pre-tax profit</b>	<b>76,753</b>	<b>25,689</b>	<b>879</b>	<b>103,320</b>	<b>22,461</b>	<b>-8,995</b>	<b>116,787</b>
Income taxes	-14,860	-8,502	-1,492	-24,855	-7,434	-6,270	-38,559
<b>Net profit</b>	<b>61,892</b>	<b>17,187</b>	<b>-614</b>	<b>78,466</b>	<b>15,027</b>	<b>-15,265</b>	<b>78,228</b>

## SECTION 2 - Business combinations after the reporting period

The Group did not carry out any business combinations in the first few months of 2018.

## SECTION 3 - Retrospective adjustments

Not applicable.

## Part H - Related party transactions

### 1. Fees of key management personnel

The fees paid by the Nexi to its directors and key management personnel as defined in part 2, are set out below.

**31.12.2017**

Directors	<b>1,619</b>
Other key management personnel and members of supervisory committees	12,520
<b>Total</b>	<b>14,139</b>

### 2. Related party transactions

The aim of IAS 24 (Related party transactions) is to ensure that an entity's financial statements include the additional disclosures necessary to understand whether its financial position and performance may be altered by related party transactions and balances.

Based on this standard, applied to its organisational and governance structure, Nexi Group identified the following related parties:

- a) parties that controls Nexi Group, directly or indirectly, also through subsidiaries, trustees or through a third party, even jointly or possesses an interest in Nexi which enables it to exercise significant influence;
- b) entities that are controlled or jointly controlled by the above indicated parties;
- c) entities that are controlled or jointly controlled or under the significant influence of Nexi;
- d) Key Managers of Nexi Group or its parent and entities in which they exercises control, joint control or significant influence;
- e) is a close relative of a natural person included in letters a) or d) above;
- f) is a collective or individual Italian or foreign supplementary pension fund established for the employees of Nexi Group or of any other entity related.

The effects of transactions carried out with the related parties identified above are summarised in the following table.

<b>FINANCIAL STATEMENTS CAPTION</b>	<b>RELATED PARTY TRANSACTIONS</b>		
	<b>TOTAL</b>	<b>OTHER RELATED PARTIES</b>	<b>(€'000) DIRECTORS, MANAGERS AND MEMBERS OF SUPERVISORY BODIES</b>
60. Loans and receivables with banks	835,116		
70. Loans and receivables with customers	2,910,913		-
120. Property, equipment and investment property	217,658	921	
130. Intangible assets	1,889,309	90	
160. Other assets	648,390		-
10. Due to banks	1,692,051		
20. Due to customers	7,789,484	625,705	203
100. Other liabilities	919,308	793	
10. Interest and similar income	72,732	160	
20. Interest and similar expense	33,718		
40. Fee and commission income	1,078,507		
50. Fee and commission expense	592,824		
180. Administrative expenses	757,582	10,141	14,139
220. Other operating income, net	377,574	85	

Centralised transactions with Nexi group companies are usually governed by specific agreements that, while aiming at optimising synergies, economies of scale and purpose and to use centers of excellence, make reference to objective parameters that are constant over time, characterised by transparency and substantial fairness. Transfer pricing is defined and formalised based on parameters that account for the actual use of the service by each end user.

Other transactions with related parties that are part of the bank's normal business operations, are usually take part at market conditions.

## Part I - Share-based payments

None.

## Part L - Segment reporting

Segment reporting complies with IFRS 8, which did not lead to substantial changes in the identification of the operating segments and reporting to management when introduced, compared to the previous requirements of IAS 14.

Segment reporting is consistent with the group's organisational, in line with its business plan and as required by its regulation.

Reporting by geographical segments is not included as the group operates only in Italy and the breakdown of assets, liabilities, revenue and costs by geographical segment was meaningless.

Reporting by business segment includes, in order of importance, the segments that may be identified within the group's organisation and specifically:

### E-money

It comprises Nexi and Help Line and its integrated activities are as follows:

- financial and operating services relating to the issue and acceptance of payment cards and related management services;
- payment card terminal management (POS and ATM).

### Payments

It comprises an operating division of the parent, which carries out the following integrated activities:

- banking payment services and related back-office services for banks, companies and bodies;
- interbank payment systems for companies and bodies and related management services and e-banking;
- IT and computer-based services relating to payment systems.

### Securities services

It comprises an operating division of the parent, which carries out the following integrated activities:

- securities custody and administration services;
- fund services;
- investment and investment-related services for qualified parties and professional customers.

### Application outsourcing and innovative services

It comprises Oasi, which carries out the following integrated activities:

- IT systems for supervisory reporting and management systems;
- anti-money laundering, safety and internal control systems;
- development and provision of training courses.

### Other group activities

This segment manages the activities that are not carried out by the parent's business units. Specifically:

- credit and financial activities for the relevant business segments;
- property management;
- equity investment management;
- group management and coordination;
- other activities of the consolidated companies.

**A.1 Breakdown by business segment: income statement**

The results of operations for 2017 of each of the above business segments are set out below.

**NEXI GROUP: SEGMENT REPORTING**

YTD Dec, 31 (€/000)	E-MONEY	PAYMENTS	SECURITIES SERVICES	APPLICATION OUTSOURCING	BASSILICHI	OTHER GROUP ACTIVITIES	CONSOLIDATION ADJUSTMENT	CONSOLIDATED FINANCIAL STATEMENTS
<b>Net fee and commission income</b>								
income	560,518	89,409	60,797	27,527	92,901	1,286	- 20,735	811,702
Net interest income	- 12,420	2,409	8,348	- 6	- 1,174	41,481	219	38,857
Net trading/hedging income	- 553	-	2,070	-	-	3,230	-	4,748
Dividends from equity investments and AFS	248	-	-	-	24	366	-	639
<b>Operating revenue</b>	<b>547,794</b>	<b>91,818</b>	<b>71,215</b>	<b>27,521</b>	<b>91,751</b>	<b>46,362</b>	<b>- 20,517</b>	<b>855,945</b>
Payroll and related costs	- 59,851	- 13,151	- 17,485	- 7,502	- 21,721	- 52,141	5	- 171,846
Production costs	- 89,046	- 10,393	- 4,481	- 3,478	- 19,926	- 413	16,541	- 111,196
ICT costs	- 125,322	- 26,338	- 18,997	- 4,802	- 35,000	- 10,011	2,328	- 218,140
General expenses	- 40,375	- 2,535	- 726	- 2,008	- 6,821	- 19,907	24,202	- 48,170
<b>Administrative expenses</b>	<b>- 314,595</b>	<b>- 52,417</b>	<b>- 41,688</b>	<b>- 17,790</b>	<b>- 83,468</b>	<b>- 82,471</b>	<b>43,077</b>	<b>- 549,352</b>
Other net operating expenses/income	4,878	- 8,912	- 10,091	- 22	-	41,828	- 22,635	5,046
Net accruals for risks and charges	- 7,302	359	- 631	- 167	-	46	-	- 7,696
<b>Operating costs (net of DA)</b>	<b>- 317,019</b>	<b>- 60,970</b>	<b>- 52,410</b>	<b>- 17,979</b>	<b>- 83,468</b>	<b>- 40,597</b>	<b>20,442</b>	<b>- 552,001</b>
<b>EBITDA</b>	<b>230,776</b>	<b>30,848</b>	<b>18,804</b>	<b>9,542</b>	<b>8,283</b>	<b>5,765</b>	<b>- 75</b>	<b>303,944</b>
Depreciation and amortization	- 35,750	- 2,975	- 2,824	- 5,501	- 6,959	- 3,239	- 53	- 57,301
<b>Operating profit</b>	<b>195,026</b>	<b>27,874</b>	<b>15,981</b>	<b>4,041</b>	<b>1,325</b>	<b>2,526</b>	<b>- 128</b>	<b>246,643</b>
Depr.&Amort. (customer contract)								- 10,523
Share of gains/losses of investees								24,372
Non recurring/extraordinary items								- 157,172
<b>Pre-tax profit</b>								<b>103,320</b>
Income taxes								- 24,855
Profit to non-controlling interests								626
<b>Net profit</b>								<b>79,092</b>

Net interest income (expense) is the business segments' contribution to the group's net interest income resulting from the sum of realised interest income and expense recognised in the accounting system and unrealised interest calculated as part of the planning and control system, using the cash-pooling method based on internal transfer rates.

A breakdown of operating revenue arising from transactions with third party customers and other business segments of the same entity by operating segment is set out below for better disclosure purposes.

**2017 INTERIM CONSOLIDATED FINANCIAL STATEMENTS: OPERATING REVENUE**

YTD Dec, 31 (€/000)	E-MONEY	PAYMENTS	SECURITIES SERVICES	APPLICATION OUTSOURCING	BASSILICHI	OTHER GROUP ACTIVITIES	GROUP TOTAL
<b>E-money</b>							
		3,318	-	940	14,853	21,355	40,466
Payments		- 1,897	-	-	-	-	- 1,897
Securities Services		-	-	653	-	-	653
Application Outsourcing		125	51	-	-	315	491
Bassilichi		118	-	-	-	338	456
Other group activities		- 20,337	-	-	1,023	- 338	- 19,652
<b>Operating revenue - other</b>	<b>- 21,991</b>	<b>3,368</b>	<b>-</b>	<b>2,616</b>	<b>14,515</b>	<b>22,008</b>	<b>20,517</b>
Third party customers	569,785	88,450	71,215	24,904	77,236	24,354	855,945
<b>Total operating revenue</b>	<b>547,794</b>	<b>91,818</b>	<b>71,215</b>	<b>27,521</b>	<b>91,751</b>	<b>46,362</b>	<b>876,462</b>

## **Reconciliation between the management accounts and the consolidated financial statements**

Segment reporting is consistent with the group planning and control system's principles and operating procedures defined by the central planning and control (P&C) department and approved by group management, whose aim is to ensure consistent management reporting among the various group operations and structures.

This system is based on the general criteria of tracing management data and reports to the general accounting records. Considering the characteristics of the parent, which is required to prepare consolidated financial statements, the group's management account income statement is presented with the general classification used in the financial statements of banking groups.

In order to improve management reporting of the group's operations and performance, as an exception to the above-mentioned general criteria of tracing management figures to those of the separate and consolidated financial statements, the P&C system sets out certain grouping rules for data that are dissimilar from those of the general accounts. The main differences in data grouping relate to the following:

- income classified in Other operating income/expense (caption 220 of the consolidated financial statements), relating to the provision of services (non-banking/financial) that are part of the operating segments' core business, is presented under Net fee and commission income and revenue from services in the management accounts;
- expense classified in Other operating income/expense (caption 220 of the consolidated financial statements), relating to royalties and/or selling costs, is presented under Net fee and commission income and revenue from services in the management accounts;
- income classified in Other operating income/expense (caption 220 of the consolidated financial statements), relating to the recovery of expenses, is presented in the caption to which the expense refers in the management accounts;
- income classified in Fee and commission income (caption 40 of the consolidated financial statements), relating to items subject to IFRIC 13, which establishes the accounting treatment to be applied by entities that grant awards under customer loyalty programmes relating to the purchase of goods or services and requires that the consideration for the obligation arising from granting the award be separated from sales revenue and deferred up to when the obligation with the customers is settled, is presented under Production costs in the management accounts;
- gains and losses relating to impairment losses/reversals of impairment losses on the equity portion of the AFS and HTM portfolios and classified in Net impairment losses (captions 130b and 130c of the consolidated financial statements) are presented under Gains (losses) on equity investments and AFS financial assets in the management accounts;
- profits relating to the bond portion of the AFS portfolio and classified in Profit (loss) on sale or repurchase of AFS financial assets (caption 100b of the consolidated financial statements) are presented under Profit on securities and exchange rate gains in the management accounts;
- income and expense relating to prior year items, classified in the caption that generated them in the financial statements of banks and financial companies, are presented under Other operating income (expense) in the management accounts;
- dividends collected on equity instruments included in the trading portfolio, classified in Dividends and similar income (caption 70 of the consolidated financial statements), are presented under Profits on securities and exchange rate gains in the management accounts;
- fees paid to directors and statutory auditors, classified in Personnel expense (caption 180a of the consolidated financial statements), are presented under General expenses in the management accounts; -
- gains and losses relating to interest rate hedging derivatives are presented under Net interest income (expense) in the management accounts even when they do not formally meet the requirements for recognition as such and are, therefore, classified in Net trading income (expense) in the consolidated financial statements (caption 80);
- accruals relating to the remuneration of employees, classified in Net accruals to provisions for risks and charges (caption 190 of the Consolidated financial statements), are presented under Personnel expense in the management accounts;
- consolidation entries relating to dividends distributed by non-group companies that are accounted for using the equity method, classified in Dividends and similar income (caption 70 of the consolidated financial statements), are presented under Gains (losses) on equity investments and AFS financial assets in the management accounts;
- income and expense that, based on supporting evidence, relate to extraordinary and/or non-recurring events for the Nexi Group are presented under Other items in the management accounts, even if they are classified in other captions in the general accounting system;
- other administrative expenses (caption 180b of the consolidated financial statements) are classified as expenses relating to the production of offered services, ITC service costs or general expenses and presented in the related caption of the management accounts, in order that the group companies present operating costs consistently.

The group's income statement included in the management accounts is set out below, with a reconciliation of its captions to those of the consolidated financial statements:

## 2017 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MANAGERIAL INCOME STATEMENT CAPTION (YTD Dec. 31 (€/000)	MANAGEMENT ACCOUNTS	RECONCILIATION (CONS. F/S- MNGMT. ACCOUNTS)	FINANCIAL STATEMENTS	CONS. FINANCIAL STATEMENTS CAPTION
Net fee and commission income	811,702	- 326,019	485,683	60
Net interest income	38,857	157	39,014	30
Net trading/hedging income	4,748	16	4,763	80-90
Dividends from equity investments and AFS	639	855	1,494	70
<b>Operating revenue</b>	<b>855,945</b>	<b>- 324,991</b>	<b>530,954</b>	<b>sum</b>
Payroll and related costs	- 171,846	- 90,003	- 261,849	180a
Other administrative expenses	- 377,506	- 118,227	- 495,733	180b
<b>Administrative expenses</b>	<b>- 549,352</b>	<b>- 208,230</b>	<b>- 757,582</b>	<b>sum</b>
Other net operating expenses/income	5,046	372,528	377,574	220
Net accruals for risks and charges	- 7,696	3,523	- 4,173	130-190
<b>Operating costs (net of depreciation and amortization)</b>	<b>- 552,001</b>	<b>167,820</b>	<b>- 384,181</b>	<b>sum</b>
<b>EBITDA</b>	<b>303,944</b>	<b>- 157,171</b>	<b>146,773</b>	<b>sum</b>
Depreciation and amortization	- 57,301	- 10,523	- 67,824	200-210
<b>Operating profit</b>	<b>246,643</b>	<b>- 99,870</b>	<b>146,773</b>	<b>sum</b>
Amortization customer contract	- 10,523	10,523	-	other item
Share of gains/losses of investees	24,372	-	24,372	100-240-270
Non recurring/extraordinary items	- 157,172	157,172	-	other item
<b>Pre-tax profit</b>	<b>103,320</b>	<b>-</b>	<b>103,321</b>	<b>sum</b>
Income taxes	- 24,855	-	- 24,855	290
Profit to non-controlling interests	626	-	626	330
<b>Net profit</b>	<b>79,092</b>	<b>-</b>	<b>79,092</b>	<b>sum</b>

## A.2 BREAKDOWN BY BUSINESS SEGMENT: STATEMENT OF FINANCIAL POSITION

(€'000)	E-MONEY		PAYMENTS		APPLICATION OUTSOURCING		SECURITIES SERVICES		OTHER GROUP ACTIVITIES		CONSOLIDATION ADJUSTMENTS		CONSOLIDATED FINANCIAL STATEMENTS	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Assets</b>														
Loans and receivables with banks	98,727	11,523	-	-	1,122	408	136,245	231,753	658,950	507,624	- 59,928	- 3,632	835,116	747,676
Loans and receivables with customers	2,541,292	2,385,135	3,509	26,132	-	-	143,642	164,114	1,945,316	1,389,901	1,722,846	- 1,120,752	2,910,913	2,844,529
Financial assets	83,244	47,583	-	-	-	-	16,268	11,445	2,633,369	3,328,010	-	-	2,732,881	3,387,038
Equity investments	1,890	-	-	-	-	-	1,250	1,250	1,793,451	1,626,362	- 1,784,488	- 1,617,507	12,102	10,105

(€'000)	E-MONEY		PAYMENTS		APPLICATION OUTSOURCING		SECURITIES SERVICES		OTHER GROUP ACTIVITIES		CONSOLIDATION ADJUSTMENTS		CONSOLIDATED FINANCIAL STATEMENTS	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Liabilities</b>														
Due to banks	2,320,980	1,587,659	-	-	-	-	89,343	70,559	1,004,573	1,029,648	- 1,722,846	- 1,120,752	1,692,051	1,567,114
Due to customers	43,549	30,850	798,619	826,258	-	-	6,276,852	5,348,106	729,906	53,759	- 59,442	- 3,632	7,789,484	6,255,341



# REPORT OF THE AUDITING COMPANY

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**2017**



(Translation from the Italian original which remains the definitive version)

**Independent auditors' report pursuant to article 14 of  
Legislative decree no. 39 of 27 January 2010 and article 10  
of Regulation (EU) no. 537 of 16 April 2014**

*To the shareholders of  
Nexi S.p.A.*

**Report on the audit of the consolidated financial statements**

***Opinion***

We have audited the consolidated financial statements of the Nexi Group (the "Group"), which comprise the statement of financial position as at 31 December 2017, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Nexi Group as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15.

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the consolidated financial statements*" section of our report. We are independent of Nexi S.p.A. (the "Company") in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Key audit matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial

statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Classification and measurement of financial assets at fair value**

*Notes to the consolidated financial statements - "Part A - Accounting policies": paragraphs A.2.1 "Financial assets held for trading", and A.2.2 "Available-for-sale financial assets" and section A.4 "Fair value disclosure"*

*Notes to the consolidated financial statements - "Part B - Notes to the statement of financial position - Assets": sections 2 "Financial assets held for trading" and 4 "Available-for-sale financial assets"*

*Notes to the consolidated financial statements - "Part C - Notes to the income statement": sections 4 "Net trading income" and 8 "Net impairment losses"*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>The consolidated financial statements at 31 December 2017 include financial assets of €2,732 million.</p> <p>These financial assets comprise assets measured at fair value of €210 million for which there is no quoted price on an active market and which the directors have classified at level 2 of the fair value hierarchy.</p> <p>Classifying and measuring fair value level 2 financial instruments is a complex process that entails a high level of judgement.</p> <p>For the above reasons, we believe that the classification and measurement of financial assets at fair value are a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— understanding the Group's processes for the acquisition, sale, classification and measurement of financial instruments;</li> <li>— sample-based test of the classification of financial instruments in the appropriate fair value level;</li> <li>— analysing the reasonableness of the parameters used by the directors to measure them; we carried out these procedures with the assistance of experts of the KPMG network;</li> <li>— analysing the significant changes in the financial instruments' portfolio mix compared to the previous year and discussing the results with the relevant internal departments;</li> <li>— assessing the appropriateness of the disclosures on financial instruments and the related fair value levels.</li> </ul>

**Recoverability of goodwill**

*Notes to the consolidated financial statements - "Part A - Accounting policies": paragraphs A.2.9 "Intangible assets" and A.2.18 "Other information"*

*Notes to the consolidated financial statements - "Part B - Notes to the statement of financial position - Assets": section 13 "Intangible assets"*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>The consolidated financial statements at 31 December 2017 include goodwill of €1,761 million.</p> <p>The Company's directors calculated the recoverable amount of goodwill as the higher of its fair value less costs of disposal and value in use. They estimated its value in use applying the dividend discount model (excess capital version) based on the Group's 2017-2021 business plan approved by the Company's board of directors on 9 February 2017 and considering its subsequent amendments approved by the board of directors on 18 January 2018, changes in the reference scope and the 2018 budget.</p> <p>The fair value has been measured using the market multiples method, using the median value of a sample of comparables.</p> <p>These methods are very complex and use valuation methods that require estimates, which, by their very nature, are uncertain and subjective, of the calculation of the expected cash flows and the other parameters, including the discount rate.</p> <p>For the above reasons, we believe that the recoverability of goodwill is a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— understanding the process adopted to prepare the impairment test;</li> <li>— checking the accuracy of the data used to estimate the recoverable amount by comparing them to the figures of the 2017-2021 business plan approved by the Company's board of directors on 9 February 2017 and considering its subsequent amendments approved by the board of directors, changes in the reference scope and the 2018 budget;</li> <li>— checking the reasonableness of the model adopted for impairment testing and the related assumptions, including by means of comparison with external data and information; we carried out these procedures with the assistance of experts of the KPMG network;</li> <li>— assessing the appropriateness of the disclosures about goodwill and the related impairment test.</li> </ul>

***Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Nexi S.p.A. for the consolidated financial statements***

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the consolidated financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Group's financial reporting process.

### **Auditors' responsibilities for the audit of the consolidated financial statements**

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

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and



timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

#### ***Other information required by article 10 of Regulation (EU) no. 537/14***

On 7 May 2010, the shareholders of Nexi S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2010 to 31 December 2018.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

### **Report on other legal and regulatory requirements**

#### ***Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10***

The directors of Nexi S.p.A. are responsible for the preparation of the Group's directors' report at 31 December 2017 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the Group's consolidated financial statements at 31 December 2017 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the consolidated financial statements of the Nexi Group at 31 December 2017 and has been prepared in compliance with the applicable law.



**Nexi Group**  
Independent auditors' report  
31 December 2017

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 6 April 2018

KPMG S.p.A.

(signed on the original)

Roberto Fabbri  
Director of Audit



# NON-FINANCIAL CONSOLIDATED STATEMENT

Prepared in accordance with Legislative Decree  
n. 254 of 2016

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**2017**



# CONTENT

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# Methodological note



## Reporting standards

The Statement of the consolidated non-financial statement of the Nexi Group (hereinafter also "Statement"), prepared in accordance with Article 4 of Legislative Decree no.254 / 2016 (hereinafter also "Decree"), contains information on environmental issues, social, personnel, respect for human rights and the fight against corruption, useful to provide stakeholders with accurate, comprehensive and transparent activities of the Nexi Group (hereinafter also "Group" and "Nexi"), its performance, results achieved and impacts produced confirming the commitment of a Group able to grow and create value while respecting the expectations of its stakeholders, thanks to an improvement in terms of sustainability.

The present 2017 Non-Financial Consolidated Statement, which will be published on an annual basis, is prepared according to the GRI Standards (core in accordance option), the standard used as a reference, published in 2016 by the Global Reporting Initiative, which today is the most widespread standard and internationally recognized on non-financial reporting. In order to facilitate the reader in finding information within the document on pages 217-219, the GRI Content Index is shown.

The information included in the non-financial reporting reflects the principle of materiality or relevance, an element provided for by the relevant legislation and characterizing the GRI Standards: the topics dealt with in the Statement are those that, following an analysis and evaluation of materiality, described on pages page 176 of this document, have been considered relevant, as they are able to reflect the social and environmental impacts of the Group's activities or to influence the decisions of its stakeholders.

## Scope and reporting procedure

The qualitative and quantitative data and information contained in the Nexi Group non-financial consolidated statement refer to the performance of the Nexi Group (hereinafter also "Group" and "Nexi") for the year ended 31 December 2017 provided for by Legislative Decree 254/2016, art. 4, this non-financial consolidated statement includes the data of the parent company (Nexi S.p.A.) and its wholly owned subsidiaries (Nexi Payments S.p.A., Help Line S.p.A., Oasi S.p.A.). It is not included in the scope of Bassilichi S.p.A., whose acquisition closing was finalized on 3 July 2017, making it impossible to collect non-financial information as of 31 December 2017 for inclusion in the non-financial consolidated statement. Furthermore, as provided for by the Decree, only a summary and qualitative comparison with previous years was provided during the first application of the law.

## Reporting process

The preparation of the non-financial consolidated statement of the Nexi Group for 2017 was based on a structured reporting process that included:

- the involvement of all the company units/Departments responsible for the relevant areas and the related data and information subject to the Group's non-financial reporting. They have been asked to contribute to the identification and evaluation of the material issues, the significant projects/initiatives to be described in the document and in the data collection, analysis and consolidation phase, with the role of verifying and validating all the information contained in the Statement, each for their own area of competence. In particular, the data and information included in this Statement derive from a non-financial reporting system (data collection forms) specially implemented to meet the requirements of Legislative Decree

254/2016 and the GRI Standards. The data was processed by means of precise extractions and calculations and, where specifically indicated, by estimates;

- The approval of the Statement by the Board of Directors, convened on 21 March 2018, for the approval of the 2017 Financial Statements;

- The issue of an opinion of conformity on the Statement by KPMG S.p.A. in the form of a limited assurance;
- The publication of the Statement on the corporate website in the Report on Operations so as to be transparent to all stakeholders.

## REPORTING PRINCIPLES

**The reporting included in the Nexi Group non-financial consolidated Statement for 2017 was based on the following principles:**

**IMPORTANCE**

The Statement describes the main economic, social and environmental impacts directly related to Nexi's activities, which are of greater significance both for the Group and for internal and external stakeholders engaged in company activities.

**INCLUSIVITY**

The Statement takes into account the expectations and interests of all the subjects that in various ways contribute or are influenced by the company activities. The Statement provides a description of the Group's main stakeholders and the main documentary sources / channels of dialogue through which their interests and expectations are identified.

**SUSTAINABILITY CONTEXT**

The reporting of non-financial results was carried out taking into consideration the socio-economic context in which the Group operates and the issues of greatest importance for the relevant sector, also through the analysis of sustainability disclosure of national and international groups of the reference sector.

**COMPLETENESS**

The choices made regarding the issues reported and the scope of the Statement allow the stakeholders to formulate a complete assessment of the Group's main economic, social and environmental impacts.

**BALANCE BETWEEN POSITIVE AND NEGATIVE ASPECTS**

The Statement presents the Group's main sustainability performance reporting in a transparent manner both aspects in which Nexi shows positive results and trends, and areas in which margins of further improvement are noted.

**COMPARABILITY**

The indicators included in the Statement are chosen and structured in such a way as to allow for the comparability over time of the Group's performance.

**ACCURACY**

To guarantee the accuracy and homogeneity of the information reported, data reporting was used through direct surveys, limiting the use of estimates as much as possible. If necessary, these are appropriately reported within the text and are based on the best calculation methods currently available.

**PROMPTNESS**

The Statement is prepared annually and made public during the same period of presentation of the Consolidated Financial Statements.

**RELIABILITY**

All data and information shown have been validated by the heads of the pertinent company functions and are elaborated on documentary evidence able to prove its existence, completeness and accuracy.

**CLARITY**

The Statement contains information presented in an understandable and accessible manner to all stakeholders.

# Nexi identity and key activities



## Corporate identity

The Nexi Group is a leader in Italy in many business sectors ranging from Issuing, Merchant Services, ATM Management, Interbank Corporate Banking and Clearing & Settlement.

The Group offers services and infrastructures for the best-in-class digital payment to support Banks, Financial and Insurance Institutions, Commercial Businesses, Companies and Public Administration. In particular, the Nexi offering plays an important role in cards, payment acceptance technologies, money transfers between companies and individuals, and the management of highly complex evolved services, such as those of Corporate Banking and Securities Services.

Nexi works alongside its partner banks every day to create value together, helping them in developing their client base with dedicated Custo-

mer Value Management initiatives, and offering an increasingly complete and simple payment experience, close to the client and in step with the evolution of the market, to bring innovation but also to spread digital payments in Italy as much as possible, which today is far below the European average. This commitment has contributed to making the Group a key player also in the world of investments, application and administrative outsourcing services and legal advice.

During last year, 150 Banks started to use its services in E-money, Corporate Banking, Merchant Services and ATMs; over 7 million customers have come into possession of a Nexi card; while even more companies use Nexi as a payment card for business-related expenses and Corporate Banking services. In Public Administration, about 1,500 Companies use the digital payment acceptance systems, designed by the Group to simplify access to their services to citizens.



## KPI NEXI GROUP

**27** mln of cards

**9,200** managed ATM

**733,000** affiliated point of sales in Italy

**2.9 billion**

of managed transactions,  
with a total value of  
126 billion Euro<sup>6</sup>

**122** billion Euro of Asset under Management

<sup>6</sup> In the value of transactions are not included the debit cards

## SERVICES PROVIDED



### Issuing

Produces debit, credit and prepaid cards, equipped with the most innovative technologies and the most advanced services, to offer customers a wide choice, great flexibility, total security, ease of use.



### Merchant Services

Proposes, through the partner Banks, a complete range of solutions and services to the commercial businesses, for the acceptance of every type of payment, with commercial proposals differentiated according to the target.



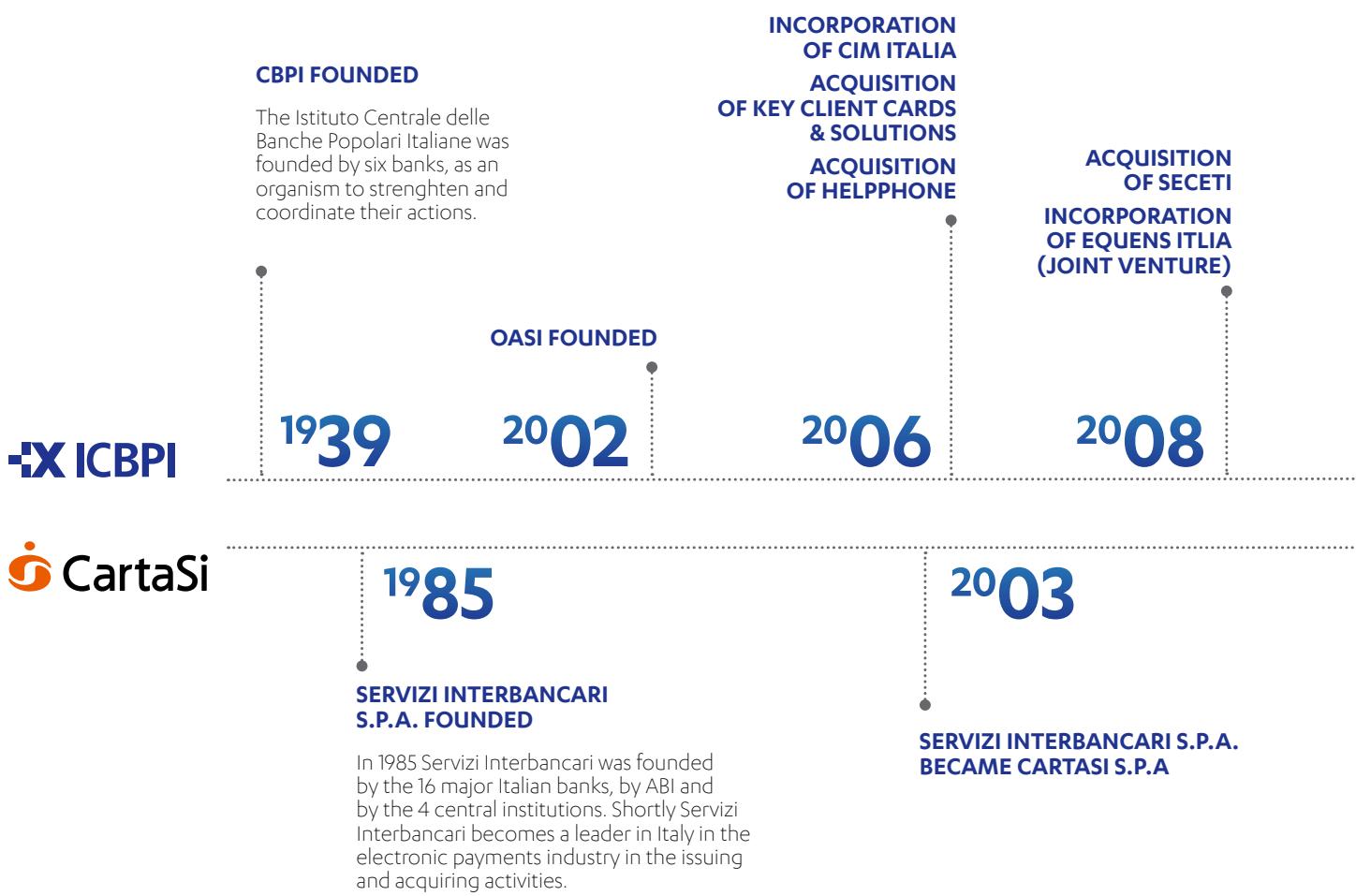
### Payment Services

Offers all types of payment services to Banks, payment institutions and ELMIs: from clearing and settlement services to the management of collections and payments with related back office activities, from real time IBAN based payments (Instant Payments) to intermediation and regulation services, up to the world of traditional payments and services for the digitization of Public Administration.

# The history of the Nexi Group

CartaSi and the ICBPI Group, that for over 70 years of history have been at the side of its partner banks to support the development of payment systems, were the protagonists of an important organizational transformation and a radical change of identity in 2017, which led to the creation of the Nexi Group.

**A change that aims to promote digital evolution and build the future of payments in Italy bringing simplicity, security and innovation for all.**



The decision on the name “Nexi” originates from an in-depth evaluation that required market research on all the main segments and important strategic reflections aimed at identifying the best name and the best identity that were in line with the new positioning of the company. At the end of these analyses, Nexi was chosen for its ability to convey the concepts of proximity to “next to you” clients and projection to the future and innovation with the release of products, services and solutions for digital payments “next generation payments”.





**Shape the future**

Nexi accompanies today's company towards the future of payments, investing in the best technologies and expertise. Thanks to its experience, Nexi offers the most innovative solutions, invests in the future of digital payments in Italy and their dissemination. To achieve this goal Nexi is always looking for new ideas, with a curious, passionate and enterprising attitude.

**Live for Customers**

The client's needs are always in first place for Nexi. The Group is committed to listening to the client and offering the solutions to needs, trying to anticipate needs to provide excellent service. Nexi "puts itself" in the customer's shoes and looks at things from the latter's perspective, welcoming feed-backs as fundamental inputs for continuous improvement.

# Vision, Mission and Values

## Vision

**Nexi believes that cash has been outdated by technology** and is convinced how people and businesses will pay and will collect only digitally, every day, for anything. **All this because it is simpler, safer and more efficient**, and above all because it brings growth and progress for everyone.

## Mission

**Nexi Group aims to change the way people and companies pay and collect every day**, to make all payments digital, so that they are simpler, faster and safer. **Nexi wants to become a company of excellence, Italian but with an international profile, always oriented towards innovation** and the customer, thanks to the commitment, skills and passion of its people, with the aim of being recognized as the champion of digital payments in Italy.

## Values

**In 2017, with the creation of the Nexi Group, an important rebranding activity was carried out with a strong corporate impact.** On the one hand, this project required the involvement of most of the company functions in defining the new identity, and on the other hand particular attention to increasing the perceived value also in the daily “experience” of the clients, with the commitment to be a company close to clients and always projected into the future. It is an important commitment on many fronts, which requires great investment, expertise and specialization, as explained in the new corporate values.

## Be reliable, always

Security comes first, and Nexi works every day to ensure an excellent level of service and security, seeking absolute quality. The Group undertakes to always respect the commitments made, it is direct and transparent, and assumes its responsibilities in all circumstances.

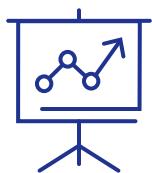
## Make it simple

Nexi is committed to making life easier for its clients by making the complexity of payments simple. To do this, the Group “makes the most of digital”, it communicates directly and immediately, quickly takes decisions and acts effectively.

## Build together

The success of the clients is the success of the Group, which is why it studies and experiments new solutions with the clients. Nexi acts as a partner building a common vision and taking advantage of the experience, ideas and skills that it possesses.

# Group relations system and identification of issues relevant to the Nexi business



Engagement of stakeholders represents an opportunity for Nexi to listen and communicate, essential to understand the level of satisfaction with their work. Through this process, Nexi identifies areas for improvement of the company's activities, in order to better develop relations with stakeholders.

In 2017, the Group started a process for identifying stakeholders, also aimed at identifying the issues relevant to the preparation of the non-financial consolidated statement, thanks to the involvement of the heads of the main corporate functions. In particular, the Group mapped its stakeholders, starting from those identified in

## STAKEHOLDERS' MAP



the Code of Ethics, selecting those that have significant interests, based on direct and indirect relationships, on which the effects of the Group's activities fall, or from which the Nexi business is directly affected or conditioned.

Nexi adopts diversified and flexible dialogue and involvement practices, in response to the different characteristics and needs of stakeholders. In particular, in 2017, no particular critical issues emerged from each activity, but useful points for improving the innovation processes of products, services, operating and management models.

### **THE NEXI GROUP AND THE MAIN NATIONAL TRADE ASSOCIATIONS**

**Within the relations system of the Nexi Group, membership of the main national associations of the banking and financial sector (including ABI, Conciliatore Bancario Finanziario, FITD, Assosim) also plays an important role. For the Group, participating in trade associations is an opportunity for dialogue, discussion and collaboration in order to build relationships that can have positive repercussions on the country's economic and social system.**

**The table below shows a detail of the national trade associations to which the Nexi Group is a member:**

**ABI -  
ITALIAN  
BANKING  
ASSOCIATION**

Association that operates by promoting initiatives for the growth of the banking and financial system, in a competitive perspective consistent with national and the European Union legislation.

**BANKING/  
FINANCIAL  
OMBUDSMAN  
(CONCILIATORE  
BANCARIO FINANZIARIO)**

Association offering various ways to address and resolve issues that may arise between a client and a bank or financial intermediary.

**FITD -  
INTERBANK  
DEPOSIT  
PROTECTION FUND**

Consortium under private law established in 1987 on a voluntary basis and subsequently mandatory, has the purpose of guaranteeing the depositors of the member banks, which provide the financial resources necessary for its pursuit.

**ASSOSIM -  
ITALIAN  
ASSOCIATION  
OF SECURITIES  
INTERMEDIARIES**

Association representing the Italian securities market operators in relation to the State Bodies and Public Administrations; Founded in 1991, since 2007 the membership has expanded to Law Offices, Consulting and Development Companies for IT Solutions, and to those subjects who provide services to Financial Intermediaries.

The Group carried out a materiality analysis in order to identify the most relevant sustainability priorities in line with the business strategy, and to define the contents of the non-financial Statement, in compliance with the provisions of Legislative Decree 254/2016 and reporting standards adopted, i.e. the GRI Sustainability Reporting Standards.

In terms of sustainability reporting, those aspects that have a significant impact on the economic, social and environmental performance of the Company and which could substantially influence the assessments and decisions of the stakeholders are considered material or significant. The materiality analysis process has foreseen a phase of identification of all the potential material aspects for the Nexi Group through the analysis of internal company documentation (in particular the Code of Ethics, etc.), and external sources, such as analysis the main trends in the sector, supported by a benchmark activity, the issues reported by the Sustainable Development Goals (SDGs) and research on the media and the web. At the end of this phase, a narrow set of issues have been selected and then assessed by the first line company managers that assessed the individual issues both from the company point of view, as spokesperson for the Group's vision, and from the stakeholders point of view.

Through this process, the following relevant topics have been identified:

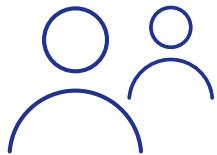
- management of employment drivers;
- training and development of personnel;
- staff appraisal and remuneration policies;
- talent attraction and Employer branding;
- promotion of health and safety at Group offices;
- diversity and equal opportunities;
- fight against corruption;
- privacy and security of customer data;
- continuous innovation;
- access to services;
- claims management;
- marketing communications;
- ethics, integrity and compliance.

The issues related to the environment and respect for human rights, although required by Legislative Decree 254/2016, are not included among the material issues identified through the analysis of materiality, in consideration of the territorial, regulatory and business context in which the Group operates. These issues are however considered and described in the chapters of the Statement, because, as highlighted in the Code of Ethics, the Group:

- recognizes the importance of respecting the environment for the benefit of future generations and for this reason is committed to implementing responsible practices in the management of its offices and sites
- recognizes the value of diversity and the promotion of equal opportunities in managing relationships with staff, clients and service providers. In particular, it undertakes not to tolerate any form of discrimination or violation of human rights.



# The Corporate Governance model



The Corporate Governance model adopted by Nexi is based on the "traditional" organizational model, based on the presence of two bodies appointed by the shareholders: the administrative body (board of directors) and the board of statutory auditors with administrative control functions. The external audit of the accounts is entrusted to a statutory auditing company, pursuant to the current legislative and statutory provisions on the subject. In compliance with the regulations in force and the Company Articles of Association, the corporate bodies have been assigned the tasks and powers according to the most suitable structure to ensure the efficiency of the management and the effectiveness of controls.

## Board of Directors

The Board of Directors, currently made up of 15 members, elected by the Ordinary Shareholders' Meeting, by list vote, is the body responsible for managing the Group. The appointment, which dates back to 2015 and which provides for subsequent additions and replacements, took place on the basis of the lists of candidates in possession of the requisites established by law and by the Articles of Association, presented by the Shareholders holding, alone or jointly, at least 7% of shares with voting rights in the ordinary shareholders' meeting.

As it is the body to which the strategic and management supervision functions are reserved, the Board is invested with full powers for the ordinary and extraordinary administration of the company, except for what is reserved by law or by the Articles of Association to the Shareholders' Meeting.

### **CHAIRMAN OF THE BOARD OF DIRECTORS**

The duties of the Chairman are listed in art. 19 of the Articles of Association, under which the Chairman monitors the performance of the Company, promotes the effective functioning of the corporate governance system by neutralizing the internal dialectic, urging the participation of non-executive members in the Board activities and ensuring the balance of powers. The Chairman convenes and chairs the BoD, establishing the agenda and ensuring that matters of strategic importance are treated with priority. The Chairman does not have management powers and therefore does not have an operational role. Currently there is also a Deputy Chairman elected by the Board.

### **CHIEF EXECUTIVE OFFICER**

The management of Nexi is entrusted to the Chief Executive Officer (CEO) that coincides with the General Manager. The CEO is responsible for directing and coordinating the various company components for the purposes of implementing the Group's corporate business plan. The CEO guarantees the coordination and the unitary management of the companies registered in the Group's scope and the execution also of the instructions of the Bank of Italy. Furthermore, all the powers of ordinary and extraordinary management of activities in the areas of operational overlap with the partner banks were delegated to the CEO. The General Management also consists of a Deputy Vice General Manager, who collaborates with the CEO in the direction and coordination of the corporate components, operating with the powers and powers specifically conferred by the Board of Directors.

The Board of Directors is responsible for:

- determining the strategic corporate guidelines and objectives and verification of their implementation;
- approving the bank's organizational and corporate governance structure, guaranteeing the clear distinction of tasks and functions;
- preventing conflicts of interest;
- approving Nexi's strategic, industrial and financial plans;
- approving accounting and reporting systems;
- supervising the company's public information and communication process;
- assessment, based on the report of the delegated bodies and the comparison with the management bodies, of the general business performance.

The Board of Directors is also granted the exclusive competencies expressly provided for in the Articles of Association, including the determination of the unitary business plan of the Nexi Group and the determination and criteria for the coordination and management of the Group companies.

The Board of Directors is appointed by the Shareholders' Meeting on the basis of lists presented by the shareholders, without prejudice to any other and further provisions required by mandatory provisions of law and regulations. This regulation also regulates the four different types of directors (executive, non-executive, independent and non-interlocked) whose presence must be ensured on the Board, as well as the degree of diversity that must be guaranteed based on the criteria in terms of skills, experience,

age, gender, national and international calibre, adapted to the company's operations. In accordance with the "Supervisory Provisions for Banks", the Board of Directors is required to periodically undergo a self-assessment process, in order to periodically assess its qualitative and quantitative composition, the size, degree of diversity and professional preparation of its members, the balance guaranteed by non-executive and independent members, the adequacy of nomination processes and selection criteria and professional updates. As a result of this process, any shortcomings or areas of improvement are identified and the remedial actions to be adopted are defined, which will be checked the following year. As part of the self-assessment process conducted in 2017, the Board currently in charge verified the existence of an adequate degree of diversification in terms of skills, experience, age and international calibre. On the other hand, the need to increase diversification by gender emerged, since the Board currently has the presence of only one female gender member. The Board therefore set out to raise awareness among shareholders about this issue, on the occasion of the next renewal of offices scheduled for 2018.

Furthermore, taking into account the need for the competencies of the Directors to be appropriately diversified, the Chairman of the Board of Directors ensures that the Bank prepares and implements induction programs and training programs for members of the corporate bodies with the aim of ensuring an adequate level of knowledge on banking and financial regulation. Since the current Board has taken office, 2 specific training sessions have been held until December 2017. The sessions held in 2017 included the following topics related to the 4<sup>th</sup> AML-CTF (anti-money laundering and counter terrorist financing) directive and Health and Safety at Work.

In order to more effectively fulfill the regulatory obligations and support the decision-making processes of the Group, the Board of Directors has established the following collegial bodies with their own regulations: Strategic Committee, Risk Committee, Remuneration Committee and Related Parties Committee. The members of the internal board committees are appointed by the Board on the basis of the respective regulations governing their composition, duties and functioning.

## Board of Statutory Auditors

The Board of Statutory Auditors is the body with control functions. It is made up of three statutory auditors and two substitute auditors, elected from among subjects in possession of the requisites of honourability, professionalism and independence through the statutory voting list. The powers, duties and term of office are those

established by law. The Board of Nexi also performs the role of Supervisory Body 231 of the Parent Company. The Board of Statutory Auditors also verifies the correct exercise of strategic and management control performed by the Parent Company on the Group companies and operates in close collaboration with the corresponding bodies of the subsidiaries.

In carrying out its duties, the Board of Statutory Auditors uses the information flows coming from internal control functions and structures, activating a continuous reciprocal exchange of information with them relevant for the performance of their respective duties.

Similarly to what happens for the Board, the Board of Statutory Auditors periodically verifies its adequacy in terms of powers, functions and composition (with particular focus on the existence of each component of the prescribed requirements), taking into account the size, complexity and activities carried out by the Bank also as the parent company of the Nexi Group.

## COMPOSITION OF THE BOARD OF DIRECTORS AND THE INTERNAL BOARD COMMITTEES DURING 2017:

BODY	MEMBERS	INDEPENDENT	NON-EXECUTIVE	NON-INTERLOCKED
Board of Directors	15	4	14	15
Strategic Committee	8	1	7	8
Risk Committee	5	3	5	5
Remuneration Committee	5	3	5	5
Related Parties Committee	3	3	3	3

COMPOSITION OF THE HIGHEST GOVERNING BODY AND ITS COMMITTEES	BOARD OF DIRECTORS	STRATEGIC COMMITTEE	RISK COMMITTEE	REMUNERATION COMMITTEE	RELATED PARTIES COMMITTEE
Number of directors	15	8	5	5	3
executive	1	1	-	-	-
non-executive	14	7	5	5	3
independent	4	1	3	3	3
female	1	-	1	1	1
male	14	8	4	4	2
<30	-	-	-	-	-
30-50	8	5	3	3	1
>50	7	3	2	2	2



# Internal control system, compliance and risk management



## The Internal Control System

The Internal Control System is a process intended for activities of guidelines and strategic, managerial and technical-operational control, aimed at providing reasonable assurance on the achievement of corporate and Group objectives, the effectiveness and efficiency of operating activities, the reliability of financial information and compliance with the laws and regulations in force.

In order to ensure that the aforementioned objectives are pursued, the Parent Company provides for:

- formalized procedures for the coordination and connection between the Parent Company and the companies belonging to the Group, for all areas of activity;
- mechanisms for the integration of accounting systems also in order to guarantee the reliability of the measurements on a consolidated basis;
- periodic information flows to verify the pursuit of strategic objectives as well as compliance with regulations;
- clearly defined tasks and responsibilities of the different units responsible for risk control within the Group and adequate coordination mechanisms;
- procedures that centralize the measurement, management and control of all Group risks at a consolidated level;
- information systems that allow the monitoring of financial flows and relations between the companies that make up the Group.

The Internal Control System is structured on different levels of control, such as:

- **line controls**, aimed at ensuring smooth operations; these are hierarchical type controls carried out by the same production units, generally incorporated in the procedures or performed in back office activities;

- **controls on risk management**, performed by the Risk Management department, aimed at defining risk measurement methodologies, verifying compliance with the limits assigned to the various operational functions and checking the consistency of the operations of the individual production areas with the risk and return objectives;

- **controls on compliance with rules**, performed by the Compliance function, aimed at monitoring the risks connected to non-compliance with external and internal regulations;

- **internal audit** carried out by the Internal Audit department, aimed at identifying anomalous trends, violations of procedures, internal and external regulations, as well as evaluating the overall functionality of the Internal Control System.

Risk management, compliance and internal audit activities are performed by non-operational and independent functions.

## The protagonists of the Internal Control System

The responsibility of the Internal Control System is entrusted to the Parent Company Board of Directors, which is responsible for clearly identifying the degree of risk propensity chosen and, in this context, for defining and approving strategic guidelines and risk management policies.

The **Chief Executive Officer** of the Parent Company, assisted by the Deputy Vice General Manager and supported by the Risk Committee, is responsible for the organization and implementation of the Internal Control System, in line with the strategic guidelines and risk management policies approved by the Board of Directors; the CEO also has an overall view of all business risks, including possible risks of malfunctioning of internal measurement systems. Lastly, the CEO takes care of the implementation of the strategic guidelines, the Risk Appetite Framework (RAF) and the risk governance policies defined

by the Board of Directors and is responsible for the adoption of all the actions necessary to ensure the compliance of the organization and of internal control system with the principles and requirements set forth in Bank of Italy Circular no. 285 of 17 December 2013, and monitoring the compliance.

The Parent Company **Board of Statutory Auditors**, as well as that of subsidiaries, is the Body with Control Function, which oversees compliance with the law, regulations and Articles of Association, compliance with the principles of correct administration and in particular the adequacy of the organizational, administrative and accounting structure adopted and its correct functioning. It also evaluates the adequacy and functionality of the accounting system and performs the functions of the Supervisory Body pursuant to Legislative Decree 231/01.

The **Risk Committee** is responsible for supporting the Parent Company Board of Directors on internal risks and controls, paying particular attention to all those instrumental and necessary activities so that the Board can correctly and effectively determine the RAF and the risk governance policies; it expresses a prior opinion on the requirements, nominations, changes in remuneration of the Head of the Audit Function and a prior opinion on the appointment and, if necessary, on the revocation of the Heads of the "Audit", "Compliance", "Anti-Money Laundering" and "Risk Management" Functions.

The Parent Company **Related Parties Committee** verifies the formal and substantial regularity of the most significant transactions of Nexi with Related Parties, the effective interest of the Company in carrying out these transactions and the benefits.

The **Remuneration Committee** is responsible for supporting the Parent Company Board of Directors on employee remuneration.

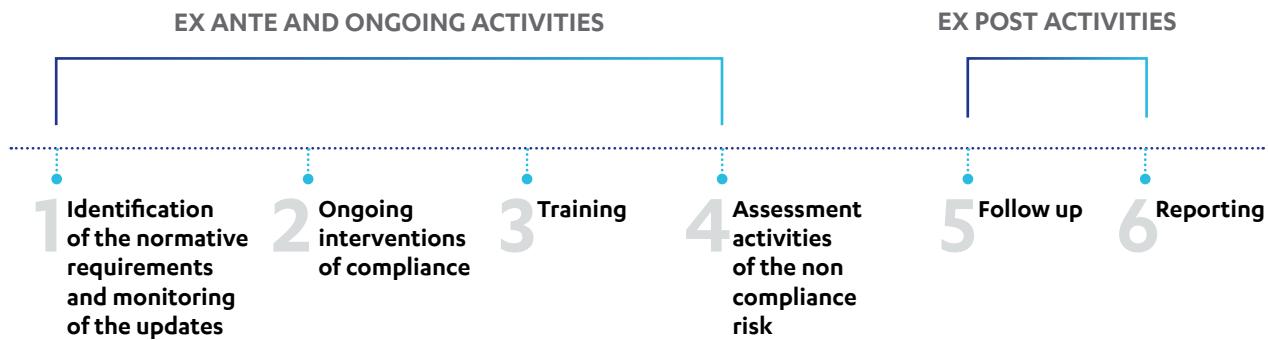
The **Audit** Function performs specific activities for the Group companies that have appointed it in compliance with current supervisory regulations; in particular, it has the task of verifying the level of adequacy and effectiveness of the Internal Control System of the Group as a whole and the effective compliance with the provisions of the law, Articles of Association, supervisory, regulatory and internal regulations; it operates in close liaison with the Boards of Statutory Auditors and the Directorates-General of the Parent Company and its Companies; it reports, where necessary, its activities to the Board of Directors, the Board of Statutory Auditors and the Risk Committee of the Parent Company and the subsidiaries and verifies the compliance of the conduct of the individual companies with the Parent Company guidelines.

The **Compliance** function performs the Centralized Function for the Group Companies that have appointed it in compliance with current supervisory regulations; it works in close liaison with the Boards of Statutory Auditors and the Directorates-General of the Parent Company and the Subsidiaries, as well as with the Contact Persons of the Compliance Function of the latter, if appointed; its objective is to ensure compliance of corporate operations with regulations, including those of self-regulation and supervision, consistent with the provisions of the "Policy for non-compliance risk management", approved by the Parent Company Board of Directors. In particular, it carries out ex ante controls, pending and possibly ex post, if it is necessary to verify the correct transposition of the legislation within the Group; it oversees, according to a risk-based approach, the management of non-compliance risk with regard to all company activities; verifies that internal procedures are adequate to prevent this risk; reports its work to the Board of Statutory Auditors, the Risk Committee, the Chief Executive Officer of the Parent Company and the Chief Executive Officer / General Manager of the Group Companies. The Group Anti-Money Lau-

ndering Function is also set up within the Compliance Function of the Parent Company, as a function to prevent and combat money laundering and terrorist financing operations. The Head of the Compliance Department is also responsible

for the role of Head of Anti-Money Laundering for the Group and the Company and Anti-Money Laundering Delegate for the company and the Group to report suspicious transactions pursuant to art. 42 Legislative Decree 231.

## OPERATIONAL PHASES OF THE RISK OF NON-COMPLIANCE MANAGEMENT PROCESS



The Nexi Group controls and manages the risks to which it is exposed through rigorous methodologies and processes, able to deploy their effectiveness in all phases of the economic cycle. The monitoring and control of Group risks are assured by the Parent Company **Risk Management** Department, which exercises its role of direction, control and coordination in close liaison with the Boards of Statutory Auditors and the Directorates-General of the Parent Company and the subsidiaries and reports its activity to the Board of Statutory Auditors of the Group Companies, the Risk Committee and the Chief Executive Officer of the Parent Company. The activity of the Risk Management Department is focused on the measurement, monitoring and reporting of the risks connected to the activities of all the Group companies and on the verification of the adequacy of the individual and consolidated assets for the coverage of the various types of risk. Consistent with the completion of the aforementioned activities, the Risk Management Department collaborates in the definition and implementation of the Risk Appetite Framework and related risk governance policies, through an adequate risk management process. It also supports the Parent Company governing bodies in determining the operating limits for the assumption of the various types of risk and for the definition of risk management and measurement policies (Risk Policy).

To conclude, a key role is played by the **Heads of the Process and Organizational Unit** as the last recipients, together with the resources reporting to them, to execute and perform the

line controls to oversee the company risks, and which have been identified and mapped in the operational risk assessment and risk assessment forms pursuant to Legislative Decree 231/01, regardless of the formalization in the company procedures.

## Main risks identified in the non-financial area

The Group risk management model, in line with the requirements of Legislative Decree 254/2016, includes the identification and assessment of the risks generated and suffered by Nexi in terms of:

### Risks related to personnel management

The Nexi Group identifies and monitors both risks related to health and safety and those related to personnel management. With reference to the first area, Nexi's commitment to the protection and promotion of health and safety in the workplace translates into careful risk management through a continuous analysis of the critical issues and the adoption of a preventive approach, which consists of investments for the safety of the offices and training programs. Concerning the second area, the Group has identified the risk related to the definition of common identity ("one nexi"). To this end, a human resources common management system (broadbanding) and a performance evaluation system based on the 5 Group values have been defined. In addition, with the same aim to build a common identity and allow an integra-

tion among the different characters within the Group, Nexi has committed to invest on synergic and interdisciplinary employees' training and engagement programs, valorizing a continuous sharing process of the experience between those who have been working for Nexi for many years and those who just started.

### **Risks related to reputation, conduct and IT risk**

The Nexi Group ascribes great importance to the relationship of trust established with its clients, based on fairness and transparency, with the awareness that complete, clear and correct information is above all able to guarantee customer satisfaction and, at the same time, to prevent the risk of litigation with clients and loss of reputation, as well as the risk of findings and sanctions by the competent Supervisory Authorities. In this regard, it should be noted that the Bank of Italy, with Circular no. 285 of 17 December 2013, identified a set of transparency requirement disclosures that allow market operators and customers to have fundamental information on equity, exposure to risks, risk assessment processes and, consequently, on capital adequacy of the Banks, which, as regards the Nexi Group, are published every year on the Nexi SpA website.

In this context of a correct and transparent relationship with clients, not only issues related to reputational risk should be considered, but also those regarding conduct risk and IT risk.

#### **Reputational risk**

Reputational risk is defined by the Supervisory Authority as the current or prospective risk of a decline in profits or capital deriving from a negative perception of the bank's image by clients, counterparties, bank shareholders, investors or supervisory authorities.

In relation to the activities carried out by the Group, this risk may arise when the reputation benefitting the Nexi Group is threatened or weakened due to behaviours, choices or strategic initiatives, unclear management policies and any other factors that may be perceived negatively by various stakeholders, causing (directly or indirectly) a decline in profits and / or capital.

In reference to the reputational risk for the Nexi Group, the role played by Nexi SpA that has historically taken on specific positions in favour of the Banks and that Nexi Payments performs vis-à-vis the Visa and Mastercard International Networks is particularly relevant, given the role of system leader in the management of payment cards on behalf of the participating Banks.

This risk materializes in the potential deterioration of the reputation perceived by the stakeholders relevant to the Group, represented by the Clients (Institutional and Corporate), the Control Bodies (Supervisory Bodies, International Networks, Regulatory Bodies) and the Shareholders.

All actions aimed at ensuring, within the internal control system, the strict observance of the internal and external regulatory provisions of self-regulation (e.g. codes of conduct and code of ethics) address reputational risks, as well as adequate training of personnel to ensure the understanding and knowledge of the aforementioned requirements.

In compliance with the provisions of the Bank of Italy in Circular 285/2013, the Risk Management Department of the Nexi Group has developed a Group integrated framework for the assessment and control of Reputational Risk, which specifies the key principles for identification, monitoring and management of reputational risk, consistent with regulatory requirements. The reputational risk management system allows the Group to generate useful indications regarding the exposure of the company to the risk and, consequently, to identify any actions to be implemented to mitigate it.

#### **Conduct risk**

Conduct risk is the current or prospective risk of losses resulting from cases of inappropriate offer of financial services, including cases of inadequate conduct (malice or negligence) on the part of the bank. Conduct risk, as a sub-category of operational risks, can derive from many operational processes and from products, as part of legal risk.

To monitor conduct risk, the Nexi Group has developed a special framework that is an integral part of the methodologies for the assessment and control of Operational Risks and which aims to avoid significant economic losses and reputational impacts for the Group, in terms of penalties, legal costs, impacts on market shares.

#### **IT risk**

Given the intrinsic characteristics of its business, Nexi has identified one of the main risks that may have an impact on the client, the IT risk associated with online payments. For this reason, the Group assigns a high value to the Company Information System and has defined precise guidelines on the security of payments via the Internet, incorporating in this sense the supervisory provisions issued by the Bank of Italy (Circular 285/13).

Furthermore, the Group developed an Information Security Management System (ISMS), whose objective is the protection of corporate information assets through the adoption of a series of technological, organizational and procedural measures. The ISMS is integrated with the IT risk analysis process, performed by the Risk Management Department, and which represents the method by which the effectiveness and efficiency of the controls applied to the ICT resources is assessed compared to the propensity to corporate risk.

### **Corruption risk**

Banks play an important role in preventing corruption, which is a significant phenomenon in Italy. Despite the introduction of anti-corruption legislation in 2012 aimed at strengthening prevention policies, the phenomenon is still considered of considerable importance today. Corruption, in addition to being one of the main predicate offenses to money laundering, represents a major obstacle to the sustainable development of companies and countries, as it slows down economic growth, hinders deserving individuals, distorts competition between companies and can cause legal and reputational risks for companies.

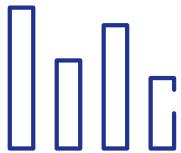
The types of crimes related to corruption that may affect the Bank are listed in the Penal Code and in Legislative Decree 231/2001 on the administrative responsibility of companies and include: Crimes committed in relations with the Public Administration (Article 25, Legislative Decree No. 231/01); Corruption in performing the function

(Article 318 of the Italian Penal Code); Corruption due to an act contrary to official duties (Article 319 of the Penal Code); Corruption in judicial documents (Article 319-ter of the Penal Code); Instigation of corruption (Article 322 of the Penal Code); Extortion (Article 317 of the Penal Code); Indebted induction to give or promise benefits (art.319 quater of the Penal Code); Corruption of a person in charge of a public service (Article 320 of the Penal Code); Peculiarity, extortion, corruption and instigation to corruption of members of the bodies of the European Communities and officials of the European Community and foreign States (Article 322-bis of the Penal Code); Corporate offenses (Article 25-ter, Legislative Decree No. 231/01; Corruption between individuals (Article 2635, 3rd paragraph of the Civil Code).

The Nexi Group ensures full cooperation with the competent Authorities in the fight against all crimes pertaining to its scope of activity, with particular reference to corruption, money laundering and terrorist financing. With regard to the crime of corruption, in implementation of the provisions of Legislative Decree 231/2001, a specific Organizational, Management and Control Model was adopted (Model 231/2001), which establishes rules and procedures to prevent committing the offenses provided for by the Decree.



# Responsible business management in Nexi



The Nexi Group developed and adopted the Code of Ethics in order to clearly and transparently define the set of values to be inspired in carrying out its business activities. It contains references and guiding principles, complementary to legal obligations and self-regulation, which guide the conduct in continuity and consistency with the Group's mission and its fundamental values. The Code promotes and directs the behaviour of all its recipients, i.e. Directors, Statutory Auditors, employees, temporary workers, consultants and collaborators in any capacity, agents, representatives and any other subject that can act in the name and on behalf of the Group. This document and any updates thereto are defined and approved by the Board of Directors of the Parent Company Nexi S.p.A., which transmits them to all Group companies for their respective adoption and forms the basis on which the preventive control system is structured, entrusted to the Supervisory Body.

The Code of Ethics guides all the aforementioned subjects according to the following main areas

**Human resources:** in this context the Code of Ethics establishes the principles of protection and promotion of employees, such as the application, in compliance with criteria of objectivity, competence and professionalism, of the principle of equal opportunities without favouritism with the aim of ensuring the best existing skills on the labour market in the phase of search and selection of personnel; the promotion of corporate plans, adequate training and development programs aimed at promoting the expansion of each person's skills and competences on the basis of merit criteria; and the prevention of any form of harassment - psychological, physical and sexual - towards employees. Furthermore, the Group does not accept any discrimination based on age, state of health, gender, religion, place of origin, political and cultural opinions.

**Health, safety and the environment:** to this end, the Group undertakes to create and manage suitable environments and workplaces from the point of view of the health and safety of Employees starting compliance with national and international directives on the matter. In particular, it promotes the creation of safe and healthy working environments and working conditions that are respectful of individual dignity as elements to promote the physical and moral integrity of employees and collaborators. The Group also favours the creation of a work environment in which personal characteristics and orientations cannot give rise to discrimination and can promote the serenity of all employees and / or collaborators. Furthermore, in the Code of Ethics, the Group reaffirms its commitment to employing resources in a responsible manner for sustainable development, respecting the environment and the rights of future generations.

**Conduct in business activities:** the Code also regulates the Group's relations with the various stakeholders, including shareholders, clients, service providers, the Public Administration, the competition and the community, which must be based on compliance with the applicable laws and regulations, including those of confidentiality and protection of personal data, anti-money laundering, anti-corruption, antitrust and management of privileged information. In regard to service providers, Nexi, in order to ensure compliance of the latter with its own values, requires each of them to sign the Code of Ethics.

## Business ethics and the fight against corruption

The Nexi Group, as stated in the Code of Ethics, condemns any form of corruption without any exception, active and passive, even if carried out against private individuals and promotes behaviour that is inspired by criteria of legality, transparency, common sense and personal ethics, in line with company values and procedures and with the awareness of not exposing the Group to regulatory and reputational risks. Therefore, it forbids any form of favouritism aimed at inducing a Public Official to improperly perform any function of public nature in a manner inconsistent or contrary to the duties as an official; improperly and unduly influence the work of a private counterpart; influence an official act (or an omission) by a Public Official or any decision in violation of an official duty and in any case, violate the applicable laws, in particular for the benefit or in the interest of the Company.

In addition, the Group prohibits not only the payment and the promise of money, but also any offer of gifts, even of a non-modest value, contributions in kind, such as sponsorships, jobs, disclosure of confidential information on financial instruments able to influence the market and other advantages or other benefits.

In particular, the companies of the Nexi Group have carefully and effectively managed the issue of prevention and fight against corruption and adopted an Organizational and Control Model pursuant to Legislative Decree 231 / 2001 (hereinafter also "Model 231"). The Model 231 is based on an analysis of the company's operations, constantly updated, carried out with the aim of identifying the areas potentially affected by the types of crime, as defined by the regulations, which require a strengthening of the internal control system. The identification of the areas exposed to risk of crime is carried out through Self-Assessment assisted in order to:

- inform and make all the staff aware of the Companies of the Group that any illegal behaviour, even if aimed in good faith to improve com-

pany results, may result in penal sanctions for the individual and pecuniary and interdictory sanctions for the company;

- to share and formalize the need for correct behaviour in the conduct of business by all the subjects that work for Group companies and the full compliance with current legislation;
- introduce specific control, monitoring and sanctioning procedures and measures, effectively adequate to counter the offenses pursuant to Legislative Decree 231/2001.

In the context of self-assessment aimed at identifying areas at risk of corruption crime, the macro activities exposed were identified and the adequacy of the control protocols to monitor the correct execution of the process concerned was verified.

Compliance with the Code of Ethics and Model 231 is monitored by the Supervisory Body, established at the individual Group companies and identified in the Board of Statutory Auditors, to guarantee the proper functioning and constant updating of the Model. This Body carries out specific verification and analysis activities, also initiated on the basis of reports relating to conduct that does not comply with the principles of conduct requested by Nexi. The results of the audits carried out can lead to sanctions which, depending on the seriousness encountered, can lead to the termination of the professional relationship. The Supervisory Bodies of the individual Group companies prepare and implement the annual program of supervisory activities in this area through the Audit Department of the Parent Company.

During 2017, there were no episodes of corruption within the Group.

In 2015, Model 231/2001 was updated in compliance with the new provisions of Law no. 186 of 15/12/2014, in the subject of "self money laundering", a situation that has characteristics of analogy or correlation with corruption crime. In addition, during 2017, an update process of the 231 Organizational Model was started (which

will end in the first quarter of 2018) in order to re-assess the risk exposure to crime pursuant to Legislative Decree 231/2001, and eventually strengthen the control protocols provided for in company regulations. All activities and organizational structures are subject to audits related to the implementation of the 231/2001 Model, while the Supervisory Body reports to the Corporate Bodies on its adoption and effective implementation, supervision of its operation and managing its update. According to the limits of the amount provided for by the relevant Law provisions, all transactions are subject to monitoring by dedicated IT applications, which support the identification of evidence potentially connected to money laundering or other illegal activities, including corruption. The intercepted situations are subsequently subjected to the evaluation of the Organizational Units.

The reporting of particular situations that do not comply with the Code of Ethics, both by employees and external subjects, is considered by Nexi as a relevant issue. Any employee who, in good faith, reports abnormal behaviour, presumed or effective violations of the Code, is protected by the Group against any form of retaliation, discrimination or penalization. However, they are without prejudice to the legal obligations and the safeguarding of the rights of the Company or of the persons wrongly accused and / or accused in bad faith. In this regard, a whistleblowing system is active at Group level, with the aim of accurately managing and ascertaining any unlawful conduct - object of reporting - with respect to the rules, regulations and internal procedures, adopting the appropriate measures and ensuring the possibility of anonymity of the reporter at the same time.

In particular, the Group activated a telephone line dedicated to reporting, available 24 hours a day,

365 days a year, equipped with a permanent answering machine that keeps track of the reports received. As an alternative channel, and only in case of impossibility to use the telephone system, it is possible to send the message by ordinary mail / internal mail. Exclusively in the case in which the report concerns the Manager pro tempore of the Compliance Department, this role is assumed by the pro tempore of the Audit Department.

As regards whistleblowing, on the basis of the reports received, the System Manager annually prepares a report on the correct functioning of the internal reporting system, containing the aggregate information on the results of the activities carried out during the year following the reports received. In 2017, a notification was received, through the email, consistent with the scope of application defined by the internal regulations. Internal investigations have been carried out and the notification did not have any consequences. Therefore, no actions were taken.

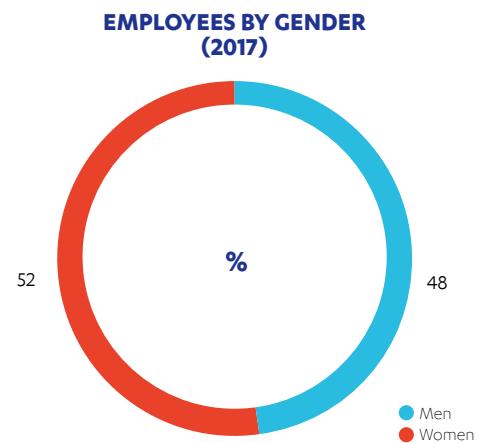
Model 231 is brought to the attention of the recipients through specific communication and information activities. The documentation used and produced for the purposes of Model 231 is filed by the Supervisory Body through the Head of the Audit Department, which ensures immediate availability, in compliance with the legislation regarding the processing of personal data. The communication and training activity, diversified according to the recipients to whom it is addressed, is, in any case, based on principles of completeness, clarity, accessibility and continuity in order to allow the various recipients the full awareness of those company provisions that they are required to respect and ethical rules that must inspire their behaviour.



# Human capital



Nexi believes in enhancing technological development through human capital, in the awareness that the centrality of human resources is fundamental for sustainability and the evolution of the business. Thus, it has grown in 70 years, expanding even beyond national borders, and has become part of a Group that looks to the future and that builds it with vision, awareness and responsibility. Today, the Group employs 1,752 people (52% women and 48% men), almost all of them hired on permanent contracts, who work every day with commitment, competence and passion. The average age of Group Employees starting 2017 was approximately 46.



At the base of the successes it achieves, with and for its Clients, and the value it generates for its stakeholders, the Group has a dynamic team of people who are prepared for the challenges that the market, even international, poses on a daily basis. Alongside people with a solid experience in the payments market, it combines the skills of managers and specialists from excellent companies in the world of innovation, services and technology. The Nexi Group is therefore constantly looking for competent and highly specialized figures in banking and financial services and young graduates, motivated to enrich their university preparation with a qualifying and constructive work experience.



**TOTAL WORKFORCE BY GENDER (N°)**

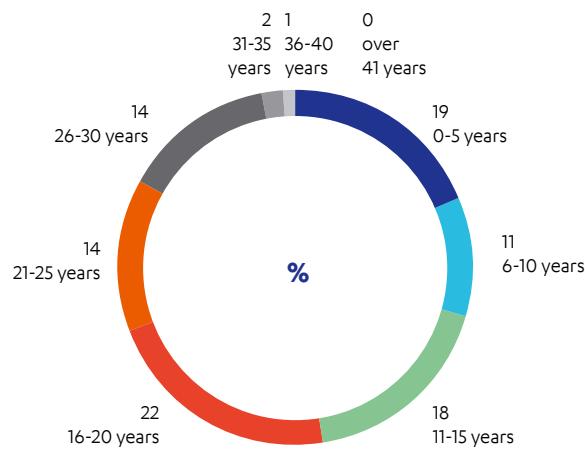
	2017		
	MALE	FEMALE	TOTAL
Employees	846	906	1,752
Other collaborators:	3	3	6
Internship	1	3	4
Temporary	-	-	-
Collaboration contracts	2	-	2
<b>Total</b>	<b>849</b>	<b>909</b>	<b>1,758</b>

**EMPLOYEES BY TYPE OF CONTRACT (N°)**

	2017		
	MALE	FEMALE	TOTAL
Full-time	825	591	1,416
Part-time	21	315	336
<b>Total</b>	<b>846</b>	<b>906</b>	<b>1,752</b>

**EMPLOYEES BY TYPE OF CONTRACT (N°)**

	PERMANENT		TEMPORARY		PERMANENT	TEMPORARY
	MALE	FEMALE	MALE	FEMALE	TOTAL	TOTAL
Bologna	34	24	-	4	58	4
Milan	645	707	9	3	1,352	12
Padua	7	3	-	-	10	-
Rome	131	89	-	-	220	-
Udine	20	76	-	-	96	-
<b>Total</b>	<b>837</b>	<b>899</b>	<b>9</b>	<b>7</b>	<b>1,736</b>	<b>16</b>

**EMPLOYEES BY LENGTH OF SERVICE**

Over the last few years, the Group is supporting a phase of great transformation and change, and investment in people with distinctive skills and diversified business experiences is one of the foundations of change in progress. The company is promoting development and networking initiatives for the management levels (senior managers and middle managers), aimed at enhancing their talent. An example of this is the D value project, the first association of large companies set up in Italy to support female leadership in companies.

<b>EMPLOYEES BY PROFESSIONAL CATEGORY AND GENDER (N°)</b>	<b>2017</b>		
	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
Senior managers	75	9	<b>84</b>
Middle management	415	253	<b>668</b>
Other employees	356	644	<b>1,000</b>
<b>Total</b>	<b>846</b>	<b>906</b>	<b>1,752</b>

<b>EMPLOYEES BY PROFESSIONAL CATEGORY AND AGE (N°)</b>	<b>2017</b>			
	<b>&lt;30</b>	<b>30-50</b>	<b>&gt;50</b>	<b>TOTAL</b>
Senior managers	-	51	33	<b>84</b>
Middle management	4	445	219	<b>668</b>
Other employees	22	802	176	<b>1,000</b>
<b>Total</b>	<b>26</b>	<b>1,298</b>	<b>428</b>	<b>1,752</b>

As at 31 December 2017, there were 77 disabled Employees starting the Group, while<sup>7</sup> 12 belonging to other protected categories.

In line with what is described in the Human Resources Management policy and in the Code of Ethics, the interest for the Group's people is expressed in providing employees with training and professional development opportunities appropriate to their skills, in promoting a motivating work environment in which the employees and their contributions are guaranteed and respected, in defining clear objectives, effective leadership, competitive compensation and recognition of the results achieved, in facilitating the conditions for an optimal personal and professional balance, in a context of equality, transparency, fairness, loyalty and dialogue. It should be noted that during the reporting period no complaints related to personnel management were received and no reports of incidents of discrimination in 2017 were received by the Human Resources, Compliance and Internal Audit Offices were received.

## Selection and internal mobility

The Parent Company Human Resources Department is responsible for efficiently and effectively managing the selection and internal mobility of staff through various operating procedures, in collaboration with the Organization Department and in line with the "Human Resources Management" policy.

In the search and selection of personnel, as

outlined in the "Selection and internal mobility" policy and in the Code of Ethics, the Group adopts criteria of objectivity, competence and professionalism, applying the principle of equal opportunities without favouritism, with the aim of securing the best existing skills in the labour market. The objective of the staff mobility selection and management process is to achieve the best allocation of resources and the optimal coverage of the available positions, in line with the Group's mission, the Business Plan and the annual Budgets of the individual Group companies.

The selection process of the candidates is inspired by the willingness to activate the process through a clear definition of the required profiles (activities, skills, experience, positioning), to enhance the internal candidacies and to involve the persons responsible in evaluating candidates and in the final choice.

In the process of selection and management of human resources, in line with what is stated in the Code of Ethics, the Group scrupulously adheres to objective evaluation criteria and does not allow any discrimination based on age, health, gender, religion, race, political and cultural opinions and also encourages the creation of a work environment in which personal characteristics and orientations cannot give rise to discrimination and can promote the serenity of all employees and collaborators.

In the selection process, it is necessary that the manager of the Department or Section gives precise information about the activity, respon-

<sup>7</sup> The figure includes refugees, orphans and widows

sibilities, knowledge and key competences and consequently that the evaluation and selection criteria explicitly take into account the correspondence between the personal characteristics of the candidates and the defined requirements. In the search and selection of technical / IT staff, which is the object of an additional dedicated policy, criteria of objectivity, competence and professionalism are adopted in order to ensure the skills available on the labour market necessary to better monitor the IT activities of the Group. The selection improves, when possible, internal applications, possibly supported by training and ad hoc training. If internal search is not feasible or has not been successful, the Human Resources Department proceeds with selection in the external job market through the available channels.

As regards the recruitment of personnel in managerial positions, this is authorized by the Board of Directors of the individual Group companies. For the top positions (Chief Executive Officer, General Manager, Deputy General Manager) of the Subsidiaries, the favourable opinion of the Board of Directors of the Parent Company must first be obtained.

In 2017, the selection activity played an important role, which involved both the business structures and the technology world, with a particular focus on digital transformation and the acquisition of key skills for the future. The search activity on the market was based on a logic of diversification of the company's experiences and cultures, with the aim of bringing managerial and specialist profiles on board that best interpreted the company's values. The new hires are mainly from the world of Technology Services and Financial Services (almost 80%), as well as Banking, Gaming and Media. Almost 50% of new employees belong to the Millennials generation. In order to bring young talents closer together and encourage the inclusion of new graduates, Nexi launched a specific employer branding activity, developing relationships with Universities, activating specific campaigns on social networks and organizing hackathon in the digital space.

#### **EMPLOYEES STARTING AND EXITING BY GENDER (N°)**

	<b>2017</b>		
	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
Employees starting	119	37	<b>156</b>
Employees exiting <sup>8</sup>	50	24	<b>74</b>

#### **EMPLOYEES STARTING AND EXITING BY AGE (N°)**

	<b>2017</b>		
	<b>&lt;30</b>	<b>30-50</b>	<b>&gt;50</b>
Employees starting	11	122	23
Employees exiting <sup>8</sup>	13	48	13

#### **EMPLOYEES STARTING AND EXITING BY GEOGRAPHICAL AREA (N°)**

	<b>2017</b>	
	<b>EMPLOYEES STARTING</b>	<b>EMPLOYEES EXITING<sup>8</sup></b>
Bologna	1	1
Milan	131	54
Padua	10	-
Rome	14	5
Udine	-	14
<b>Total</b>	<b>156</b>	<b>74</b>

<sup>8</sup> The turnover figure does not include exits from the Group resulting from restructuring initiatives (Solidarity Fund and redundancy incentives).

**TURNOVER RATE BY GENDER (%)**

	2017		
	MALE	FEMALE	TOTAL
In turnover rate	14.1	4.1	<b>8.9</b>
Out turnover rate	5.9	2.7	<b>4.2</b>

**TURNOVER RATE BY AGE (%)**

	2017			
	<30	30-50	>50	TOTAL
In turnover rate	42.3	9.4	5.4	<b>8.9</b>
Out turnover rate	50.0	3.7	3.0	<b>4.2</b>

**TURNOVER RATE BY GEOGRAPHICAL AREA (%)**

	BOLOGNA	MILAN	PADUA	ROME	UDINE	TOTAL
In turnover rate	1.6	9.6	100.0	6.4	-	<b>8.9</b>
Out turnover rate	1.6	4.0	-	2.3	14.6	<b>4.2</b>

## Training and development of personnel

Training is a strategic factor for the Nexi Group, which contributes to organizational changes and to the dissemination and understanding of business strategies. In particular, in Nexi, it plays a key role in the process of professional growth of the resources employed, ensuring the improvement of the performance of individuals, development programs and the acquisition of new tools and methods of work and accompanying staff in the adjustment and compliance with the provisions of current legislation. Training, as indicated in the "Personnel Training" policy, is a fundamental tool to develop skills and consequently to increase productivity and business efficiency.

The training process of resources, which involves participation in masters, courses, seminars, workshops, on-the-job training and self-education, consists of three types of training:

- Compulsory Training: includes activities aimed at acquiring knowledge that is suitable to comply with legal and industry regulations (for example, privacy, security, etc.).
- Technical-Specialist Training: includes activities aimed at the acquisition, maintenance and development of techniques, tools and methodologies for operational improvement or which concern transversal and cross-functional com-

pany initiatives and information on the Group's products, services and operating processes (Know how to do). The main projects developed on this training area in 2017 include: "On Boarding" Project, "IT Certifications" Project (Itil foundation, Lifecycle stream, Itil Expert, PMP, Scrum agile), "Sales for Account: Crash Program" Project and professional updating and retraining.

- Managerial Training: includes activities aimed at acquiring and improving personal skills (Know how to be), in particular including training aimed at operational effectiveness (Project Management on the job, Problem solving) and managing people through Broadbanding & Performance Management - Workshop Leader.

The Training Plan is the tool through which the contents and the participants of the training process are defined. In exceptional cases, following significant and important organizational strategic changes, the Training Plan could be restructured during the year to allow an adaptation to the changed business needs. This Plan, detailed in the "Personnel Training" policy, is prepared annually on the basis of the policies defined by the Parent Company Directorate General and by the Company's top management, in line with the training needs highlighted in the performance assessment process, in relation to what emerged during the talks with the heads of the Division, Department and Business Unit and

### **TRAINING ACTIVITIES ON POLICIES AND PROCEDURES TO PREVENT AND COMBAT CORRUPTION**

During the year, 231 training and Whistleblowing training via e-learning were provided to all employees. In addition, workshops were organized on the impact of the IV Anti-Money Laundering Directive on 231, addressed to all Group executives and dedicated function specialists. As regards the communication relating to the Organizational Model and the Code of Ethics, this is done through publication on the company intranet preceded by individual communication. All the new hires receive and sign the Model 231 and the Code of Ethics. During 2017, all the members of the Board of Directors participated in two training sessions on anti-money laundering in the context of training 231.

in the indications contained in the appraisal forms in the courses previously provided. Finally, the training plan must meet the obligations established by current regulations (e.g. Anti-money laundering, MiFID, Market Abuse, Privacy, Legislative Decree 231/01, Legislative Decree 81/08, etc.). In particular, training relating to the law is approved by the competent services and bodies, as required by the legislation (e.g. Anti-Money Laundering Training by the Board of Directors, Legislative Decree 231/2001 by the Compliance Department, etc.).

The training plan defines the areas of action, the objectives of the individual actions (with the exception of specialist technical training whose contents can be specified also during the year), the guidelines and the training methodology; and is closely linked to the evolution of the Group. For this reason, particular importance has been given to training projects aimed at supporting the adoption of the new organizational model, with the aim of helping people to align to the new roles, offering targeted paths with programs to develop both the specific skills of the business or Membership governance, and soft transversal skills. The 2017 training plan also provided training courses aimed at providing the individual with the tools necessary to manage work complexity, in particular the management of stress and to respond to requests on demand through "dedicated projects".

In 2017, 23 average training hours were provided to each employee.

#### **HOURS OF TRAINING BY PROFESSIONAL CATEGORY AND GENDER**

	<b>2017</b>		
	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
Senior management	1,042	137	<b>1,178</b>
Middle management	8,531	4,805	<b>13,336</b>
Other staff	12,793	12,906	<b>25,699</b>
<b>Total</b>	<b>22,366</b>	<b>17,847</b>	<b>40,213</b>

#### **AVERAGE HOURS OF TRAINING BY PROFESSIONAL CATEGORY AND GENDER**

	<b>2017</b>		
	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
Senior management	13.9	15.2	<b>14.0</b>
Middle management	20.6	19.0	<b>20.0</b>
Other staff	35.9	20.0	<b>25.7</b>
<b>Average hours of training</b>	<b>26.4</b>	<b>19.7</b>	<b>23.0</b>

During 2018, training will be enriched with 4 new thematic areas: payments of today and tomorrow, customer experience, digital world and the values and behaviour of the Group ("Be Nexi").

## Staff appraisal and remuneration policies

The Nexi Group designed and adopted the broadband system in 2017, with the aim of better supporting the company's growth and supporting the phase of deep evolution through resource management policies consistent with the cultural change taking place.

Broadbanding is a system that maps, evaluates and weighs all the roles in terms of responsibility and impact within the organization and is a platform that can be used to link different processes of management and development of people: communication plan, performance management & reward. For example, a single Performance Management tool was launched for all Group companies, with the aim of promoting performance as a driver for the development and recognition of talent and for the purpose of enhancing, through a transparent appraisal and

based on explicit criteria, accountability and personal contribution to company results.

The system of Performance Management and continuous development is based on 4 fundamental moments:

- Assignment of "cascade" objectives and priorities to ensure alignment with strategic and organizational priorities;
- Self-assessment and cross feedback;
- Appraisal of the Manager and the Senior Team;
- Comparison between Manager and Collaborator focused on the performance achieved in the year, the objectives and future aspirations and the construction of the development and training plan.

During 2017, 1,638 employees, corresponding to 93% of the company workforce, were involved in the Performance Management system.

PERCENTAGE OF EMPLOYEES INVOLVED IN THE PERFORMANCE MANAGEMENT SYSTEM, BY PROFESSIONAL CATEGORY AND GENDER (%)	2017		
	MALE	FEMALE	TOTAL
Senior management	87%	78%	<b>86%</b>
Middle management	92%	92%	<b>92%</b>
Other staff	96%	95%	<b>95%</b>
<b>Total</b>	<b>93%</b>	<b>94%</b>	<b>93%</b>

The Group's remuneration policy is a fundamental element for the management of human resources, as it is a strategic lever to align the management of productive behaviour with company objectives. Conceived and defined year by year by the People Development in collaboration with the General Management, it is submitted to the approval of the Remuneration Committee, the Board of Directors and the Shareholders' Meeting, in line with the provisions issued from time to time by the Bank of Italy.

	RATIO BETWEEN MALE AND FEMALE AVERAGE PAY LEVELS (%)	RATIO BETWEEN MALE AND FEMALE AVERAGE REMUNERATION LEVELS (%) <sup>9</sup>
Senior management	72%	62%
Middle management	89%	87%
Other staff	88%	88%

In regard to the minimum wages applied in the Nexi Group for new recruits, those provided for by the sector national labour contract for the various categories of personnel are always applied.

## Labour management relations

The Nexi Group recognizes the importance of labour management relations, which are developed in an atmosphere of collaboration, and in a context of rapid growth and innovation.

<sup>9</sup> The remuneration includes the gross annual remuneration (RAL - Retribuzione annua lorda) and the variable component adequately balanced according to the strategic objectives of the company (theoretical MBO in 2017, VAP effectively disbursed in 2017).

All the Group's employees are covered by the national collective labour agreement (CCNL - contratto collettivo nazionale di lavoro). As at 31 December 2017, 905 members were registered with the five unions present in the Group, thus representing 52% of the company's workforce; this translates into an involvement of these Organizations in the Group's activities and policies, and in the company's commitment to freedom of association and workers' rights.

The Nexi Group works to ensure fairness and correctness in the creation and management of contractual relationships with employees and in work relations and is committed to ensuring that the bonus system and the company career is based on the skills of employees and the results achieved. Furthermore, the Group ensures the privacy and physical and moral integrity of its employees and collaborators, thanks to working conditions that respect their personal dignity.

2017 marked a significant milestone in the labour management relations of the Nexi Group; in April, at the end of the contractually agreed trade union consultation procedure, the agreement relating to the corporate reorganization under the Group Business Plan was signed. The agreement made it possible to keep all existing work sites active. The surplus staff, equal to 343 employees, was managed exclusively on a voluntary basis, making use of incentives, retirement and the Solidarity Fund. The Group will also maintain health care, contribution to supplementary pensions and life insurance policy for the period of participation in the Solidarity Fund, up to a maximum of seven years. The guarantee that, in the case of changes to the pension system that postpone the retirement date, the company will continue to pay allowances until the new requirements are met is also provided.

Employees who joined the voluntary redundancy scheme have been able to count on an incentive aimed at guaranteeing the weakest sections of the company's workforce, and therefore increasing according to age, seniority and family expenses.

The Group's extensive organizational and cultural change was also reflected in the trade union agreement signed at the end of December for the definition of the criteria for the Company Bonus in the financial years 2017 and 2018, and which correlated company performance and financial recognition. In fact, the index to be com-

pared with the budget forecast was identified in the Group EBITDA, in order to determine the size of the Bonus with respect to the basic values provided for the various staff categories.

In regard to the minimum notice period for operational changes, it should be noted that the organizational changes that are necessary for the better management of the activities are implemented after informing the trade union representatives and in compliance with the consultation procedures provided for by the CCNL or by the rules of Law, which define the times to be respected.

## Company welfare

The Nexi Group developed a careful and rewarding welfare policy, through a series of activities and projects, aimed at constantly improving the way in which the Group operates, increasing professionalism and spreading best practices and behaviour.

To address and better manage welfare aspects related to the wellbeing of the employees, intended as professionals and as individuals, the Group created a set of activities and projects. The wide range of initiatives proposed includes moments of confrontation with management and top management, including the CEO, on the industrial plan, strategies and other relevant internal events; timely information on internal and external company news through press releases and the company intranet; and the possibility of using partial teleworking for the entire company workforce. Partial teleworking, which takes the form of working from home on specific days of the week, has been confirmed as an opportunity to more effectively reconcile work needs with personal needs.

The Group developed a set of initiatives aimed at supporting Employees starting the reconciliation of private life and work, and has created opportunities for socializing and leisure, also open to family members and acquaintances, the latter through the Workers' Recreational Club (CRAL - Circolo Ricreativo Assistenziale Lavoratori), to which the entire company workforce has access.

The benefits<sup>10</sup> offered by Nexi to its employees are not linked to the relevant professional category, neither to the type of contract (full time / part time).

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<sup>10</sup> Meal vouchers and leave for medical examinations in the case of family members with certified disabilities represent two types of benefits that are re-proportioned to working hours..

**PARENTAL LEAVE**

The Group guarantees all its employees the right to take parental leave in accordance with the regulations in force. In fact, Nexi supports Employees starting resolving aspects of reconciliation between private life and work. During 2017, 25 employees took parental leave<sup>11</sup>.

The rate of return to work at the end of parental leave was 116%<sup>12</sup>.

Among the main benefits offered to its employees, Nexi guarantees supplementary pensions, health assistance for all components of the employee's family status, leave for medical examinations that provide 18 paid hours per year, to which 25 more is added in case of certified disabled family members, annual donations for every disabled family member, to which a further annual payment for training and instrumentation needs (DSA) is added, in addition the Group offers insurance advice for the preparation of estimates also in the workplace and recognition of a discount dedicated to policies relating to homes and cars. Meal vouchers are provided, and a nursery for employees who work at the Milan office. From the transportation point of view, the Group offers discounts applied to the purchase of annual passes, a shuttle service to the Rome office, and parking spaces for the disabled in the Milan and Rome offices.

<b>TOTAL NUMBER OF EMPLOYEES WHO TOOK PARENTAL LEAVE (N°)</b>	<b>2017</b>			<b>2016</b>		
	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
Senior management	-	-	-	-	-	-
Middle management	-	7	<b>7</b>	-	4	<b>4</b>
Other staff	-	18	<b>18</b>	-	18	<b>18</b>
<b>Total</b>	-	<b>25</b>	<b>25</b>	-	<b>22</b>	<b>22</b>

<b>TOTAL NUMBER OF EMPLOYEES WHO RETURNED TO WORK AT THE END OF PARENTAL LEAVE (N°)</b>	<b>2017</b>		
	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
Senior management	-	-	-
Middle management	-	9	<b>9</b>
Other staff	-	20	<b>20</b>
<b>Total</b>	-	<b>29</b>	<b>29</b>

## Health & Safety

In line with what is stated in the Code of Ethics, the Nexi Group considers the creation and management of adequate environments and workplaces in terms of health and safety for all its employees, in compliance with national and international directives on the subject, to be of particular importance.

The mapping of the relevant risks present in the working environments, in addition to the general problems related to the structures, plants, equipment and safety regulations, revealed those connected to the management of emergencies, microclimate, lighting and use of video terminals.

The companies of the Nexi Group draw up the Risk Assessment Document (DVR - Documento di Valutazione dei Rischi) and manage the periodic adaptation to the regulatory requirements and the company structure.

<sup>11</sup> The figure includes compulsory and early maternity leave (optional maternity leave is excluded). Parental leave is calculated in the year in which the event begins. As of 2018, the number of employees returned to work at the end of the parental leave will be also reported and still employed 12 months later (Retention Rate).

<sup>12</sup> The rate of return to work following the leave is calculated as (employees returned during the year / employees exited during the year), therefore any data over 100% represent cases of leave started in previous years and ended in the year in question.

The Group adopted a Health and Safety Management System (SGSL - Sistema di Gestione della Salute e Sicurezza) compliant with the UNI-INAIL Guidelines. The SGSL consists of a company policy in the field of health and safety, a manual that is the backbone of the Management System and a document set consisting of Regulatory Dossiers and Operating Instructions specific to the individual regulatory areas subject to supervision (Communication and Consultation, Emergency Management, Health Surveillance, Information and Training, Technical Management of Real Estate, Qualification and Evaluation of Service Providers, Accident Management, Risk Assess-

ment, Survey Management and Improvement). During 2017, 19 accidents were reported in the Nexi Group, no fatal accidents, of which 5 at work and 14 in progress, and no cases of occupational illness were reported.

Nexi has set an important goal for the year 2018, regarding the health and safety aspects deriving from the presence of third-party companies in the workplaces of the companies of the Group, which consists in the preparation, sharing and completion of the Single Evaluation Document of Risks deriving from Interferences (DUVRI - Documento Unico di Valutazione dei Rischi).

<b>ACCIDENTS</b>	<b>2017</b>		
	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
<b>Total injuries</b>	<b>6</b>	<b>13</b>	<b>19</b>
<b>AT WORK</b>	<b>2</b>	<b>3</b>	<b>5</b>
Bologna	-	-	-
Milan	2	1	3
Padua	-	-	-
Rome	-	2	2
Udine	-	-	-
<b>ONGOING</b>	<b>4</b>	<b>10</b>	<b>14</b>
Bologna	-	-	-
Milan	4	8	12
Padua	-	-	-
Rome	-	-	-
Udine	-	2	2
<b>ACCIDENT INDEX<sup>13</sup></b>	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
Incidence index	7.1	14.3	10.8
Severity index	0.2	0.2	0.2
Frequency index	4.3	9.8	7.0
<b>ABSENTEE RATE<sup>14</sup></b>	<b>MALE</b>	<b>FEMALE</b>	<b>TOTAL</b>
<b>Total</b>	<b>4%</b>	<b>7%</b>	<b>6%</b>

13 Incidence index: (number of accidents at work / total number of employees) x 1,000.  
 Severity index: (number of days lost due to accidents / total number of hours worked) x 1,000  
 Frequency index: (number of accidents / total number of hours worked) \* 1,000,000

14 Absentee rate: number of employee absences by type / total number of working hours in the period.  
 The employee absences by type are expressed in hours and include the following types: pregnancy, breastfeeding and post-delivery (including early maternity, optional maternity, optional maternity hours and breastfeeding); family and personal reasons (includes sick leave); other (includes leave, unpaid leave and union leave).

# Clients



In 2017, the Nexi Group paid particular attention to the promotion of a wide range of innovative and digital products capable of satisfying any need, a simple and immediate customer experience and additional services aimed at making daily payments simpler, more comfortable and safer. Nexi carefully studies the global trends, behaviours and needs of different clients, and constantly invests in technology and expertise in order to be able to offer the most innovative payment solutions, in response to daily needs.

The important rebranding activity, which characterized 2017, was an opportunity to restructure the methods of communication to clients, with a view to greater simplicity and accessibility, to redesign the digital properties both in terms of website and app, with the goal of simplifying the

customer experience on information services and the management of cards and other tools, and to develop innovative projects that convey the message of care and proximity to customers, including the #iosi program, a service program developed for all Nexi customers, developed to increase the value of Nexi cards, in terms of insurance protections on purchases and travels and text messages to control spending with greater guarantee of transaction security.

To meet all the needs of banks and their customers, individuals and businesses, the Group developed a wide range of cards, in particular, it introduced the international debit card in 2017.

Nexi debit cards are full of features and services, including online and contactless purchases, free

## GROUP CLIENTS ARE DIVIDED INTO:

### PRIVATE

The Nexi Group, together with the partner banks, offers the best payment solution, to pay everything in a simple and safe way.

### MERCHANTS

Nexi allows merchants to accept all types of payments. Every digital solution becomes, every day, a new business opportunity.

### COMPANIES

Digital Payments solutions, Corporate Banking, credit and debit cards allow companies to manage all payments and business transactions simply, quickly and securely

### BANKS

Nexi supports Banks to manage the commercial offer of Cards, Mobile Payments, Acceptance Systems, ATMs, Interbank Corporate Banking, Clearing & Settlement and Securities Services.

### PUBLIC ADMINISTRATION

The Nexi Group developed solutions suitable to support the Public Administration in the management of digital transactions to collect payments from customers.

### FUNDS AND ASSET MANAGERS

The Nexi Group is the Italian custodian bank for over 50 mutual funds and pension funds. It guarantees over 65 billion assets, offers Fund Administration solutions, and investment services.

withdrawals from all ATMs, worldwide acceptance, advanced security features (SMS alerts, app notifications), ability to change monthly card usage limits, protection in case of theft or fraud, PIN change, instalment payments, card personalization and call centre on Free phone number. Also, in 2017, the new range of prepaid cards was developed, which includes three different types to satisfy the demanding payment base to be offered to private individuals, including non-re-

sidents and companies for small purchases, pocket money or travel for children, salary credit and online purchases. In addition to the classical prepaid, in 2017, Nexi Prepaid Speed was created, addressed to the youth, and the Prepaid International version dedicated to non-residents.

The main innovative products and services of the Group are shown below:

## ISSUING - CARDS AND PAYMENT SOLUTIONS

### **NEXI DEBIT**

More advanced debit card, also ideal for online purchases. Compared to traditional debit cards, online purchases can also be made, as well as the possibility to withdraw from all over the world thanks to the international Visa and MasterCard networks. Nexi Debit allows all forms of digital payment, developed by the bank or other operators, such as contactless payments directly from smartphones.

### **CREDIT EASY SHOPPING**

For those who want flexibility for their own spending, Easy Shopping is available on all the Nexi credit range, for those who want to easily and independently finance a purchase.

### **NEXI BLACK**

It is the first metal credit card with a contactless functionality in the world. For example, Nexi Black offers a personal planner and a 24-hour concierge service with dedicated free phone numbers.

### **SPENDING CONTROL**

Allows customers to customize, independently, from the Nexi Pay app or from the personal area of the Nexi.it site, the spending limit of their card (even for a single day, as well as per week), the enabled shopping category, the "allowed" geographical areas and the preferences on the spending channels (physical, online, cash withdrawal).

### **NEXI PAY**

App to manage the card and to shop online and in store, allows customers to manage all the features of their card, monitor the costs in real time and access all the advantages of the Nexi world. Nexi Pay also allows to pay by smartphone at all stores equipped with a contactless POS, using HCE technology on Android devices and, through Apple Pay on all iPhones.

### **#IOSI**

New service for all customers full of advantages and opportunities, #iosi monitors every movement of the card thanks to a weekly SMS summary; protects every purchase thanks to insurance coverage; allows participation in prize competitions; guarantees discounts and exclusive offers.

## MERCHANT SERVICES - PRODUCTS AND SERVICES FOR MERCHANTS

### **NEXI SMART POS**

The latest generation Nexi terminals have a series of integrated applications, including a cash management application, and are accompanied by an integrated app store that allows merchants to enrich the services available through the device, simply by "downloading" the app. This is an extremely important innovation, of a scale comparable to the birth of a smartphone and which transforms the POS into a true point-of-service.

### **NEW MOBILES POS**

To turn smartphones into a POS, thanks to the agreement with Ingenico, world leader in the design and development of POS terminals, Nexi has changed the paradigm of payment collections in mobility. The new Mobile Pos, available from mid-2018, turn smartphones into a POS, with an application and keyboard for the pin directly available on the phone, to which a small device is connected.

### **NEXI BUSINESS**

App that allows merchants to easily manage all their business revenue from their smartphone, with an overview and detail on all transactions, in-store and online. Nexi business also allows to compare the trend of the business compared to the competition, selected by geographical area and commodity sector, over a specific period. The app also gives access to all accounting documents (invoices, statements) and allows to quickly manage features such as refunds and cancellations.

### **XPAY**

The e-commerce payment gateway can be activated directly online. Nexi has created the new XPay, the ecommerce payment gateway that can be purchased directly online and activated in 24 hours. It is a "turnkey" service that integrates numerous payment methods and is natively multi-channelled through specific features for mobile commerce. XPay integrates quickly into the merchant's customer journey through its APIs and has components for rapid integration with leading e-commerce platforms. Finally, XPay is the first Italian gateway designed and already tested for integration with chatbots and social commerce features.

### **NEXI START**

Nexi's offer for merchants that are starting their business or do not have a POS service. Only one monthly fee, commission costs included in the contract for the first Euro 1,000 in transactions, only one commission for all types of cards over Euro 1,000 in transactions.

## PAYMENTS SERVICES SOLUTIONS FOR BANKS

### **NEXI INSTANT PAYMENTS**

Platform for instant transfers. The Nexi Instant Payments platform allows the management of transfers and money transfers in 1/4 of a second, making any payment based on the current account immediate, both for private customers and for companies. Thanks to solutions designed ad-hoc, banks can offer their customers instant payments in a short time, reducing IT development time and costs.

### **NEXI DIGITAL BANKING**

New digital banking offer designed for companies. For banks and companies, Nexi offers a completely renewed offer enriched with over 60 new features, in line with international best practices. Nexi's offer for digital banking is divided into two solutions - Business and Corporate - designed to meet the needs of large companies and SMEs.

### **LATEST GENERATION ATM**

Nexi proposes 3 categories of latest generation ATMs that cover all the possible needs of client banks. Nexi's offer on ATMs is characterized by advanced machines, capable of automating many teller activities, thus guaranteeing the digitization of 80% of branch operations. In addition, Nexi's ATMs have innovative services such as remote assistance via video. For partner banks, Nexi offers advanced services such as preventive maintenance based on predictive algorithms, and turnkey branch design services to optimize branch space.

## Privacy and data security

Nexi developed an Information Security Management System (SGSI - Sistema di Gestione per la Sicurezza delle Informazioni), whose objective is the protection of corporate information assets, in line with the IT risk propensity defined at company level. This protection is obtained through the adoption of a series of measures of a technological, organizational and procedural nature, commensurate with the criticality and the value of the information itself, designed to guarantee:

- Confidentiality: the information is accessible, in the manner established, only to those who are expressly authorized;
- Integrity: the information can be modified, in the manner established, only by those who are expressly authorized; the requirement is to safeguard the completeness, accuracy and compliance of information during acquisition, storage, processing and presentation;
- Availability: the information is accessible and usable, in the established procedures, only to authorized processes and users and only when the actual need is evidenced.

The Information Security Management System of the Nexi Group is inspired by the ISO standards and considers the Bank of Italy regulations, privacy legislation and company rules. It includes Policies, Organizational Structures, Regulatory Dossiers, Operating Instructions, Procedures and technical documentation, which regulate planning, design and implementation activities, roles and responsibilities, processes and resources, personnel behaviour and controls that pertain to the automated processing of information. This documentation is created and maintained by the organizational structures set up to oversee the various areas of relevance of the SGSI. The System is integrated with the IT risk analysis process which, performed by the Risk Management Department, represents the method by which the effectiveness and efficiency of the controls applied to ICT resources is assessed.

Payment security is a priority for the Nexi Group, this commitment is reflected in the offer and distribution of more innovative, simple and secure payment solutions in Italy. One example is the Instant Payments platform, created and released to the partner banks in 2017, with which Nexi made the first instant bank transfer in Italy. The system, created for the management

of IBAN-based real-time payments, guarantees maximum security, traceability of payments and easy integration with the systems of the Banks and offers various advantages for the end customers (Private and Businesses) in terms of instantaneousness of the payment with an availability of the amount on the beneficiary's account in less than 10 seconds, a service anytime and anywhere 24 hours a day, 7 days a week, 365 days a year, and finally the multi-channel option. To date, 34 SEPA European countries are reachable with Instant Payments.

In addition, the Group has a team of specialists dedicated to the prevention of fraud, which thanks to the most advanced technologies, supports the Group in intercepting fraudulent phenomena in advance and avoiding, in most cases, the involvement of clients. At the same time, thanks to the use of advanced tools for analysing card spending behaviour, spending anomalies are detected and reported.

### **NEXI SERVICES FOR THE BUSINESS AND THE SECURITY OF ITS CLIENTS:**

#### **ACCOUNT STATEMENT**

The monthly account statement allows a precise control of spending and provides summary and detail information useful to always keep the costs and use of the Card under control. By activating the online account statement free of charge from the Company Portal it is easy to consult it and download it directly in pdf format to create an electronic file of statements on your computer. An alert email is sent for each new publication.

#### **NEXI SMS ALERT**

By activating the Nexi Alert SMS service from the Company Portal, purchases by Card can be kept under control. Every time a payment is made with Nexi, a free text message is received. In the case of refund for unlawful debits, in the case of cash withdrawals made with the Card and the PIN code, an ad hoc procedure is defined subject to the contractual provisions on the custody of the Card and PIN.

#### **SMS SERVICES**

The SMS services allow to request information via SMS on the latest transactions, card balance, remaining availability of the card, #iosi balance and much more. In this way, it will be possible to have all the information at your fingertips.

#### **NEXI PAY APP**

For Professional business cards, the special notification service that alerts the customer every time the credit card is used for expenses and purchases of more than Euro 2 is available in the Nexi Pay smartphone app.

#### **EMAIL ALERT**

The Email Alert service sends an alert each time a business credit card transaction is made that exceeds the amount established by the Administrator of the Business Portal.  
The e-mail is also sent in case of purchases with company cards for some types of goods (for example fuels, hotels, car rentals, etc.) or in the case of a cash withdrawal transaction.

#### **3D SECURE**

3D Secure is the Verified by Visa and Mastercard® SecureCode™ fraud protection system which guarantees protection for online purchases. An SMS is received for each purchase containing a unique security code to be entered at the time of payment to confirm the purchase.

*continued*

#### **CV2 CODE**

The CV2 code (CVV2 for Visa, CVC2 for Mastercard) consists of the last three digits on the back of the credit card that is requested during online purchases.

#### **EMERGENCY SERVICES**

Nexi allows to make purchases with complete peace of mind even abroad. Thanks to the emergency services provided by Nexi, in case of theft, loss or deterioration of the credit card, there is no risk of being uncovered or without cash. In addition, at the time of blocking the Card, information can be requested from Nexi Customer Service on how to activate the following services: emergency cash (i.e. a cash advance payable in Italy and abroad on blocked credit cards); replacement credit card (which provides, as a result of block, the ability to immediately receive an emergency replacement card, generally valid for 2 months); credit increase (a free service that must be requested through the Bank); and sufficient funds (another free service that can be requested through the bank, which allows to increase the limit of a single card with a temporality defined at the time of the request).

#### **PHISHING**

Nexi offers updates (patches) that increase the security of navigation programs available online and downloadable for free. It suggests updating the browser and recommends the use of regularly licensed and updated software, updated antivirus software and a free phishing filter toolbar.

The subject of privacy is managed in compliance with current legislation, represented above all by Legislative Decree 196/2003. To this end, the Nexi Group adopted a Privacy Regulation called "Measures for the security of personal data processing", within which the procedures for handling complaints and customer requests are also regulated.

During 2017, the Compliance Office responsible for handling the complaints of Nexi S.p.A. received a complaint from an external stakeholder regarding the issue of privacy violation and loss of consumer data; it was a complaint from a prepaid cardholder who requested a change of privacy consent.

In 2017, in Nexi S.p.A., no complaints were received from regulatory bodies in 2017 regarding cases of privacy violations, nor claims for losses and thefts identified of customer data.

In Nexy Payments, the Claims Management Office received 4 pertinent complaints on the subject of privacy, from cardholders, while none from regulatory bodies.

In 2017, no penalty was imposed.

## QUALITY MANAGEMENT - CERTIFICATIONS



All companies within the group are certified through a quality certificate system **UNI EN ISO 9001:2008** released by the certification body DNV – GL, with the aim to create an excellence-oriented corporate culture and to develop management methods aimed at the continuous improvement of the services offered in terms of efficiency and effectiveness, doing so through the constant and periodic monitoring of Customer feedback and satisfaction.

The certification areas are the following:

Nexi S.p.A.: Design, construction and management of software solutions and IT services, and technology and application outsourcing and related assistance, in particular for Payment Systems for Financial Institutions, Public Administration and Businesses. Provision of treasury and cash services.

Nexi Payments S.p.A.: Design and provision of services and solutions related to issuing and acquiring (debt and credit) and POS and ATM management.

Oasi S.p.A.: Design, construction and management of software solutions and IT services, technology and application outsourcing. Specific consultancy mainly centered on internal audit, Legislative Decree 231/01, data and system security, anti-money laundering. Planning and provision of corporate training services.

Help Line S.p.A.: Planning and provision of Customer Care services, mainly in the area of E-money.

Help Line, is in addition certified through the UNI 15838 standard, which specifies the requirements of "customer engagement processes" (contact center) and aims at providing the "best practices" focused on reaching high satisfaction results by the customer.

## Involvement and listening to customers

The Nexi Group is committed to guaranteeing its clients high levels of service, constantly improving its processes, always aiming for excellence and meeting the needs of all clients in a timely manner, every day of the year. The client is always at the centre of the Group's ideas and daily work; customer needs are measured through customer satisfaction surveys and complaints management; in addition, the Group organizes events dedicated to the various customer segments.

In 2017, a customer satisfaction survey was conducted that involved cardholders and operators, aimed at gathering the level of satisfaction of Nexi clients and the clients of the competitors. During the year, the process of measuring customer satisfaction was fine-tuned, and to date it is carried out monthly with respect to the main competitors and six-monthly for the remaining competitors. The monthly assessments are aimed at analysing the core and image aspects of the brand, while the half-yearly surveys carry out insights on minor competitors and on some processes such as new subscriptions and agreements, disputes, blocks, call centres, promotions, loyalty programs, web portals and app. As for the monthly surveys, 11 surveys were carried out in 2017 (with the exception of the month of

August) and about 540 monthly telephone interviews were carried out with the cardholders and 460 with the merchants.

In regard to the cardholders, the trend in the Nexi Payments customer satisfaction was rather stable during the year. Net of seasonal fluctuations, the result is around 84 out of 100. The differences compared to competitors, both positive and negative, are rather limited: the results achieved by competitors are in fact between 80 and 90 points out of 100 (percentage conversion of an evaluation from 1 to 10).

In regard to the assessment of customer contact points, Nexi Payments obtained better results in the overall indicator than the assessment of the individual experience; reflecting a positive image of the Nexi brand. In the second half of the year, the largest positive differences were reported for the Promotions and the Loyalty Program, while blocks, portal and app reconfirmed the usual high values.

On the merchant side, the trend of the Nexi satisfaction indicators has been stable over time. The Net Promoter Score (NPS) remains significantly higher than all other competitors, thanks to a much higher number of promoters. The assessments on the Nexi Payments brand image are in line with those of both main competitors. However, it should be noted that these assessments were decidedly higher in the first half of the year, in terms of proximity to the way of being, flexibility, fairness, prestige and modernity.

## EVENTS DEDICATED TO CLIENTS

**The events organized by the Group or to which Nexi actively participates in are an opportunity for meeting and comparing the various customer segments.**



**In November 2017, Nexi took part in the second edition of "The Payments Exhibition - Payvolution".**

An event organized by ABIServizi designed to explore issues related to the future of payments, disseminate new solutions and promote the culture of innovation in this area. The event was an opportunity for comparison for banking and non-banking companies, institutions and citizens, on emerging trends in payment systems, new technologies and security.

**At the 2017 Payments Exhibition, Nexi presented the new range of products and services made available to banks and illustrated the future of digital payments and the related growth opportunities for them.**

During the year, Nexi organized, together with the TAG Talent Garden platform, an **XPay e-commerce Workshop**. XPay is the Nexi platform to accept online payments on the e-commerce site of the various client companies. The workshop entitled "From Ecommerce to Connected Commerce" was a training event on the topic of e-commerce. During the event, the business opportunities of online sales were illustrated, and the most profitable trends of the e-commerce sector were presented, with a particular focus on the topic of omnichannel. During the event, the professional characteristics of e-commerce Manager were further analysed and it was explained how to generate added value in all phases of the process: product selection and presentation, lead generation, user experience, logistics, customer relationship and payments. Experts from e-commerce startups and professionals of Nexi XPay were present at the event.

## Claims management

Nexi pays constant attention to the needs of clients and, in this regard, the management of complaints is an important element of detection of critical areas on which to intervene, representing an opportunity to make the relationship of trust more effective and re-establishing a satisfactory relationship with the client. Complaint means any act by which a clearly identifiable Client disputes, in writing (e.g. letter, fax, email), the intermediary behaviour, even omission. The complaint containing the details of the subject proposing it, the reasons for the complaint, the signature or similar element that allows the Client to be identified with certainty is considered valid. Nexi provides a response to the complaint within 30 days of receipt, indicating, in case of acceptance, the expected time to resolve the problem.

The companies of the Nexi Group have adopted internal regulations for the management of customer complaints. Relationships with clients are inspired by the principles of transparency and clarity, assistance and quality. To this end, the companies have adopted an internal procedure which contains the activities, responsibilities and operating procedures with which complaints from clients must be managed and monitored, in compliance with the rules set by self-regulation initiatives or the rules of law. Each individual Company focuses the handling of complaints at a specific Office. In 2017, Nexi Payments received 4,058 complaints from clients. The table below reports the result of the complaints and the main reasons.

RESULT	NUMBER OF COMPLAINTS	% ON TOTAL
Accepted	740	18%
Not accepted	3,318	82%
<b>Total</b>	<b>4,058</b>	<b>100%</b>

REASON	NUMBER OF COMPLAINTS	% ON TOTAL
#iosi	12	0.3%
#iosi Plus	14	0.3%
3D Secure	20	0.5%
Telephone accessibility	44	1.1%
Other	252	6.2%
Applications of the conditions	116	2.9%
POS Activation / configuration	58	1.4%
Conditions	46	1.1%
Dispute definition	2,642	65.1%
Exhaustiveness / Correctness info	88	2.2%
Loyalty promotions	114	2.8%
Transfer Failure / Delay	3	0.1%
Paid telephone number	56	1.4%
CartaSi / Nexi Portal	79	1.9%
Privacy	16	0.4%
Operating Procedures	26	0.6%
Authorization process	26	0.6%
Security measures	54	1.3%
Repricing	25	0.6%
Discourteous operators	83	2.0%
Central credit register reporting	23	0.6%
Services related to Credit card	220	5.4%
SmartSi	29	0.7%
Transfer / Currency Issue Time	2	0.0%
Transparency	10	0.2%
<b>Total</b>	<b>4,058</b>	<b>100%</b>

The complaints made to Nexi SpA by credit card or prepaid cardholders are managed by Nexi Payments, which is responsible for the management of the product. In 2017, Nexi SpA received 105 complaints from customers relating to cards, 48 of which were accepted and 57 not accepted, with reports on the following aspects:

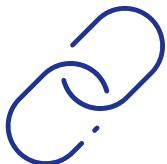
- Credit card services (29 complaints);
- Conditions (2 complaints);
- Application of the contractual conditions (3 complaints);
- Exhaustiveness and correctness of information (4 complaints);
- Requests related to the processing of data for the purposes of the legislation on privacy (7 complaints, of which 1 accepted);
- CartaSi/Nexi Portal (5 complaints);
- Fraud and loss (4 complaints);

- Telephone accessibility (1 complaint);
- Paid telephone number (1 complaint);
- Staff (7 complaints);
- Transparency (3 complaints);
- #iosi services (1 complaint);
- Other (38 complaints).

In specific reference to Nexi S.p.A., the Complaints Office, located within the Compliance & AML Department, reporting directly to the Head of that Department, is also involved in processing any requests for clarification formulated by the Supervisory Bodies on the subject of banking and financial transactions and services, and to periodically provide the information flows required to these Bodies as well as to the top management Bodies.



# Supply chain



In choosing service providers for the assignment of works, supplies and services, the Nexi Group, as stated in the Code of Ethics, adopts the maximum transparency and efficiency of the purchasing process; guarantees impartiality at every stage of the procedure, undertakes to maintain the confidentiality of information that cannot be disclosed and is attentive to promptly report any or potential conflict of interest. The Group guarantees all service providers equal conditions for participation in the selection process, based on objective evaluations, according to principles of fairness, cost-effectiveness, quality, innovation, continuity and ethics. The Group, with the aim of guaranteeing integrity and independence in relations with service providers, defined internal regulations to regulate the purchasing process, which the personnel is required to comply with and which strictly describes and regulates the entire purchasing cycle of every good or service.

As required by internal regulations, all service providers are required to comply with the Code of Ethics and to sign the relevant certification. To this end, the Code of Ethics must be attached to the purchase order and any contract, and it must be indicated that the Code of Ethics is available on the Company website.

Service providers that supply goods or services to the Group are registered on the Nexi Group Register of Suppliers, registration on the Register and selection criteria for the assignment of contracts are subject to objective and transparent assessments of the quality, price, methods of carrying out the service and delivery, as well as the availability of means and organizational structures, in accordance with the company procedures in force.

The "Supplier Portal", active since 2015 and in use at the Supply Chain & Cost Management Department, allows the Group to manage the entire procurement process: from the initial

qualification phase to the performance assessment one. The Portal also allows foreign service providers to be managed and to submit a questionnaire to them which is useful for all product categories, allowing each service provider, at the end of the qualification, to be entered correctly in the Register of Suppliers. The "Supplier Portal" provides for an initial registration phase in which candidates are required to read the Code of Ethics and a verification phase. The standard checks carried out include checking the documentation attesting to the technical suitability of the companies (registration in the Chamber of Commerce, Crafts and Agriculture, presentation of the Chamber of Commerce certificate and Certificate of Social Security Compliance) and of the economic-financial solidity of service providers. During the procurement relationship, service providers are subjected to further checks and evaluations.

All service providers must be adequately monitored by the Spending Managers of Nexi S.p.A. and the Group Companies in order to be able to assess the quality of the service or product supplied, compliance with contractual commitments, and other relevant aspects. Following this evaluation, the Supply Chain & Cost Management service records the degree of satisfaction of the existing relationship. The evaluation process is carried out at least once a year and allows identifying any improvement actions and to reconsider the relationship with the service provider at a strategic level.

According to the product category, the Group requires specific certifications from service providers, for example, for the purchase of POS, the Consorzio Bancomat certification is required, while for Cards and Chip, the Visa and Mastercard Certificates are required. In addition, every service provider, regardless of the product category, is invited to enter the ISO9001 certification in the Supplier Portal.



# Environment



The Nexi Group, despite not operating in a sector characterized by significant environmental impacts, is aware of the importance of using natural and energy resources in a responsible way, and therefore promotes a sustainable development: as underlined in its Code of Ethics the Group is committed to respect the environment and to preserve the rights of future generations.

In 2017, it integrated its 231/01 Model including environmental offenses. The main areas on which the Group's commitment is focused to reduce the environmental impact of its activities include: waste management and disposal, energy and water consumption, consumption of materials, sustainable mobility. In 2017, Nexi launched several projects related to these areas of intervention.

Nexi is committed to use energy in a rational manner, using renewable or lower carbon sources, in order to minimize its GHG emissions.

<b>ENERGY AND EMISSIONS<sup>15</sup></b>	<b>2017</b>
Total direct consumption (Gj)	11,481
Total indirect consumption (Gj)	32,141
Direct emissions Scope 1 (Tons of CO <sub>2</sub> e)	57.3
Indirect emissions Scope 2 (Tons of CO <sub>2</sub> e)	3,129

In regard to water consumption, in 2017, the Nexi Group made water withdrawals for a consumption of 45,027m<sup>3</sup><sup>16</sup>. With regard to the issue of mobility, the intervention was refined and integrated the Group's Car Policy, with the inclusion of hybrid cars and the reduction of the displacements of company cars.

In 2017, as part of the corporate reorganization and rebranding activity, an assessment was launched and almost completed on the energy and environmental transformation of the Milan headquarters, aimed at communicating the deep company evolution to employees and externally. In fact, the Group conducted a due diligence to identify revamping solutions that would improve the overall quality of the Corso Sempione building, extending its stay in the medium to long term. The revamping solution developed, which will be submitted to the examination of the competent corporate bodies during 2018, guarantees an improvement in terms of layout (facades, work spaces, reception) and efficiency (saving on utilities), and a substantial reduction of water and energy consumption.

The Nexi Group, for 2018, aims to strengthen its leadership in the market and in Corporate Social Responsibility; the objective pursued is therefore to become a point of reference for society also in terms of social and cultural responsibility, while increasing the internal commitment to inclusion.

<sup>15</sup> The factors used to calculate the emissions were published: DEFRA (Department for Environment, Food & Rural Affairs) in 2015 and the Department for Business, Energy & Industrial Strategy (BEIS) in 2017.

<sup>16</sup> The figure includes the 2016 adjustments.



# Annex

## RECONCILIATION STATEMENT BETWEEN MATERIAL TOPICS AND ASPECTS OF THE GRI STANDARDS:

<b>MATERIAL ISSUES IDENTIFIED BY THE NEXI GROUP</b>	<b>TOPIC-SPECIFIC DISCLOSURES</b>	<b>PERIMETER OF IMPACTS</b>		
		<b>INTERNAL IMPACT</b>	<b>EXTERNAL IMPACT</b>	<b>RESTRICTIONS</b>
<b>Management of employment drivers</b>	<b>Employment:</b> 401-1; 401-2 <b>Labour/Management relations:</b> 402-1	•		
<b>Training and development of personnel</b>	<b>Training and Education:</b> 404-1, 404-3	•		
<b>Staff appraisal and remuneration policies</b>	<b>Diversity and Equal Opportunity:</b> 405-2 <b>Training and Education:</b> 404-3	•		
<b>Talent attraction and Employer branding</b>	<b>Employment:</b> 401-1	•		
<b>Promotion of health and safety at Group offices</b>	<b>Occupational Health and Safety:</b> 403-2	•	Contractors	Reporting partially extended to contractors
<b>Diversity and equal opportunities</b>	<b>Diversity and Equal Opportunity:</b> 405-1, 405-2	•		Reporting partially extended
<b>Fight against corruption</b>	<b>Anti-corruption:</b> 205-2, 205-3	•	Service providers	to service providers
<b>Continuous innovation</b>	<b>Customer Privacy:</b> 418-1	•	Clients	
<b>Access to services</b>	(*)	•	Clients	
<b>Complaints management</b>	(*)	•	Clients	
<b>Marketing communication</b>	<b>Customer Privacy:</b> 418-1 <b>Marketing and Labelling:</b> 417-3	•	Clients	
<b>Ethics, integrity and compliance</b>	(*)	•	Clients	

(\*) In regard to the subject matter (not directly linked to an aspect required by the GRI-Standards), the Nexi Group reports the management approach adopted and the related indicators in the document.

## GRI CONTENT INDEX

<b>GRI CONTENT INDEX</b>		<b>PAGE NUMBER / NOTES</b>	<b>OMISSIONS</b>
<b>DISCLOSURE</b>	<b>INDICATOR DESCRIPTION</b>		
<b>GRI 102: 2017 GENERAL DISCLOSURES</b>			
<b>ORGANIZATIONAL PROFILE</b>			
102-1	Name of the organization	Page 168	
102-2	Activities, main brands, products and / or services	Page 168, 203-205 Corso Sempione 55, 20149 Milan	
102-3	Place where the company headquarters are located		
102-4	Number of countries where the organization operates	Page 168, 192	
102-5	Ownership structure and legal form	Page 8	
102-6	Markets served	Page 168, 202	
102-7	Organization size	Page 8, 9, 22, 29, 32, 168, 192	
102-8	Employees by type of contract, gender, origin, age, members of the protected categories	Page 192-194	
102-9	Description of the supply chain	Page 212	
102-10	Significant changes during the reporting period regarding the size of the Group, the structure, the ownership or the chain of suppliers	Page 170-171	
102-11	Application procedure of the principle or prudential approach	Page 182-186	
102-12	Adoption of external codes and principles in the economic, social and environmental areas	The Group does not adhere to codes and principles external to the organization.	
102-13	Membership of associations and organizations of national or international support	Page 175	
<b>STRATEGY</b>			
102-14	Statement by the Chairman and the Chief Executive Officer	Page 3	
<b>ETHICS AND INTEGRITY</b>			
102-16	Values, principles, standards and rules of conduct within the company	Page 172-173, 188	
<b>GOVERNANCE</b>			
102-18	Corporate governance structure	Page 178-180	
<b>STAKEHOLDER ENGAGEMENT</b>			
102-40	List of stakeholders engaged	Page 174	
102-41	Percentage of employees covered by collective labour agreements	Page 198-199	
102-42	Identification process and selection of stakeholders to be engaged	Page 174-175, 208	
102-43	Approach to stakeholder engagement	Page 174-175, 208	
102-44	Key aspects and critiques emerged from stakeholder engagement and related actions	Page 175	

DISCLOSURE	INDICATOR DESCRIPTION	PAGE NUMBER / NOTES	OMISSIONS
<b>REPORTING PRACTICE</b>			
102-45	List of companies included in the consolidated financial statements and indication of the companies not included in the report	Page 166	
102-46	Process of defining the contents of the report and the perimeter of each aspect	Page 176	
102-47	List of aspects identified as materials	Page 176	
102-48	Explanation of the effects of any modification of information included in previous financial statements and reasons for these changes	This is the first non-financial consolidated statement.	
102-49	Significant changes compared to the previous reporting period	This is the first non-financial consolidated statement.	
102-50	Reporting period	Page 166	
102-51	Date of most recent financial statement	This is the first non-financial consolidated statement.	
102-52	Reporting frequency	Page 166	
102-53	Contacts and useful addresses to request information on the financial statements and their contents	To request information on the DNF and its contents, write to the Nexi Corporate & Regulatory Affairs Service E-mail: corporateaffairs@nexi.it	
102-54 / 102-55	GRI content index and choice of the "in accordance" option	Page 166, 217-219	
102-56	External attestation	Page 221-225	
<b>ECONOMIC PERFORMANCE: TOPIC SPECIFIC STANDARDS</b>			
<b>GRI 205: 2016 ANTI-CORRUPTION</b>			
GRI 103	2016 Management approach	Page 185-190	
205-2	Communication activities and training on policies and procedures to prevent and combat corruption	Page 197	
205-3	Any incidents of corruption identified, and remedial activities implemented	Page 189	
<b>SOCIAL PERFORMANCE: TOPIC SPECIFIC STANDARDS</b>			
<b>GRI 401: 2016 EMPLOYMENT</b>			
GRI 103	2016 Management approach	Page 192	
401-1	Total number and rate of staff hiring and turnover	Page 195-196	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Page 199	
<b>GRI 402: 2016 LABOUR/MANAGEMENT RELATIONS</b>			
GRI 103	2016 Management approach	Page 198-199	
402-1	Minimum notice period for operational changes, including if this notice period is specified in the collective labour agreements	Page 199	
<b>GRI 403: 2016 OCCUPATIONAL HEALTH AND SAFETY</b>			
GRI 103	2016 Management approach	Page 200-201	
403-2	Type of accidents, accident rate, occupational illnesses, days of missed work and absenteeism and number of fatal accidents related to work divided by region and gender	Page 201	For 2017, the number of accidents and the related injury rates for contractors is not reported, as the Group started a process to monitor this information from 2018.

DISCLOSURE	INDICATOR DESCRIPTION	PAGE NUMBER / NOTES	OMISSIONS
<b>GRI 404: 2016 TRAINING AND EDUCATION</b>			
GRI 103	2016 Management approach	Page 196-197	
404-1	Average annual training hours per employee, by gender and by category	Page 197	
404-3	Percentage of employees who receive regular reports on the results and career development, by gender and employee category	Page 198	
<b>GRI 405: 2016 DIVERSITY AND EQUAL OPPORTUNITY</b>			
GRI 103	2016 Management approach	Page 179, 194-195	
405-1	Composition of the governing bodies and division of employees by category with respect to gender, age, members of protected categories and other indicators of diversity	Page 180, 193-194	
405-2	Ratio between male and female basic salary by category and by operational qualification	Page 198	
<b>GRI 417: 2016 MARKETING AND LABELING</b>			
GRI 103	2016 Management approach	Page 182	
417-3	Total number of cases of non-compliance with regulations or voluntary codes related to marketing activities including advertising, promotion and sponsorship	In 2017, for the four Group companies, no incidents were reported regarding non-compliance with regulations or voluntary codes in relation to marketing activities that include advertising, promotion and sponsorship.	
<b>GRI 418: 2016 CUSTOMER PRIVACY</b>			
GRI 103	2016 Management approach	Page 205-206	
418-1	Number of documented complaints regarding breaches of privacy and loss of consumer data	Page 207	



# AUDITING COMPANY REPORT

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**2017**



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(Translation from the Italian original which remains the definitive version)

## **Independent auditors' report on the consolidated non-financial statement pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 and article 5 of Consob Regulation no. 20267**

*To the board of directors of  
Nexi S.p.A.*

Pursuant to article 3.10 of Legislative decree no. 254 of 30 December 2016 (the "Decree") and article 5 of Consob (the Italian Commission for listed companies and the stock exchange) Regulation no. 20267, we have been engaged to perform a limited assurance engagement on the 2017 consolidated non-financial statement of the Nexi Group (the "Group") prepared in accordance with article 4 of the Decree, presented in the specific section of the directors' report and approved by the board of directors on 21 March 2018 (the "NFS").

### ***Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Nexi S.p.A. (the "Company") for the NFS***

The directors of Nexi S.p.A. are responsible for the preparation of a NFS in accordance with articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" issued in 2016 by GRI - Global Reporting Initiative (the "GRI Standards").

The directors are also responsible, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, the directors are responsible for the identification of the content of the NFS, considering the aspects indicated in article 3.1 of the Decree and the Group's business and characteristics, to the extent necessary to enable an understanding of the Group's business, performance, results and the impacts it generates.

The directors' responsibility also includes the design of an internal model for the management and organisation of the Group's activities, as well as, with reference to the aspects identified and disclosed in the NFS, the Group's policies for the identification and management of the risks generated or borne.

The Collegio Sindacale is responsible for overseeing, within the terms established by the Italian law, compliance with the Decree's provisions.

### **Auditors' independence and quality control**

We are independent in compliance with the independence and all other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Auditors' responsibility**

Our responsibility is to express a conclusion, based on the procedures performed, about the compliance of the NFS with the requirements of the Decree and the GRI Standards. We carried out our work in accordance with the criteria established by "International Standard on Assurance Engagements 3000 (Revised) - Assurance Engagements other than Audits or Reviews of Historical Financial Information" ("ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board applicable to limited assurance engagements. This standard requires that we plan and perform the engagement to obtain limited assurance about whether the NFS is free from material misstatement. A limited assurance engagement is less in scope than a reasonable assurance engagement carried out in accordance with ISAE 3000 Revised, and consequently does not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures we performed on the NFS are based on our professional judgement and include inquiries, primarily of the Company's personnel responsible for the preparation of the information presented in the NFS, documental analyses, recalculations and other evidence gathering procedures, as appropriate.

Specifically, we carried out the following procedures:

1. Analysing the material aspects based on the Group's business and characteristics disclosed in the NFS, in order to assess the reasonableness of the identification process adopted on the basis of the provisions of article 3 of the Decree and taking into account the reporting standards applied.
2. Analysing and assessing the identification criteria for the reporting scope, in order to check their compliance with the Decree.
3. Gaining an understanding of the following:
  - the Group's business management and organisational model, with reference to the management of the aspects set out in article 3 of the Decree;
  - the entity's policies in connection with the aspects set out in article 3 of the Decree, the achieved results and the related key performance indicators;
  - the main risks generated or borne in connection with the aspects set out in article 3 of the Decree.

Moreover, we checked the above against the disclosures presented in the NFS and carried out the procedures described in point 4.a).



*Nexi Group*

*Independent auditors' report on the consolidated non-financial statement  
31 December 2017*

4. Understanding the processes underlying the generation, recording and management of the significant qualitative and quantitative information disclosed in the NFS.

Specifically, we held interviews and discussions with the Company's management personnel and personnel of Nexi Payments S.p.A.. We also performed selected procedures on documentation to gather information on the processes and procedures used to gather, combine, process and transmit non-financial data and information to the office that prepares the NFS.

Furthermore, with respect to significant information, considering the Group's business and characteristics:

- at company and subsidiaries level:
  - a) we held interviews and obtained supporting documentation to check the qualitative information presented in the NFS and, specifically, the business model, the policies applied and main risks for consistency with available evidence;
  - b) we carried out analytical and selected procedures to check, on a sample basis, the correct aggregation of data in the quantitative information;
- we visited Nexi S.p.A. and Nexi Payments S.p.A., which we have selected on the basis of their business, contribution to the key performance indicators at consolidated level and location, to meet their management and obtain documentary evidence supporting the correct application of the procedures and methods used to calculate the indicators.

### ***Conclusion***

Based on the procedures performed, nothing has come to our attention that causes us to believe that the 2017 consolidated non-financial statement of the Nexi Group has not been prepared, in all material respects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards.

### ***Other matters***

The 2016 comparative figures presented in the NFS have not been examined.

Milan, 6 April 2018

KPMG S.p.A.

(signed on the original)

Roberto Fabbri  
Director of Audit





# PARENT COMPANY REPORTS AND FINANCIAL STATEMENTS

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**2017**



# BOARD OF DIRECTORS' REPORT ON OPERATIONS

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**2017**

# Board of Directors' Report on operations

## *Dear Shareholders,*

Financial year 2017 closes with a Net Profit of Euro 89.5 million compared to a 2016 Net Profit of Euro 84.2 million. Shareholders' equity is Euro 2,033.3 millions compared to Euro 2,049.8 millions at 31 December 2016.

Operating revenues totalled € 299.2 million (10.3%) compared to € 271.3 of 2016 due to the combined effect of the decrease in net interest income from € 52.2 millions to € 44.1 million (18.5%), the decrease in commissions and revenues from services from € 151.5 million to € 148.7 million (1.9%) and the increase in dividends from € 90.2 million to € 74.3 million (21.3%).

EBITDA reported € 145.2% compared to € 121.6 million in 2016.

## Regulatory compliance

Refer to the similar section of the Report on the management of the Group.

## Human resources

The Parent Company's headcount totalled 825 resources as of 31 December 2017.

	<b>NEXI</b>			
	<b>DEC.-16</b>		<b>DEC.-17</b>	
	<b>HC</b>	<b>FTE</b>	<b>HC</b>	<b>FTE</b>
Senior Management	35	35.0	47	47.0
Management	385	378.5	396	390.7
Employees	442	420.7	376	358.0
Fixed-term	9	9.0	6	6.0
<b>Total</b>	<b>871</b>	<b>843.2</b>	<b>825</b>	<b>801.7</b>

## Information on staff and the environment

Refer to the similar section of the Report on the management of the Group.

## Management performance

The results for the 2017 financial year were able to benefit from the contribution of the Business Units and the individual services as illustrated below.

## Payments & ATM B.U.

In 2017, the Payments & ATM Business Unit, in a context of renewal and repositioning of the organizational model, continued its efforts towards a "continuous quality improvement" of the services provided to its clients, with particular reference to those relating to the infrastructure role of payment systems, intermediary bank and corporate services, in line with the indications and guidelines defined in the business plan.

Among the main activities carried out during the year, the new ACH SEPA Instant was activated in November 2017, which enables Nexi PSP clients to exchange and settle instant bank transfer transactions according to the rules and schemes provided for by the Authorities. In this context, an interoperability link is expected to be established between the ACH Instant of Nexi and EBA Clearing in the first part of 2018.

The fully interoperable ACH Instant and the concomitant development of value added services associated with the new offer will give Nexi a significant boost in terms of competitiveness and service innovation compared to its competitors.

The launch of the CIT (Check Image Truncation) or the interbank project with which, at the system level, the checks are to be managed digitally, was postponed by ABI and the Bank of Italy

at the beginning of 2018. However, during the current year, Nexi proceeded to prepare what was necessary in terms of the processes and organizational controls necessary to manage the proposed services in terms of both infrastructure and settlement bank.

The Payments & ATM BU is proactively participating in the main domestic and European projects on the evolution of payment systems, favored and stimulated also by the approval of Legislative Decree 15 December 2017 n. 218 implementing EU Directive 2015/2366 of 25 November 2015, on payment services for the internal market (so-called PSD2).

In this context, Nexi participates in the task force set up by the European Central Bank - ERPB and at the operational roundtables set up by the Bank of Italy, EPC and ABI.

In the context of P2P payments, Nexi is active on international / domestic work projects (EPC, ABI, Berlin Group) for interoperability with other P2P systems and is also evaluating further projects aimed at extending these payment functions.

The Payments & ATM BU, with a view to optimizing and integrating the companies belonging to the Group, participates proactively in the interdisciplinary comparison aimed at defining necessary synergies aimed at improving the Group's offer.

In 2017, the Payments & ATM BU managed total volumes of interbank transactions for approximately 1.5 billion transactions, including the infrastructure activities of payment systems and inter-bank intermediation, and dealt with approximately 2.7 billion in applicative and informative transactions in the services of the Interbank Corporate Banking segment. All the indicators are up compared to the previous year.

In the Digital Corporate Banking sector, Nexi manages approximately 260 thousand workstations, in line with the 2016 figure.

In the ATM sector, the number of devices managed by Nexi remained stable at around 9.2 thousand units.

What was achieved in 2017 was influenced by a complex context in which extraordinary events took place, the overall effects of which will manifest in a structural manner over the 2018 financial year: among these, for example, mergers of large client banks, the exit of important players, in addition to other external events such as the closure of the INPS Voucher, which involved the

disposal of the service with a negative impact on revenues of approximately € 2.5million.

Nevertheless, 2017 revenues amounted to € 106.4 million, a value in line with the 2016 result.

Overall, the EBITDA of the Payments & ATM BU increased compared to 2016 (€ 33.7 million in 2017, +23.1% compared to 2016).

## Payment services

The volumes of the settlement services for SEPA collection and payments, standardized, competitive domestic and foreign, were around € 430 million and grew in 2016 by about 12% compared to 2016. The most significant positive variance is attributable to the Setif services and international card settlement.

The operating volumes of the Collection and Payment Services carried out in a material nature (Cheques, Bills, etc.) in 2017 amounted to around 80 million, a decrease of around 11%, consistent with the market trend observed by interbank statistics.

The Bankers drafts managed (issued and paid) for the period in question were approximately 2.1 million, with a decrease of around 14.7% compared to 2016.

The volumes of the collection and payment transactions carried out on behalf of the large Nexi and Public Administration clients increased from around 76.5 million in 2016 to 78.6 million with an overall increase of 3%. This result is particularly significant in light of the aforementioned negative component produced by the disposal of the INPS Voucher service.

## Digital Corporate Banking

Revenues from Digital Corporate Banking services achieved a substantially positive result, compared to the articulated market scenario that was created in 2017, as previously mentioned. It is also worth mentioning that also, in 2017, Nexi provided the CBI (Customer to Business Interaction Consortium) with the IT services of the CBI Network infrastructure.

## ATM

Managed ATM terminals totalled 9.2 thousand units and the figure is stable compared to last year, despite the rationalization of the branch network by some client Banking Groups.

Approximately 70% of the Nexi ATM range is managed by providing clients with the Outsourcing service. The main trends registered in 2017 in this sector includes the so-called "Fleet light" service, for which Nexi also provides the equipment (+124% vs 2016).

## Securities Services B.U.

In 2017, the services of the Securities Services Business Unit (Depository, Administration and Securities Settlement, Fund Services, Investment Services) provided to Banks, Brokers (SIM), Asset Managers (SGR) and Funds recorded a marginal reduction in assets under administration in respect of an increase in brokerage volumes.

Operating income increased significantly to Euro 71.0 million, of which Euro 8.3 million referable to the net interest income and Euro 2.1 million to the proceeds on securities.

In addition to strengthening the customer base on the reference market, during the year the BU Securities Services activities focused mainly on:

- expansion of the range of offers to clients through the launch of new services (e.g. fund accounting and transfer agent for AIFs, listing of branded bonds of customers on Regulated Markets and MTFs, etc.);
- development of new activities to complete the existing services to be proposed in 2018 (e.g. collateral management service for non-standardized OTC derivatives);
- implementation of the lines of the 2017-2021 Strategic Plan through the focus on the "traditional" chain of Securities Services and the consequent rationalization of assets deemed incompatible with the objectives of the plan.

## Global Custody

Global Custody services, provided to more than 150 Institutional Clients, recorded a decline in the administered portfolio in 2017 in respect of a recovery in settlement services.

At the end of the year, the portfolio of securities under custody and administration amounted to approximately € 121.3 billion, of which 45% represented by foreign securities, with a decrease of 1.7% compared to the values of 2016. Analysis of the portfolio confirms the switch in progress between the foreign component, up by 8% and the domestic component, down by 8.3%.

Recovery of the settlement activities continued for transactions on Italian securities (+16.8%) while those on foreign markets remained substantially stable (-0.3%). Overall, operating volumes in this sector amounted to 3.90 million regulations in 2017 (+12.3%).

## Operations Services and Depository Bank & Controls

The Depository Bank & Controls Department continued its growth also in 2017, reporting an increase in assets under administration to approximately € 63.5 billion (+6.8% compared to 2016), thanks to the positive performance of the markets and the progress of funding in the asset management market, as well as numerous commercial actions in the area of private equity and real estate funds.

The client pension funds department in 2016 totalled 49 (+1 compared to 2016) with total assets of approximately € 24.7 billion (+4.1%), confirming Nexi's market leadership in this segment.

The assets referring to open-ended mutual funds also increased, now equal to approximately € 34.2 billion (+7.8%) and closed-end mutual funds, whose assets under management now is around € 4.6 billion (+15.3%).

The total portfolio of administered funds now includes 154 mutual funds, 30 private equity funds and 47 real estate funds.

The positive trend in client deposits also benefited the Fund Administration activities, carried out on a portfolio exceeding € 49 billion (+9.1%).

The Transfer Agent business managed more than 2.35 million subscribers in 2017 (+5.8%). In line with the Strategic Plan, the administrative management of pension fund members was identified as "non-core" compared to the traditional scope of the Securities Services and therefore it was decided to sell this business area to a primary domestic operator with effect from 1 January 2018.

## **Brokerage & Primary Market**

The strengthening of the macroeconomic scenario in 2017 (recovery of the Eurozone supported by the ECB's expansive policies, accelerated spending on household consumption and disposable income, growth in employment, rise in consumer prices, etc.) have positively influenced the performance of financial markets, both in terms of prices and trading volumes.

The Brokerage & Primary Market Service was favoured by the recovery in volumes and the total value of the securities traded, amounting to € 46.4 billion, grew by 20.4% compared to 2016. The growth was particularly significant in the fixed income sector (+25.6%) but important performance also influenced domestic (+15.3%) and foreign (+15.0%) equities.

The number of transactions executed exceeded 1.85 million orders overall, while the volume of the lots relating to trading on derivatives exceeded 540 thousand units.

The market shares in the sub-funds managed by Borsa Italiana (Mta, Mot, EftPlus) remained substantially stable.

## **Treasury department**

During 2017, the European Central Bank continued the consolidation process of the international macroeconomic framework by confirming an accommodative monetary policy. The initiatives taken by the ECB, accompanied by a partial revision of the Quantitative Easing program, guaranteed interbank rates regularly lower than 0% with a further contraction in the volumes traded on unsecured regulated markets, keeping the yields of European government issues at historically low levels.

As usual, the Treasury Department activity was directed to reduce operational, credit and market risks by adopting an operating strategy aimed at optimizing the management of proprietary portfolios and the liquidity deriving from the performance of the core activity.

Operations were mainly concentrated in the Available for Sales and Loans & Receivables portfolios. The activity on the Held for Trading segment was moderate, exclusively aimed at closing forward foreign exchange transactions on behalf of clients or for the management of liquidity in foreign currency. In the Held to Maturity portfolio, the position is gradually decreasing as a result of the natural maturities.

The Available for Sales securities portfolio, with an average nominal value of approximately € 2,800 million, was mainly composed of fixed-rate securities and, to a lesser extent, Treasury Credit Certificates.

Purchases made during the year were aimed at investing liquidity on positive return levels and with a medium-term time horizon (up to 5 years).

Positioning in national government issues was also regularly used for refinancing or brokerage transactions on the Repo MMF market (for around € 1,100 million daily average), on levels more remunerative than the official ECB rate, contributing to increase in the profitability of the sector.

Liquidity surpluses, both in Euro and in other currencies, were mainly managed within the Loans & Receivables portfolio over a short-term time horizon. The funding and investing activities were carried out through deposits on the inter-bank e-MID market, the MMF Repo (brokered by Cassa di Compensazione e Garanzia) and over the counter up to a maximum of three months.

At the same time, the provision of services to the various Departments operating in the Group continued on a regular basis, in particular through loans to the investee company operating in the electronic money sector for around € 1,450 million per day and carrying out the ordinary forex brokerage activities on behalf of clients.

## Credit

The exposure to Credit Risk is characterized by the peculiarity of the Parent Company as the so-called "second-tier" bank, i.e. a bank whose "core business" is represented by the offer of services to the banking and financial system as well as to primary corporate clients, essentially in the sector of payment systems and administrative services for depositary, administration and securities settlement. It follows that the granting of credit is strictly instrumental to the provision of this type of service and does not constitute a business purpose in its own right.

The credit risk measurement methodologies adopted, and the related control process are characterized by simplicity criteria due to the limited number of exposures.

The guidelines for credit management are in any case based on general principles of prudence, correct and accurate management and compliance with current legal and regulatory provisions.

No transactions with derivative instruments were used to hedge the credit risk.

The positions with lines of credit have, as counterparty, 42% supervised intermediaries, 39% Companies controlled or invested in by Nexi Spa, 18% UCI and SIM and only 1% companies belonging to the Corporate segment (almost exclusively of instrumental credit lines connected to the execution of collection instructions).

The following table shows the main financial statements indicators for 2017:

<b>NEXI - HIGHLIGHTS AND MAIN INDICATORS</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>VAR. %</b>
<b>Statement of financial position highlights (€'000)</b>			
Loans and receivables with customers	<b>2,092,467</b>	1,580,147	32.4%
Loans and receivables with banks	<b>795,195</b>	739,377	7.5%
Financial assets	<b>2,644,672</b>	3,323,522	- 20.4%
Total assets	<b>11,383,909</b>	9,759,124	16.6%
Direct funding from customers	<b>7,805,377</b>	6,228,123	25.3%
Indirect funding from customers (assets under administration)	<b>54,162,935</b>	51,660,230	4.8%
Equity	<b>2,033,282</b>	2,049,805	- 0.8%
<b>Income statement highlights (€'000) (*)</b>			
Net interest income	<b>52,238</b>	44,065	18.5%
Net fee and commission income and revenue from services	<b>151,492</b>	148,655	1.9%
Operating income	<b>299,196</b>	271,298	10.3%
Personnel expense	<b>82,777</b>	74,081	11.7%
Operating costs	<b>153,978</b>	149,678	2.9%
EBITDA	<b>145,219</b>	121,620	19.4%
Profit for the year	<b>89,491</b>	84,164	6.3%
<b>Structural ratios (%)</b>			
Loans and receivables with customers / Total assets	<b>18.4%</b>	16.2%	
Loans and receivables with banks / Total assets	<b>7.0%</b>	7.6%	
Financial assets / Total assets	<b>23.2%</b>	34.1%	
Direct funding from customers / Total assets	<b>68.6%</b>	63.8%	
Indirect funding from customers / Total funding from customers	<b>87.4%</b>	89.2%	
<b>Profitability ratios (%)</b>			
Profit / (equity - profit) (ROE)	<b>4.6%</b>	4.3%	
Net interest income / Operating income	<b>17.5%</b>	16.2%	
Fee and commission income and revenue from services / Operating income	<b>50.6%</b>	54.8%	
Operating costs / Operating income (Cost income ratio)	<b>51.5%</b>	55.2%	
<b>Credit risk ratios (%)</b>			
Net impaired loans and receivables with customers / Net loans and receivables with customers	<b>-</b>	-	
Impairment losses on loans and receivables with customers / Gross impaired loans and receivables with customers	<b>81.3%</b>	81.7%	
Total net impaired assets / Equity	<b>-</b>	-	
<b>Productivity indices (€'000)</b>			
Average number of employees (FTE)	<b>816</b>	852	- 4.2%
Operating income / Average number of employees	<b>367</b>	319	15.1%
EBITDA / Average number of employees	<b>178</b>	143	24.6%
Personnel expense / Average number of employees	<b>101</b>	87	16.6%
<b>Capital ratios (%)</b>			
Own funds	<b>1,635,895</b>	1,632,442	0.2%
Risk-weighted assets	<b>3,163,286</b>	2,855,997	10.8%
CET1 capital / Risk-weighted assets (CET1 capital ratio)	<b>51.67%</b>	57.0%	
Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	<b>51.67%</b>	57.0%	
Total own funds / Risk-weighted assets (Total capital ratio)	<b>51.72%</b>	57.2%	

(\*) The economic data are noticed in the reclassified income statement included in the management report.

**Dear Shareholders,**

The corporate events described above are reflected in the Balance Sheet and Profit & Loss Account figures highlighted below.

## Financial Statement Highlights

### Statement of financial position

#### ASSETS

(millions of €)	31.12.2017	31.12.2016
Financial assets held for trading	17.4	13.2
Available-for-sale financial assets	2,627.2	3,310.3
Held-to-maturity investments	5.0	15.9
Loans and receivables with banks	795.2	739.4
Loans and receivables with customers	2,092.5	1,580.1
Equity investments	1,794.7	1,611.4
Non-current assets	387.7	392.8
Other assets	3,664.2	2,096.0
<b>Total assets</b>	<b>11,383.9</b>	<b>9,759.1</b>

#### LIABILITIES

(millions of €)	31.12.2017	31.12.2016
Due to banks	1,093.9	1,100.2
Due to customers	7,805.4	6,228.1
Other liabilities	419.1	346.0
Post-employment benefits	8.1	11.4
Provisions	24.1	23.6
Equity	1,943.8	1,965.6
Profit for the Period	89.5	84.2
<b>Total liabilities</b>	<b>11,383.9</b>	<b>9,759.1</b>

At December 2017, the bank has total assets of € 11,383.9 million compared to € 9,759.1 million at the end of the previous year.

A glance at the various asset captions shows that:

- **Financial assets held for trading** amount to € 174 million against € 13.2 million at 31 December 2016;

- **Available-for-sale financial assets** come to € 2,627.2 million compared to € 3,310.3 million at the end of 2016, mainly consisting of government bonds. The reduction is mainly due to the redemption of certain bonds that reached maturity;

- **Held-to-maturity investments** amount to € 5.0 million and includes bank's bonds (31 December 2016: € 15.9 million). The reduction is mainly due to the redemption of certain bonds that reached maturity;

- **Loans and receivables with banks** amount to € 795.2 million compared to € 739.4 million at the previous reporting date;

- **Loans and receivables with customers** amount to € 2,092.5 million compared to € 1,580.1 million at 31 December 2016. The increase is mainly due to the higher deposits and joint accounts with customers;

- **Equity investments** amount to € 1,794.7 million compared to € 1,611.4 million at 31 December 2016 million. The increase refers to the purchase of shares of Bassilichi S.p.A. (100% € 173.3 million) and Consorzio Triveneto S.p.A. (€10.0 million);
- **Non-current assets** amount to € 387.7 million against € 392.8 million at 31 December 2016;
- **Other assets** of € 3,664.2 million (31 December 2016: € 2,096.0 million) include cash and cash equivalents to € 3,243.2 million, tax assets to € 59.7 million, and other assets of € 361.3 million. The increase mainly refers to the greater liquidity deposited with central banks.

With respect to liabilities:

- **Due to banks** amounts to € 1,093.9 million compared to € 1,100.2 million at 31 December 2016;
- **Due to customers** comes to € 7,805.4 million against € 6,228.1 million at the previous year-end. The increase is mainly due to the higher volume of funding from customers;

• **Other liabilities** amount to € 419.1 million compared to € 346.0 million at 31 December 2016 and include financial liabilities held for trading of € 5.7 million, tax liabilities of € 28.8 million and other liabilities of € 384.6 million. The increase is attributable to the higher amounts on open items at 31 December 2017, relating to the execution of payment orders;

• **Post-employment benefits** amount to € 8.1 million compared to the € 11.4 million at the previous year-end; the decrease is mainly due to reduction of personnel following the corporate restructuring;

• **Provisions** amount to € 24.1 million (31 December 2016: € 23.6 million);

• **Equity** totals € 1,943.8 million compared to € 1,965.6 million at the previous year-end. The variation is a result of the distribution of the reserve for € 19.8 million and the decrease in the fair value reserve for € 2.0 million.

In the table below are represented own funds and ratios at December 2017.

### NEXI S.P.A. - COMPANY REGULATORY CAPITAL RATIOS

(€/000)	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>Common Equity Tier 1 (CET 1)</b>	<b>1,634,462</b>	<b>1,628,902</b>
<b>Total own funds</b>	<b>1,635,895</b>	<b>1,632,442</b>
Credit and counterparty risk	<b>204,510</b>	182,433
Market risk	<b>1,413</b>	805
Operational risk	<b>47,140</b>	45,242
Total prudential requirements	<b>253,063</b>	228,480
Risk-weighted assets (RWA)	<b>3,163,286</b>	2,855,997
<b>CET 1 ratio</b>	<b>51.67%</b>	<b>57.03%</b>
<b>Total capital ratio</b>	<b>51.72%</b>	<b>57.16%</b>

### Income statement

The December 2017 figures are compared to same period last year in the following table. Nexi reported an EBITDA of € 145.219 million compared to € 121.620 million at 31 December 2016 (+19.4%) and a profit of € 89.491 million (2016: € 84.164 million).

**NEXI - INCOME STATEMENT**

YTD December, 31 (€/000)	2017	2016	VAR.%
Net fee and commission income	<b>151,492</b>	148,655	1.9%
Net interest income	<b>52,238</b>	44,065	18.5%
Net trading/hedging income	<b>5,300</b>	4,236	25.1%
Dividends from equity investments and AFS	<b>90,167</b>	74,342	21.3%
<b>Operating revenue</b>	<b>299,196</b>	<b>271,298</b>	<b>10.3%</b>
Payroll and related costs	<b>-82,777</b>	-74,081	11.7%
Production costs	<b>-15,287</b>	-16,406	- 6.8%
ICT costs	<b>-55,345</b>	-57,529	- 3.8%
General expenses	<b>-23,168</b>	-23,400	- 1.0%
<b>Administrative expenses</b>	<b>-176,576</b>	<b>-171,415</b>	<b>3.0%</b>
Other net operating expenses/income	<b>22,825</b>	22,862	- 0.2%
Net accruals for risk and charge	<b>-226</b>	-1,125	
<b>Operating costs (net of DA)</b>	<b>-153,978</b>	<b>-149,678</b>	<b>2.9%</b>
<b>EBITDA</b>	<b>145,219</b>	<b>121,620</b>	<b>19.4%</b>
Depreciation and amortization	<b>-9,038</b>	-7,685	17.6%
Depr.&Amort. (customer contract)	<b>-9,684</b>	-9,684	-
Share of gains/losses of investees	<b>22,460</b>	-415	n.a.
Non recurring/extraordinary items	<b>-74,437</b>	-40,923	n.a.
Income taxes	<b>14,971</b>	21,251	- 29.6%
<b>Net profit</b>	<b>89,491</b>	<b>84,164</b>	<b>6.3%</b>

With respect to the **operating revenue**:

- **Net fee and commission income and revenue from services** amount to € 151.492 million, up on the same period of previous year figure of € 148.655 million (+1.9%);
- **Net interest income** come to € 52.238 million for december 2017 increased from € 44.065 million for december 2016 (+18.5%);
- **Net trading/hedging income** amounts to positive € 5.300 million against to € 4.236 million on same period last year (+25.1%);
- **Dividends from equity investments and AFS** amounts to € 90.167 million against to € 74.342 million on same period last year (+21.3%).

With respect to the **Operating costs**:

- **Payroll and related costs** amounts to € 82.777 million compared to € 74.081 million for 2016 (+11.7%);
- **Production costs** come to € 15.287 million against to € 16.406 million at the same period of last year (-6.8%);

● **ICT costs** amounts to € 55.345 million compared to € 57.529 million at december 2016 (-3.8%);

● **General expenses** amount to € 23.168 million decreased from € 23.400 million of the same period of last year (-1.0%);

● **Other operating income**, net amounts to € 22.825 million compared to € 22.862 million at the same date of 2016 (-0.2%);

● **Net accruals for risk and charge** amounts to negative € 0.226 million compared to € 1.125 million at december 2016.

**Operating costs** thus come to € 153.978 million compared to € 149.678 million for the same period of last year (+2.9%).

**EBITDA** thus come to € 145.219 million compared to € 121.620 million for 2016 (+19.4%).

**Depreciation and amortization** amounts to € 9.038 million compared to € 7.685 million for 2016 (+17.6%).

**Amortisation** of depository services customer contracts amounts to € 9.684 million (2016: € 9.684 million).

**Share of gains** of investees amount to positive € 22.460 million and are referred to the sale of the "TAPF" business unit and the sale of shares in the "Fondo Italiano di Investimento" classified in the AFS portfolio.

The following **other negative non-recurring components** amount to € 74.437 million including:

- cost for the Group's transformation/evolution € 16.130 million;
- losses of investees of € 3.899 million;
- incentive for voluntary redundancy and Solidarity Fund € 53.489 million;
- other negative items € 0.919 million.

These components led to a pre-tax profit of € 74.520 million which netting to positive income taxes for € 14.971 million led to a profit for the period of € 89.491 million.

## Joint document of bank of Italy/Isvap no. 4 of 3 March 2010 - and. 2 of 6 February 2009

Information is provided below on the business continuity of the Parent Company as well as on financial risks, impairment tests of assets and uncertainties in the use of estimates.

## Business continuity

Considering the following indicators pertaining to the Parent Company:

### Financial indicators

- No situation involving a capital deficit or net negative working capital;
- No loans with fixed or upcoming expiration dates without positive prospects of renewal or reimbursement; there is not an excessive dependency on short-term loans to finance long-term activities;

- No indications of cessation of financial support from financing entities and other creditors;
- No past or pro-forma financial statements reporting negative cash flows;
- Primary economic-financial indices are not negative;
- No significant operational losses or significant impairments of assets generating cash flows;
- No omission or discontinuity in the distribution of dividends;
- Capacity to pay debts on expiration dates exists;
- Capacity to comply with the contractual clauses of loans exist.

### Management indicators

- No situation involving a capital deficit or net negative working capital;
- No loans with fixed or upcoming expiration dates without positive prospects of renewal or reimbursement;
- No excessive dependency on short-term loans to finance long-term activities.

### Other indicators

- No share capital decreases below legal limits or which were not in compliance with other legal norms;
- No legal and fiscal disputes which, in the case of a loss, could result in obligations of reimbursement that the companies of the Group are not capable of respecting;
- No legislative changes or government policies which could result in unfavourable effects to the companies of the Group.

The Directors confirm the reasonable expectations that the Group will continue its operations in the near future of at least 12 month and that, as a result, the financial statements for the year 2017 have been drafted from the perspective of business continuity. As a result, they have not noticed symptoms within the assets and financial structure and in the operational situation trends that could constitute cause for uncertainty business continuity.

## Impairment of assets

It should be noted that the Explanatory Notes report the information requested by the joint document in relation to the process of evaluation of the assets subject to a potential impairment (impairment test) and relative to base assumptions, methodologies and utilized parameters.

In addition, and in relation to disclosure, the Explanatory Notes again report fundamental information on the following elements:

- Definition of cash generating units (CGU);
- Allocation of goodwill to each CGU;
- Illustration of the criterion used to estimate the recoverable value when the latter is based on value in use;
- Illustration of the criterion used to estimate the recoverable value when the latter is based on the fair value;
- Description of the sensitivity analysis of the impairment test results with respect to changes in the underlying assumptions;
- Remarks on the potential presence of external indicators of impairment and in the absence of write-downs of assets following the impairment procedure.

## Information on financial risks

Information on the nature and extent of financial risks to which Nexi is exposed is provided below.

### Credit risk

Nexi is a so-called "second level" bank; lending is not the primary business objective but is instrumental and closely connected to the provision of products/services and specific treasury activities (managed through the granting of operational limits) as well as those of the Securities Services B.U. (mostly managed through the granting of overdraft credit lines within bank accounts).

The methods for measuring credit risk adopted and the relative control process are of a streamlined and simple nature because of the limited amount of credit exposure. Specific organizational norms for loans and periodical reviews of the latter have been adopted: these positions are examined by the Credit Committee and authorized by the Board of Directors.

## Market risk

The market risk to which Nexi is exposed is extremely low given that the securities portfolio is almost entirely related to the "banking book" (AFS and HTM portfolios), and thereby does not generate market risk. The HFT portfolio relative to the "trading book" only contains the securities relative to Market Making services (for which the value limit and VaR remain very low) and Financial Brokerage (for which the end of day position is closed, without prejudice to positions of the error account).

Even exposure to exchange rate risk is very low given that every transaction in foreign currency which generates a position exposed to exchange rate risk is typically "hedged" by executing an offsetting operation on the market; the maintenance of positions subject to exchange rate risk is permitted only within certain limits (always extensively complied with) of maximum total exposure for each currency and VaR.

## Liquidity risk and cash flow fluctuation risks

The core activities of Nexi typically contribute towards generating liquidity on demand. During the year, the liquidity is primarily used to finance the requirements of the Companies of the Group which issue e-money services (Nexi Payments first of all).

Liquidity needs are satisfied by recourse to the interbank deposits market of repurchase agreements and through the use of part of the securities present within the portfolio by using operations with a duration of less than a month.

The Securities Portfolio is characterized by the presence of government securities and (to a residual extent) bank bonds that are primarily utilized as guarantees to hold in order to operate on clearing systems and to proceed with the market collection of repurchase agreements.

Any potential liquidity is utilized within interbank deposits or repurchase agreements with a duration of not more than three months. The structure of the cash flows used with different maturities and amounts allows for the limitation of liquidity risk with a balanced return of current positions.

Supervisory reports of the liquidity indicator - Basel 3 LCR, provided on a monthly basis - highlighted a constant compliance with the regulatory limit proposed for normal operations (> 100%).

## Interest rate risk

Interest rate risk, managed in a centralized manner by Nexi for the entire banking Group, is not negligible due to the temporal mismatch between assets and liabilities. In particular, risk-weighted assets – of which the relevant ones include securities present in the banking book (AFS and HTM portfolio), mostly with fixed rates although with rather close maturities (almost all within five years) – are more prevalent than weighted liabilities amongst which the greatest incidence pertains to balances of negative bank accounts. During the year, risk monitoring reported a slight increase, primarily due to the increase in the duration of the securities portfolio as a result of the replacement of expiring securities with fixed rate securities with a duration between three and five years, and despite constant compliance with thresholds established by internal and regulatory norms.

2018 economic and financial trends are expected to be in line with 2017.

## Significant events after the end of the year

Significant events after 2017 year-end have been reported in the relevant section of the Report on Group's operations.

## Other information

It is noted that Nexi is not subject to management and coordination by another company or body, in accordance with the provisions of articles 2497-sexies and 2497-septies of the Italian Civil Code.

It is noted that Nexi did not undertake any research and development activities in 2017.

In the respective sections of its website ([www.nexi.it](http://www.nexi.it)), Nexi has published, with the 2017 Financial Statements, "State by state information to the public", and "Information for the public from entities in compliance with (EU) Regulation 575/2013", as set forth in Circular 285, and subsequent amendments, published by Bank of Italy on 17 December 2013.

It is pointed out that the gender quota on the Nexi Board of Directors is ensured in accordance with Art. 15 paragraph 1 of the Articles of Association and the applicable regulatory provisions.

## Treasury shares

It is noted that there was no treasury share trading activity during the period.

Consequently, the Nexi portfolio currently has 75,191 treasury shares with a par value of Euro 3.00 each, with a non-distributable reserve of Euro 32,196.

## Registered office

CORSO SEMPIONE, 55 - MILANO.

## Secondary offices

VIA LIVRAGHI GIOVANNI, 16 - MILANO  
VIA CHIANESI ELIO, 110 D - ROMA  
VIA ROSSA G., 10 - ANZOLA DELL'EMILIA (BO)

## Profit allocation for the year

*Dear Shareholders,*

the financial statements presented for your examination and approval show a profit for the year of € 89,490,653.

We propose that a dividend of € 2,679 be distributed for each of the 14,185,790 shares:

- extraordinary reserve	€ 51,486,922
- dividend	€ 38,003,731
<b>Total</b>	<b>€ 89,490,653</b>

Milan, 21 March 2018

BOARD OF DIRECTORS



# FINANCIAL STATEMENTS AS AT 31 DECEMBER

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**2017**

# Financial statements as at 31 December 2017

## BALANCE SHEET

(Euro)

<b>ASSETS</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>10. Cash and cash equivalents</b>	<b>3,243,241,362</b>	<b>1,798,761,383</b>
<b>20. Financial assets held for trading</b>	<b>17,424,426</b>	<b>13,192,948</b>
<b>40. Available-for-sale financial assets</b>	<b>2,627,247,157</b>	<b>3,310,329,090</b>
<b>50. Held-to-maturity investments</b>	<b>4,965,824</b>	<b>15,933,025</b>
<b>60. Loans and receivables with banks</b>	<b>795,195,183</b>	<b>739,377,342</b>
<b>70. Loans and receivables with customers</b>	<b>2,092,466,875</b>	<b>1,580,146,508</b>
<b>100. Equity investments</b>	<b>1,794,701,021</b>	<b>1,611,378,764</b>
<b>110. Property, equipment and investment property</b>	<b>77,977,517</b>	<b>79,420,818</b>
<b>120. Intangible assets</b>	<b>309,709,770</b>	<b>313,380,402</b>
<i>goodwill</i>	246,663,237	246,663,237
<b>130. Tax assets</b>	<b>59,675,927</b>	<b>57,040,754</b>
<i>a) current</i>	24,428,522	22,494,731
<i>b) deferred</i>	35,247,405	34,546,023
<i>including convertible into tax assets (Law no. 214/2011)</i>	28,894,268	27,901,043
<b>150. Other assets</b>	<b>361,304,136</b>	<b>240,162,964</b>
<b>Total assets</b>	<b>11,383,909,198</b>	<b>9,759,123,998</b>

<b>LIABILITIES</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>10. Due to banks</b>	<b>1,093,916,485</b>	<b>1,100,206,560</b>
<b>20. Due to customers</b>	<b>7,805,377,315</b>	<b>6,228,122,934</b>
<b>40. Financial liabilities held for trading</b>	<b>5,670,706</b>	<b>8,066,965</b>
<b>80. Tax liabilities</b>	<b>28,815,621</b>	<b>30,312,954</b>
<i>a) current</i>	-	-
<i>b) deferred</i>	28,815,621	30,312,954
<b>100. Other liabilities</b>	<b>384,627,736</b>	<b>307,625,558</b>
<b>110. Post-employment benefits</b>	<b>8,069,721</b>	<b>11,422,388</b>
<b>120. Provisions for risks and charges</b>	<b>24,148,422</b>	<b>23,560,710</b>
<i>a) pension and similar obligations</i>	874,782	940,187
<i>b) other provisions</i>	23,273,640	22,620,523
<b>130. Valuation reserves</b>	<b>60,530,628</b>	<b>62,562,177</b>
<b>160. Reserves</b>	<b>1,692,494,565</b>	<b>1,712,312,679</b>
<b>170. Share premium</b>	<b>148,242,172</b>	<b>148,242,172</b>
<b>180. Share capital</b>	<b>42,557,370</b>	<b>42,557,370</b>
<b>190. Treasury shares (-)</b>	<b>-32,196</b>	<b>-32,196</b>
<b>200. Profit for the period (+/-)</b>	<b>89,490,653</b>	<b>84,163,727</b>
<b>Total liabilities and equity</b>	<b>11,383,909,198</b>	<b>9,759,123,998</b>

**INCOME STATEMENT**

(Euro)

	<b>2017</b>	<b>2016</b>
<b>10. Interest and similar income</b>	<b>69,260,023</b>	<b>54,890,194</b>
<b>20. Interest and similar expense</b>	<b>-16,871,306</b>	<b>-10,875,612</b>
<b>30. Net interest income</b>	<b>52,388,717</b>	<b>44,014,582</b>
<b>40. Fee and commission income</b>	<b>130,439,102</b>	<b>133,448,191</b>
<b>50. Fee and commission expense</b>	<b>-29,875,491</b>	<b>-34,035,511</b>
<b>60. Net fee and commission income</b>	<b>100,563,611</b>	<b>99,412,680</b>
<b>70. Dividends and similar income</b>	<b>91,384,932</b>	<b>95,965,672</b>
<b>80. Net trading income</b>	<b>5,283,755</b>	<b>4,232,046</b>
<b>100. Net profit on sale or repurchase of:</b>	<b>7,011,474</b>	-
<i>b) available-for-sale financial assets</i>	7,011,474	-
<b>120. Total income</b>	<b>256,632,489</b>	<b>243,624,980</b>
<b>130. Net impairment losses on:</b>	<b>-3,899,087</b>	<b>-2,212,077</b>
<i>b) available-for-sale financial assets</i>	-3,899,087	-2,212,077
<b>140. Net financial income</b>	<b>252,733,402</b>	<b>241,412,903</b>
<b>150. Administrative expenses:</b>	<b>-248,061,637</b>	<b>-210,167,630</b>
<i>a) personnel expense</i>	-137,185,381	-87,167,981
<i>b) other administrative expenses</i>	-110,876,256	-122,999,649
<b>160. Net accruals to provisions for risks and charges</b>	<b>-1,418,018</b>	<b>-1,518,753</b>
<b>Depreciation and net impairment losses on property, equipment and investment property</b>	<b>-2,333,133</b>	<b>-2,216,596</b>
<b>170. Amortisation and net impairment losses on intangible assets</b>	<b>-16,388,885</b>	<b>-15,152,774</b>
<b>180. Other operating income, net</b>	<b>75,405,707</b>	<b>72,590,499</b>
<b>200. Operating costs</b>	<b>-192,795,966</b>	<b>-156,465,254</b>
<b>210. Share of profits (losses) of investees</b>	<b>14,590,000</b>	<b>-22,034,742</b>
<b>240. Net gains (losses) on sales of investments</b>	<b>-7,330</b>	25
<b>250. Pre-tax profit from continuing operations</b>	<b>74,520,106</b>	<b>62,912,932</b>
<b>260. Income taxes</b>	<b>14,970,547</b>	<b>21,250,795</b>
<b>270. Post-tax profit from continuing operations</b>	<b>89,490,653</b>	<b>84,163,727</b>
<b>290. Profit for the period</b>	<b>89,490,653</b>	<b>84,163,727</b>

**STATEMENT OF COMPREHENSIVE INCOME**

(Euro)

<b>CAPTIONS</b>	<b>2017</b>	<b>2016</b>
<b>10. Profit for the year</b>	<b>89,490,653</b>	<b>84,163,727</b>
<b>Items, net of tax, that will not be reclassified subsequently to profit or loss</b>		
40. <i>Defined benefit plans</i>	70,575	328,638
<b>Items, net of tax, that will be reclassified subsequently to profit or loss</b>		
100. <i>Available-for-sale financial assets</i>	(2,102,124)	(6,786,353)
130. <b>Other comprehensive expense</b>	<b>(2,031,549)</b>	<b>(6,457,715)</b>
<b>140. Comprehensive income (captions 10 + 130)</b>	<b>87,459,104</b>	<b>77,706,012</b>

## **STATEMENT OF CHANGES IN EQUITY FOR 31 DICEMBER 2016**

(€'000)

## **STATEMENT OF CHANGES IN EQUITY FOR 31 DECEMBER 2017**

(€'000)

**STATEMENT OF CASH FLOWS: INDIRECT METHOD**

(€'000)

<b>A. OPERATING ACTIVITIES</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>1. Operations</b>	<b>39,840</b>	<b>-10,665</b>
- profit for the year (+/-)	<b>89,491</b>	84,164
- net gains (losses) on financial assets held for trading and financial assets/liabilities at fair value through profit or loss (-/+)	<b>106</b>	37
- hedging gains/losses (-/+)	-	-
- net impairment losses (+/-)	<b>3,899</b>	2,212
- net impairment losses on property, equipment and investment property and intangible assets (+/-)	<b>18,722</b>	17,369
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	<b>1,418</b>	1,519
- unpaid taxes and duties (+)	<b>-14,971</b>	-21,251
- net impairment losses on disposal groups, net of the tax effect (+/-)	-	-
- other adjustments (+/-)	<b>-58,826</b>	-94,716
<b>2. Cash flows generated by financial assets</b>	<b>-27,093</b>	<b>341,590</b>
- financial assets held for trading	<b>-4,338</b>	5,509
- available-for-sale financial assets	<b>630,052</b>	-615,642
- loans and receivables with banks: on demand	<b>-55,818</b>	66,075
- loans and receivables with banks: other	-	-
- loans and receivables with customers	<b>-512,320</b>	864,537
- other assets	<b>-84,669</b>	21,111
<b>3. Cash flows used by financial liabilities</b>	<b>1,654,170</b>	<b>1,382,387</b>
- due to banks: on demand	<b>-6,290</b>	78,706
- due to banks: other	-	-
- due to customers	<b>1,577,254</b>	1,705,051
- securities issued	-	-
- financial liabilities held for trading	<b>-2,396</b>	3,160
- financial liabilities at fair value through profit or loss	-	-
- other liabilities	<b>85,602</b>	-404,531
<b>Net cash flows generated by (used in) operating activities</b>	<b>1,666,916</b>	<b>1,713,311</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flows generated by</b>		
- sales of equity investments	<b>16,400</b>	-
- dividends from equity investments	<b>91,385</b>	95,966
- sales/repayments of HTM investments	<b>11,000</b>	16,000
- sales of property, equipment and investment property	<b>216</b>	-
- sales of intangible assets	-	-
- sales of business units	-	-
<b>2. Cash flows used to</b>		
- equity investments	<b>-222,726</b>	-25,304
- HTM investments	-	-
- property, equipment and investment property	<b>-970</b>	-614,52
- intangible assets	<b>-13,759</b>	-13,516
- business units	-	-
<b>Net cash flows generated by investing activities</b>	<b>-118,454</b>	<b>72,531</b>
<b>C. FINANCING ACTIVITIES</b>		
- issue/repurchase of treasury shares		
- issue/purchase of equity instruments		
- dividend and other distributions	<b>-103,982</b>	-9,448
<b>Net cash flows used in financing activities</b>	<b>-103,982</b>	<b>-9,448</b>
<b>NET CASH FLOWS FOR THE YEAR</b>	<b>1,444,480</b>	<b>1,776,395</b>

**RECONCILIATION**

(€'000)

<b>FINANCIAL STATEMENTS CAPTIONS</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
Opening cash and cash equivalents	<b>1,798,761</b>	22,366
Net cash flows for the year	<b>1,444,480</b>	1,776,395
Cash and cash equivalents: effect of changes in exchange rates		
<b>Closing cash and cash equivalents</b>	<b>3,243,241</b>	<b>1,798,761</b>

KEY:  
 (+) generated  
 (-) used



# EXPLANATORY NOTE

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**2017**

# Explanatory note

## Part A - Accounting policies

### A.1 - GENERAL PART

#### SECTION 1 - Statement of compliance

Pursuant to Regulation (EC) no. 1606 of 19 July 2002, Nexi (the bank) has prepared these separate financial statements as at and for the year ended 31 December 2017 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. They were introduced into Italian law with Legislative decree no. 38/2005.

The bank applied the IFRS enacted at 31 December 2017 and Bank of Italy's instructions about financial statements issued in its Measure of 22 December 2005, the related Circular no. 262 and subsequent amendments, pursuant to Art 43 Legislative Decree No. 136/2015.

It did not make any departures from the IFRS.

#### SECTION 2 - Basis of presentation

The separate financial statements at 31 December 2017 comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes. They are accompanied by a directors' report which comments on the bank's performance, its results of operations and financial position.

The bank's presentation currency is the Euro and the amounts shown in the separate financial statements and these notes are in thousands of Euros.

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

The following paragraphs illustrate the amendments made to several accounting standards issued by the IASB and validated by the European Commission, which were applicable on a mandatory basis from FY 2017:

- Regulation (EU) no. 1989 of 9 November 2017 "Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)" amends IAS 12 Income Taxes to address diversity in practice around the recognition of a deferred tax asset that is related to a debt instrument measured at fair value that has arisen because of uncertainty about the application of some of the principles in IAS 12.
- Regulation (EU) no. 1990/2017 of 9 November 2017 "Disclosure Initiative (Amendments to IAS 7)" amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Regulation (EU) no. 2018/182 of 7 February 2018 "Annual Improvements to IFRS Standards 2014–2016 Cycle", amends IFRS 1 First-time adoption of IFRS, IFRS 12 Disclosure of investments in other entities and IAS 28 Investments in associates and joint ventures.

Regarding to the amendment of IAS 28, the IASB clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The application of the above-illustrated amendments did not have any significant impact on the Financial Statements.

The following table shows the new standards or amendments with the related endorsement regulations. Their application is mandatory from 1 January 2018 (for entities whose reporting period is the calendar year) or subsequently.

<b>ENDORSEMENT REGULATION</b>	<b>NAME</b>	<b>STANDARD/INTERPRETATION</b>	<b>YEAR OF APPLICATION</b>
2016/2067	IFRS 9	Financial Instruments	2018
2017/1988	Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	2018
2016/1905	IFRS 15	Revenue from contracts with customers	2018
2017/1987	Clarifications to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	2018
2017/1986	IFRS 16	Leases	2019
2018/182	Annual Improvements to IFRS Standards 2014-2016 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates and Joint Ventures	2018 (for the IFRS 1 and IAS 28 amendments)

In particular, for the classification and measurement of debt financial instruments, the analysis highlighted the following:

- Business Model: the Business Models have been defined and approved by the Board of Directors and the internal accounting policy have been updated. We also proceeded to allocate the financial instruments in the Defined Business Model Portfolio; in particular, the trading and the loan portfolios will not change and will be allocated respectively in the IFRS 9 "Other" and "Held to collect" (HTC) portfolios. The portfolio of debt instruments classified in the IAS 39 portfolio of instruments available for sale will be allocated in the business model "Held to collect or sale" (HTCS).
- SPPI (Sole payment of Principal and Interest) test: the internal accounting policy has been updated and a market solution has been purchased to perform the SPPI test for security. Furthermore, an analysis was carried out on the current stock of financial assets classified in the HTC and HTCS portfolios, which showed that some instruments classified in the HTCS portfolio didn't pass the SPPI test. Since under IAS 39 standard these instruments are classified in the Available For Sale portfolio, the transition to the new IFRS9 standard needs to reclassify the difference between fair value and carrying amount as at 31 December 2017, from the Valuation Reserve to "Retained Earnings", without any impact on the total Net Equity. The subsequent variations will be recognized to profit & loss.

With reference to the classification of the equity instruments in the portfolio, we have highlighted the following:

- Instruments held for trading purposes: there are no impacts because these instruments are already measured at fair value through the income statement for IAS 39 purposes.
- Capital instruments other than the previous: for these instruments, classified in the portfolio of instruments available for sale for IAS 39 purposes, the decision taken by the Bank to use the option envisaged by IFRS 9 that allows the measurement of these instruments at fair value against Shareholders' equity and does not generate any impact on the Bank's net equity. The treatment mentioned before need to reclassify the accumulated losses on the portfolio' instruments from the Retained Earnings to the Valuation Reserve.

Regarding to the Impairment rules, a simulation was carried out over to the portfolio at 31 December 2017. The simulation shows that there are very limited impacts because the Bank's loan portfolio mainly consists of current account related to the services provided by the Bank, short term loans related to the e-money services, that are almost fully guaranteed by the bank partners, and by the short-term trade receivable. No substantial differences were found between the valuation model with Probability of Default to 1 year (for loans classified in stage 1) and with probability of default life time (for loans classified in stage 2). The model in use is already based on the probability of default to 1 year and the changes aforementioned did not generate impacts. The analyses carried out with reference to the inclusion of looking forward variables have shown the absence of significant impacts, considering the characteristics of the loan portfolio and the low amount of the provision recorded for performing loans by the Bank.

The changes relating to the accounting treatment of "own credit risk" will not have any impact because this case is not present in the individual financial statements of Nexi.

With reference to IFRS 15, Nexi Group decided to apply the prospective implementation with cumulative effect. Consequently, the transition date to the new standard is 1 January 2018. The impacts have been determined with reference only to the contracts that have not been completed as the date of first implementation.

The analysis conducted with reference to January 1, 2018, highlighted the following:

- Identification of contracts with customers: no significant impacts were identified.
- Contracts with multiple performance obligations: Performance obligations, in the majority of cases refer to routinary or recurring services. For this reason it's applicable the exception envisaged by IFRS 15 that consider the individual contractual obligations, such as a single performance obligation. The only impact relates to up front fee that under IFRS15 should be included in the total consideration of the service provided and the revenues from software selling are considered as a transfer of right of access that should be recognized straight line basis in relation to the useful life of the underlying contracts. The change in accounting treatment requires to reverse from Retained Earnings as at 1 January 2018 revenues and costs that for IFRS 15 purposes are attributable to subsequent financial years.
- Determination of the transaction price: The Group has analysed the potential impact arising from "variable consideration". In particular existing contracts in some limited cases, include bucket considerations or periodic adjustments according to the volumes billed for services. The frequency of accounting of the adjustments does not exceed the solar year. Therefore, this variable consideration does not affect the annual financial statements of Nexi.
- Allocation of the transaction price to the performance obligations: The contracts including more performance obligations generally refer to recurring services, for which, there is not the application of significant rebates and consequently there are no significant impacts.
- Revenue recognition: There are no significant impacts due to the nature of Nexi revenues.

Following the summary of the estimates up to date relating to the impacts on the Net Equity of Nexi as at 31 December 2017 due to the application of the accounting standards applicable from 1 January 2018.

(€/million)	AS REPORTED AT 31 DECEMBER 2017	ESTIMATED ADJUSTMENTS DUE TO ADOPTION OF IFRS 9	ESTIMATED ADJUSTMENTS DUE TO ADOPTION OF IFRS 15	ESTIMATED ADJUSTED OPENING BALANCE AT 1 JANUARY 2018
Valuation Reserves	<b>60.5</b>	(1.2)	0.0	59.3
Retained Earnings	<b>1,692.5</b>	1.2	(2.1)	1,691.6
<b>Shareholders Equity</b>	<b>2,033.3</b>	<b>0.0</b>	<b>(2.1)</b>	<b>2,031.1</b>
NCI	<b>0.0</b>	0.0	0.0	0.0

With reference to IFRS16, the project had been started at the end of 2017 and will continue in 2018.

The bank applies the measurement criteria assuming that it will continue as a going concern and in accordance with the principles of accruals, materiality and significance of the financial data and the principle of substance over form.

The separate financial statements and the notes present corresponding prior year figures.

The directors' report and these notes include all the information required by the IFRS, the law and Bank of Italy, as well as additional disclosures which are not mandatory but are deemed useful to give a true and fair view of the bank's separate financial statements.

#### **Basis of presentation of the separate financial statements**

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

They comprise captions, subcaptions and additional information. Revenue is shown without a plus sign while costs are shown with a minus sign in the income statement.

**Statement of changes in equity**

This statement shows changes in equity during the year split between share capital, equity-related reserves, income-related reserves, valuation reserves and the profit (loss) for the year. Treasury shares are offset against equity. The bank has not issued equity instruments other than ordinary shares.

**Statement of cash flows**

The statement of cash flows for the year and the previous year has been prepared using the indirect method, whereby cash flows from operations are the profit for the year adjusted by the effects of non-monetary transactions.

Cash flows are split between those from operating, investing and financing activities.

Cash flows generated during the reporting period are indicated without a plus sign while those used during the reporting period are shown with a minus sign.

**Basis of presentation of the notes**

These notes include the information required by Bank of Italy's Circular no. 262/2005 and the additional information required by the IFRS.

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

**SECTION 3 - Events after the reporting period**

No events took place after the reporting date that would have had a significant effect on the bank's financial position, results of operations or cash flows or that would have required adjustments to the financial statements captions.

**SECTION 4 - Other aspects**

There is no other information that needs to be disclosed, including with respect to the Bank of Italy/Consob/IVASS document no. 6 of 8 March 2013.

## A.2 - KEY FINANCIAL STATEMENTS CAPTIONS AT 31 DECEMBER 2017

### 1 - Financial assets held for trading

#### **Classification:**

A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of selling it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- a derivative (except for a derivative that is an effective hedging instrument).

Derivatives are recognised under assets when they have a positive fair value and under liabilities when they have a negative fair value.

#### **Recognition**

Debt and equity instruments are recognised at their settlement date while derivatives are recognised at their trading date. Financial assets held for trading are initially recognised at fair value, which is usually the transaction price, net of any directly attributable transaction costs.

#### **Measurement**

After initial recognition, financial assets held for trading are measured at fair value. Any resulting fair value gains or losses are recognised in caption 80 "Trading income (expense)" of the income statement. Interest accrued on these assets is recognised in caption 10 of the income statement "Interest and similar income", although interest and/or other income and expense on trading derivatives are recognised in caption 80 "Trading income (expense)" of the income statement.

Section 17 - Other information provides information on the calculation of fair value of listed financial instruments. Equity instruments and derivatives hedging equity instruments are maintained at cost when it is not possible to calculate their fair value reliably.

#### **Derecognition**

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

### 2 - Available-for-sale financial assets

#### **Classification**

This category includes non-derivative financial assets that are not classified as loans and receivables, financial assets held for trading, held-to-maturity investments or financial assets at fair value through profit or loss.

#### **Recognition**

They are initially recognised at the settlement date and measured at fair value, which includes the directly related transaction costs.

#### **Measurement**

AFS financial assets are subsequently measured at fair value with recognition of amortised cost in profit or loss and the fair value gains or losses in a specific equity reserve until the asset is derecognised or an impairment loss is recognised. Gains or losses recognised in equity are reclassified to profit or loss when the asset is sold. The interest coming from the application of amortized cost are accounted to profit & loss.

Realised gains or losses are recognised in caption 100 "Net profit (loss) on sale or repurchase" of the income statement.

Fair value is calculated using the same criteria applied to financial assets held for trading.

Equity instruments included in this category and derivatives hedging equity instruments are maintained at cost when it is not possible to calculate their fair value reliably.

The bank tests its assets for impairment at each reporting date. When there is a significant or prolonged decline in fair value, NEXI recognises it in profit or loss as the difference between the asset's carrying amount (acquisition cost net of impairment losses already recognised in profit or loss) and fair value. Fair value losses are significant when they exceed 20% of the cost and prolonged if they have existed for over nine months.

If the fair value of a debt instrument increases in a subsequent period and this increase is objectively due to an event that took place in a period after that in which the impairment loss was recognised in profit or loss, the impairment loss is reversed and the related amount is recognised in the same income statement caption. The reversal may not generate a carrying amount higher than that which would have been obtained by measuring that asset at amortised cost had the loss not been recognised. Impairment losses on shares, recognised in profit or loss, cannot be reversed through profit or loss but only directly through equity.

#### **Derecognition**

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

### **3. Held-to-maturity investments**

#### **Classification**

This category includes debt instruments with fixed or determinable payments and fixed maturities that the bank has the ability and intention to hold to maturity. If it is no longer appropriate to maintain an asset as classified as held to maturity following a change in the bank's intentions or ability, it is reclassified to "AFS financial assets".

#### **Recognition**

HTM investments are initially recognised at cost, being the fair value of the amount traded, including any directly related costs and income.

#### **Measurement**

After initial recognition, HTM investments are measured at amortised cost using the effective interest method. Fair value gains or losses are recognised in profit or loss when the investments are derecognised.

At each reporting date, the bank tests the HTM investments for impairment. The impairment loss, if any, is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original effective interest rate.

Impairment losses are recognised in profit or loss. When the reasons for impairment are no longer valid as a result of an event that took place subsequent to recognition of the impairment loss, it is reversed through profit or loss.

#### **Derecognition**

Financial assets or parts of financial assets are derecognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

### **4 - Loans and receivables**

#### **Classification**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

This category includes trade receivables and reverse repurchase agreements.

#### **Recognition**

Loans and receivables are initially recognised at the agreement signing date, which is usually the disbursement date, based on the financial instrument's fair value, which usually equals the amount disbursed including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently. The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs.

## **Measurement**

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

Interest is recognised in caption 10 "Interest and similar income" of the income statement.

Loans and receivables are tested for impairment at each reporting date to determine whether there is objective evidence of impairment due to events subsequent to initial recognition. Indication of impairment is based on one or more events that took place after initial recognition that have an impact on the estimate of future cash flows of a financial asset or a group of financial assets that can be measured reliably.

Loans and receivables tested individually for impairment include positions classified as non-performing, doubtful or restructured as per the Bank of Italy regulations. Assets not tested individually or for which impairment has not been identified are tested collectively.

The individual impairment test measures the difference between the carrying amount and present value of estimated future cash flows discounted at the position's original effective interest rate.

Estimated cash flows include guarantees securing the debtor's exposure and their probable enforcement. When enforcement of the guarantees is unlikely, the bank uses their present value, while if it is probable that they will be enforced, the bank considers their realisable value net of the costs to be incurred for enforcement.

Impairment losses are recognised in caption 130 "Net impairment losses" in the income statement.

Loans and receivables are reinstated to their original value in subsequent periods when the reasons for impairment are no longer valid, as long as this assessment is objectively linked to an event that took place after recognition of the impairment loss. Reversals of impairment losses are recognised in the income statement and may not exceed the position's amortised cost had the impairment loss not been recognised.

Loans and receivables that are not tested individually for impairment are tested collectively. They are grouped into categories based on their risk and the related impairment loss percentages are estimated considering historical data, based on elements observable at their measurement date, so as to estimate each category's unrealised loss. The impairment test considers the counterparty's country risk. Collective impairment losses are recognised in profit or loss.

## **Derecognition**

Financial assets or parts of financial assets are recognised when the contractual rights to cash flows expire or are transferred, transferring substantially all the related risks and rewards.

## **7 - Equity investments**

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

Investments in entities other than subsidiaries, associates and joint ventures are classified as AFS financial assets and treated accordingly.

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

## **8 - Property, equipment and investment property**

### **Classification**

This caption includes land, owner-occupied property, investment property, furniture and fittings and all equipment. It also comprises assets under finance lease.

## **Recognition**

Assets acquired on the market are recognised as assets when the main risks and rewards of title are transferred. Initial recognition is at cost, which includes all directly related charges.

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

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

## **Measurement**

Property, equipment and investment property are subsequently measured at cost adjusted by accumulated depreciation and any impairment losses/reversals of impairment losses.

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

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

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

Land is not depreciated as it has an indefinite life nor are works of art as their useful lives cannot be estimated and their value usually increases over time.

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

## **Derecognition**

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

# **9 - Intangible assets**

## **Classification**

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

## **Recognition**

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

## **Measurement**

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

In particular:

- technology related intangibles, such as software acquired and software development cost, which are amortised on the basis of their expected technological obsolescence and over a maximum period of five years. In particular, the costs incurred for the development of software projects are considered as intangible assets and are recognised under assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development can be measured reliably, (ii) there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale, (iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development process;
- intangible assets relating to the Depositary services, recorded following the acquisition of contracts or business units, have an estimated useful life of ten years depending on the contractual terms.

Their residual value is taken to be nil.

At least once a year, the Bank perform the impairment test of goodwill for impairment with the comparison between Carrying Amount and Recoverable Amount.

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

### **Derecognition**

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

### **Goodwill**

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

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

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

Impairment losses on goodwill are recognised in caption 230 "Impairment losses on goodwill" of the income statement. They are not reversed in subsequent periods.

## **11 - Current and deferred taxes**

The bank estimates current and deferred taxes, considering the domestic tax consolidation scheme.

Current taxes, calculated considering the domestic tax consolidation scheme, not yet paid in whole or in part at the reporting date are recognised as tax liabilities in the statement of financial position. If payments on account in the current or previous reporting period exceed the related tax expense, the difference is recognised as a tax asset in caption 130 "Tax assets - a) current".

Current and deferred taxes are recognised in caption 260 "Income taxes" of the income statement unless they relate to gains or losses on AFS financial assets and actuarial gains and losses, which are recognised directly in the valuation reserves, net of tax.

Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting as "Tax assets" and "Tax liabilities", respectively.

The income tax expense is calculated on the basis of an estimate of the current and deferred tax expense and income. Specifically, deferred tax assets and liabilities are calculated on the temporary differences between the carrying amounts of assets and liabilities and their tax bases. The bank recognises deferred tax assets (in caption 130.b) for deductible temporary differences and carryforward tax losses that will reverse in subsequent periods when it is probable that it will make a taxable profit in the same period, according to its business plans, against which it can offset the deferred tax asset.

Deferred tax liabilities are calculated on all taxable temporary differences, excluding only reserves taxed upon distribution as, given the amount of the taxed available reserves, the bank does not expect to undertake transactions that would require their taxation.

Deferred tax assets and liabilities are calculated using the tax rates expected to be enacted in the period in which the deferred tax asset will be recovered or the deferred tax liability extinguished, based on the ruling tax laws.

They are remeasured regularly to reflect any changes in the tax laws or rates or any subjective situations that not allow the recoverability.

## 12 - Provisions for risks and charges

### **Pension and similar provisions**

Internal pension plans are considered to be defined benefit plans. The bank calculates the related liabilities and current service cost using actuarial assumptions and the projected unit credit method. This method projects future payments using historical figures and the demographic curve and discounts these flows using a market interest rate. The discount rate is the average market rate at the measurement date. The present value of the bank's liability at the reporting date is also adjusted by the fair value of any plan assets.

### **Other provisions**

The bank recognises provisions for risks and charges when:

- it has a present legal or constructive obligation as a result of a past event;
- it is probable that an outflow of resources will be necessary to settle the obligation; and
- the liability can be reliably estimated.

When the effect of the time value of money is material, the provision is discounted using the current market rates at the closing date. Accruals and increases due to the time factor are recognised in profit or loss. Where discounting is used, the increase in the provision due to the passage of time is recognised as interest expense.

Provisions and contingent liabilities are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

## 13 - Liabilities and Securities issued

### **Classification**

An issued financial instrument is classified as a liability when, based on the substance of the contractual agreement, the bank has a contractual obligation to deliver cash or another financial asset to another party.

Due to banks and customers include funding obtained on the interbank market and from customers, including through repurchase agreements and the placing of bonds and certificates of deposit.

They also include finance lease liabilities.

### **Recognition**

Amounts due to banks are recognised at the contract agreement date, which is usually when the bank receives the funds and issues the debt instruments.

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

### **Measurement**

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

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

### **Derecognition**

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

## **14 - Financial liabilities held for trading**

This caption includes derivatives held for trading with negative fair values.

All financial liabilities held for trading are measured at fair value and the fair value gains or losses are recognised in profit or loss. The measurement and recognition criteria are identical to those used for financial assets held for trading.

## **16 - Foreign currency transactions**

### **Initial recognition**

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

### **Subsequent measurement**

Foreign currency assets and liabilities are retranslated into Euros at each subsequent reporting date using the following criteria:

- monetary items are retranslated using the closing rates;
- non-monetary items measured at historical cost are retranslated using the transaction-date exchange rates;
- non-monetary items measured at fair value are retranslated using the closing rates.

Exchange rate differences arising from the settlement of monetary items are recognised in profit or loss in the period in which they arise; exchange rate differences on non-monetary items are recognised in equity or in profit or loss in line with the method used to recognise the gains or losses that include this component.

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

## **17 - Other informations**

### **Post-employment benefits**

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

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

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

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

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

Starting from the 2013 separate financial statements, the bank has recognised actuarial gains and losses in the statement of comprehensive income as required by the revised IAS 19.

Before that, they had been recognised immediately in profit or loss.  
Interest accrued on the net liability continues to be recognised.

## **Treasury shares**

Repurchased treasury shares are directly offset against equity. No gain or loss on the repurchase, sale, issue or extinguishment of these shares can be recognised in profit or loss. Any amounts paid or received for these shares are recognised directly in equity.

The bank has set up the specific reserve as per article 2357-ter of the Italian Civil Code.

## **Measurement of the fair value of financial instruments**

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

More information is available in section A.4 Fair value disclosure.

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

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

## **Measurement of fair value of non-financial assets**

The fair value of investment property is only calculated for disclosure in the notes. The bank uses third party appraisals that are usually based on criteria similar to the direct synthetic estimate method, considering transactions at current prices in an active market for similar real estate assets in the same location and condition and that have the same lease and other contractual terms.

## **Guarantees issued**

Guarantees issued, credit derivatives and similar instruments as per IAS 39 and subsequent impairment losses are recognised in caption 100 "Other liabilities".

## **Income statement**

### **Interest income and expense**

Interest income and expense and related income and expense relate to cash and cash equivalents, non-derivative financial assets and liabilities held for trading, AFS financial assets, HTM investments, loans and receivables, liabilities and securities issued.

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

### **Fee and commission income and expense**

They are recognised on an accruals basis.

Specifically, trading commissions on securities are recognised when the service is rendered.

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

## **Dividends**

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

## **Other income and costs**

They are recognised on an accruals basis.

## **Utilisation of estimates and assumptions in the preparation of the separate financial statements**

The separate financial statements captions are measured using the policies set out above.

Application of these policies sometimes involves the adoption of estimates and assumptions that may have a significant effect on the carrying amount of assets and liabilities, income and expenses.

The use of reasonable estimates is an essential part of the preparation of financial statements but must not affect their reliability. The financial statements captions affected to a greater extent by the use of estimates and assumptions are:

- measurement of financial assets not listed on active markets;
- measurement of intangible assets and equity investments;
- quantification of accruals to provisions for risks and charges;
- quantification of deferred liabilities.

A change in an accounting estimate may occur due to changes in the circumstances on which the estimate was based or as a result of new information or more experience. The effect of a change in an accounting estimate is recognised prospectively by including it in profit or loss of the period of the change and, if the change affects future periods, also in future periods.

No significant changes to the accounting estimates were made in 2017.

### **A.3 Transfers between portfolios of financial assets**

#### **A.3.1 Reclassified financial assets: carrying amount, fair value and effects on comprehensive income**

<b>TYPE OF FINANCIAL INSTRUMENT</b>	<b>ORIGINAL PORTFOLIO</b>	<b>PORTFOLIO TO WHICH TRANSFER IS MADE</b>	<b>CARRYING AMOUNT AT 31.12.2017</b>	<b>FAIR VALUE AT 31.12.2017</b>	<b>INCOME OR EXPENSE IF TRANSFER HAD NOT TAKEN PLACE (BEFORE TAXES)</b>			<b>INCOME OR EXPENSE FOR THE YEAR (BEFORE TAXES)</b>
					<b>FAIR VALUE GAIN/LOSS (6)</b>	<b>OTHER (7)</b>	<b>FAIR VALUE GAIN/LOSS (8)</b>	
(1)	(2)	(3)	(4)	(5)				
<hr/>								
1. Debt instruments	Financial assets held for trading	Available-for-sale financial assets	-	-	152	-	-	-
<hr/>								

#### **A.3.2 Reclassified financial assets: effects on comprehensive income before transfer**

No transfers among portfolios took place during the year.

#### **A.3.3 Transfers of financial assets held for trading**

In 2011, as the rare circumstances provided for by IAS 39 arose, the bank reclassified Italian treasury credit certificates from the HFT portfolio to the AFS portfolio.

These rare circumstances related to the international sovereign debt crisis of June 2011 and the continuously widening spread of the German bund.

## **A.4 Fair value disclosure**

The IFRS require that financial products classified in the HFT or AFS portfolios be measured at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the principal market (i.e., not a forced liquidation or distress sale) at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The fair value hierarchy has three input levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable;
- Level 3: unobservable inputs for the asset or liability.

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

The bank uses the reporting date market price for instruments listed on active markets (level 1).

The fair value of financial instruments not listed on active markets is measured using techniques mainly based on discounting cash flows. These techniques consider all the factors that the market uses to set the price which are mainly inputs observable on the market (level 2). Specifically:

- bonds are measured by discounting the expected future cash flows of the contractual plan, adjusted for the issuer credit risk;
- derivatives, consisting of OISs, and options are measured using the market models that mainly use market rates as their input, adjusted to reflect counterparty risk. This risk includes changes in the counterparty's credit standing and in the issuer's credit standing (own credit risk), if material;
- a fair value hierarchy has been developed for shares and an application order for the measurement methods which considers any significant transactions involving the share in a sufficiently short time period compared to the measurement period, comparable transactions carried out by companies operating in the same sector and the application of financial, income and equity analytical valuation methods.

The valuation model adopted for a financial instrument is the same over time, adjusted only in the case of significant changes in market conditions or subjective changes affecting the issuer.

The bank did not have at the reporting date, nor did it trade in during the year, level 3 financial instruments, except for immaterial amounts.

## **QUALITATIVE DISCLOSURE**

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

As noted above, the bank does not have nor did it trade in level 3 financial instruments, except for immaterial amounts.

It measured level 2 financial instruments (mainly Swap, DCS and stock options) using market interest rates and volatility. Given the bank's limited operations in the unlisted derivatives segment, its transactions mainly with Italian institutional counterparties and, with the most relevant of them, its guarantees mitigating risk, the adjustments made to the level 2 instruments to reflect counterparty risk were immaterial.

### **A.4.2 Measurement processes and sensitivity**

As noted above, the bank does not have level 3 financial instruments, except for immaterial amounts.

### **A.4.3 Fair value hierarchy**

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

Transfers from level 1 to level 2 are made when there is an inadequate number of contributors or a limited number of investors that hold the outstanding float.

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

#### A.4.4 Other disclosures

The bank did not avail of the exception under IFRS 13.48 to measure the net positions of groups of assets and liabilities managed on a net basis.

The bank does not hold assets, the current use of which differs from their highest and best use.

#### QUANTITATIVE DISCLOSURE

##### A.4.5 Fair value hierarchy

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

<b>FINANCIAL ASSETS/ LIABILITIES MEASURED AT FAIR VALUE</b>	<b>31.12.2017</b>			<b>31.12.2016</b>		
	<b>L1</b>	<b>L2</b>	<b>L3</b>	<b>L1</b>	<b>L2</b>	<b>L3</b>
1. Financial assets held for trading	<b>15,944</b>	<b>1,480</b>	-	11,445	1,748	-
2. Financial assets at fair value through profit or loss						
3. Available-for-sale financial assets	<b>2,502,174</b>	<b>125,073</b>	-	3,170,102	140,226	-
4. Hedging derivatives						
5. Property, equipment and investment property						
6. Intangible assets						
<b>Total</b>	<b>2,518,118</b>	<b>126,553</b>	-	<b>3,181,547</b>	<b>141,974</b>	-
1. Financial liabilities held for trading	<b>1</b>	<b>5,670</b>	-	438	7,629	-
2. Financial liabilities at fair value through profit or loss						
3. Hedging derivatives						
<b>Total</b>	<b>1</b>	<b>5,670</b>	-	<b>438</b>	<b>7,629</b>	-

Key  
L1 = level 1  
L2 = level 2  
L3 = level 3

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

Given the bank's limited operations in the unlisted derivative segment, the fact that it solely works with Italian institutional counterparties and the existence of guarantees that mitigate counterparty risk, the above fair value is not significantly influenced by adjustment factors for counterparty risk (Credit Value Adjustments and/or Debit Value Adjustments).

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

	<b>FINANCIAL ASSETS HELD FOR TRADING</b>	<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>	<b>HEDGING DERIVATIVES</b>	<b>PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY</b>	<b>INTANGIBLE ASSETS</b>
<b>1. Opening balance</b>						
<b>2. Increases</b>						
2.1 Purchases						
2.2 Gains recognised in:						
2.2.1 Profit or loss						
- including gains on sales						
2.2.2 Equity		X	X			
2.3 Transfers from other levels						
2.4 Other increases						
<b>3. Decreases</b>						
3.1 Sales						
3.2 Repayments						
3.3 Losses recognised in:						
3.3.1 Profit or loss						
- including losses on sales						
3.3.2 Equity		X	X			
3.4 Transfers to other levels						
3.5 Other decreases						
<b>D. Closing balance</b>						

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

<b>ASSETS/LIABILITIES MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON RECURRING BASIS</b>	<b>31.12.2017</b>				<b>31.12.2016</b>			
	<b>CA</b>	<b>L1</b>	<b>L2</b>	<b>L3</b>	<b>CA</b>	<b>L1</b>	<b>L2</b>	<b>L3</b>
1. Held-to-maturity investments	<b>4,966</b>	<b>4,916</b>	-	-	15,933	15,933	-	-
2. Loans and receivables with banks	<b>795,195</b>		<b>795,195</b>		739,377		739,377	
3. Loans and receivables with customers	<b>2,092,467</b>		<b>2,092,467</b>		1,580,147		1,580,147	
4. Investment property	<b>67,852</b>		<b>72,420</b>		69,278		72,420	
5. Non-current assets held for sale and disposal groups	-		-		-		-	
<b>Total</b>	<b>2,960,480</b>	<b>4,916</b>	<b>2,960,082</b>	-	<b>2,404,735</b>	<b>15,933</b>	<b>2,391,944</b>	-
1. Due to banks		<b>1,093,916</b>		<b>1,093,916</b>		1,100,207		1,100,207
2. Due to customers		<b>7,805,377</b>		<b>7,805,377</b>		6,228,123		6,228,123
3. Securities issued	-		-		-		-	
4. Liabilities associated with assets held for sale	-		-		-		-	
<b>Total</b>	<b>8,899,293</b>	-	<b>8,899,293</b>	-	<b>7,328,329</b>	-	<b>7,328,329</b>	-

Key:

CA = carrying amount

L1 = level 1

L2 = level 2

L3 = level 3

#### **A.5 Information on “day one profit/loss”**

Pursuant to IFRS 7.28 and IAS 39.AG.76, a financial instrument shall be initially recognised at an amount that is equal to its fair value, which is generally considered to be the price paid/collected from its trading. In practice, there could be a difference between the two values. In these cases, the standard stipulates that a financial instrument can be recognised at a fair value different from the amount paid/collected only if it is measured:

- using prices from observable current market transactions in the same instrument;
- using valuation techniques exclusively based on observable market date as the variable factors.

In other words, IAS 39 states that the presumption that the fair value is equal to the price paid/collected can be rebutted only if it is determined using objective evidence that the price paid/collected does not represent the real market value of the financial instrument being traded.

The objective evidence shall be obtained using the most objective method available, i.e., reducing valuation discretion to the minimum.

The difference between fair value and the negotiated price, when the above conditions are met, is called the “day one profit or loss” and is immediately taken to profit or loss.

The bank did not recognise transactions of this kind in the year.

## Part B - Notes to the statement of financial position

### ASSETS

#### SECTION 1 - Cash and cash equivalents - Caption 10

##### 1.1 CASH AND CASH EQUIVALENTS: BREAKDOWN

	31.12.2017	31.12.2016
a) Cash	476	448
b) Demand deposits with central banks	3,242,765	1,798,314
<b>Total</b>	<b>3,243,241</b>	<b>1,798,761</b>

#### SECTION 2 - Financial assets held for trading - Caption 20

##### 2.1 FINANCIAL ASSETS HELD FOR TRADING: BREAKDOWN BY PRODUCT

CAPTIONS/AMOUNTS	31.12.2017			31.12.2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
A. Assets	15,897	-	-	11,406	-	-
1. Debt instruments	182	-	-	314	-	-
1.1 Structured instruments	15,714	-	-	11,092	-	-
1.2 Other instruments	30	-	-	13	-	-
2. Equity instruments	18	-	-	26	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
<b>Total A</b>	<b>15,944</b>	<b>-</b>	<b>-</b>	<b>11,445</b>	<b>-</b>	<b>-</b>
<b>B. Derivatives</b>						
1. Financial derivatives:	-	1,480	-	-	1,748	-
1.1 Trading	-	1,480	-	-	1,748	-
1.2 Associated with fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Associated with fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
<b>Total B</b>	<b>-</b>	<b>1,480</b>	<b>-</b>	<b>-</b>	<b>1,748</b>	<b>-</b>
<b>Total (A+B)</b>	<b>15,944</b>	<b>1,480</b>	<b>-</b>	<b>11,445</b>	<b>1,748</b>	<b>-</b>

## 2.2 FINANCIAL ASSETS HELD FOR TRADING: BREAKDOWN BY DEBTOR/ISSUER

CAPTIONS/AMOUNTS	31.12.2017	31.12.2016
<b>A. Assets</b>		
<b>1. Debt instruments</b>		
a) Governments and central banks	313	190
b) Other government agencies	1,347	92
c) Banks	11,698	10,212
d) Other issuers	2,539	912
<b>2. Equity instruments</b>		
a) Banks	6	11
b) Other issuers:	24	2
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	24	2
- other	-	-
<b>3. OEIC units</b>	<b>18</b>	<b>26</b>
<b>4. Financing</b>		
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>Total A</b>	<b>15,944</b>	<b>11,445</b>
<b>B. Derivatives</b>		
a) Banks	1,094	1,598
b) Customers	386	150
<b>Total B</b>	<b>1,480</b>	<b>1,748</b>
<b>Total (A + B)</b>	<b>17,424</b>	<b>13,193</b>

## SECTION 4 - Available-for-sale financial assets - Caption 40

### 4.1 AVAILABLE-FOR-SALE FINANCIAL ASSETS: BREAKDOWN BY PRODUCT

CAPTIONS/AMOUNTS	31.12.2017			31.12.2016		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
<b>1. Debt instruments</b>						
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other instruments	2,501,990	-	-	3,169,903	-	-
<b>2. Equity instruments</b>						
2.1 FVTPL	183	104,158	-	199	99,992	-
2.2 Cost	-	-	-	-	-	-
<b>3. OEIC units</b>	<b>-</b>	<b>20,916</b>	<b>-</b>	<b>-</b>	<b>40,235</b>	<b>-</b>
<b>4. Financing</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>2,502,173</b>	<b>125,074</b>	<b>-</b>	<b>3,170,102</b>	<b>140,227</b>	<b>-</b>

## 4.2 AVAILABLE-FOR-SALE FINANCIAL ASSETS: BREAKDOWN BY DEBTOR/ISSUER

<b>CAPTIONS/AMOUNTS</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>1. Debt instruments</b>		
a) Governments and central banks	<b>2,501,990</b>	3,169,903
b) Other government agencies	-	-
c) Banks	-	-
d) Other issuers	-	-
<b>2. Equity instruments</b>		
a) Banks	<b>336</b>	352
b) Other issuers:	<b>104,005</b>	99,839
- insurance companies	-	-
- financial companies	<b>5,287</b>	995
- non-financial companies	<b>98,718</b>	98,844
- other	-	-
<b>3. OEIC units</b>	<b>20,916</b>	<b>40,235</b>
<b>4. Financing</b>		
a) Governments and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
<b>Total</b>	<b>2,627,247</b>	<b>3,310,329</b>

## SECTION 5 - Held-to-maturity investments - Caption 50

### 5.1 HELD-TO-MATURITY INVESTMENTS: BREAKDOWN BY PRODUCT

	<b>31.12.2017</b>			<b>31.12.2016</b>		
	<b>CA</b>	<b>FV</b>			<b>CA</b>	<b>FV</b>
		<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>		
<b>1. Debt instruments</b>						
- structured instruments	<b>4,966</b>	<b>4,916</b>	-	-	4,948	4,948
- other instruments	-	-	-	-	10,985	10,985
<b>2. Financing</b>	-	-	-	-	-	-
<b>Total</b>	<b>4,966</b>	<b>4,916</b>	-	-	<b>15,933</b>	<b>15,933</b>

Key  
FV = fair value  
CA = carrying amount

## 5.2 HELD-TO-MATURITY INVESTMENTS: BREAKDOWN BY DEBTOR/ISSUER

TYPE OF OPERATIONS/AMOUNTS	31.12.2017	31.12.2016
<b>1. Debt instruments</b>		
a) Governments and central banks		
b) Other government agencies		
c) Banks	4,966	15,933
d) Other issuers		
<b>2. Financing</b>		
a) Governments and central banks		
b) Other government agencies		
c) Banks		
d) Other		
<b>Total</b>	<b>4,966</b>	<b>15,933</b>

## SECTION 6 - Loans and receivables with banks - Caption 60

### 6.1 LOANS AND RECEIVABLES WITH BANKS: BREAKDOWN BY PRODUCT

TYPE OF OPERATIONS/AMOUNTS	31.12.2017			31.12.2016		
	CA	FV		CA	FV	
		LEVEL 1	LEVEL 2		LEVEL 1	LEVEL 2
<b>A. Loans and receivables with central banks</b>						
1. Term deposits	-	X	X	X	-	X
2. Minimum reserve	<b>179,264</b>	X	X	X	170,519	X
3. Reverse repurchase agreements	-	X	X	X	-	X
4. Other	-	X	X	X	-	X
<b>B. Loans and receivables with banks</b>		<b>615,931</b>				568,859
1. Financing						
1.1 Current accounts and demand deposits						
296,364	X	X	X	172,491	X	X
1.2 Term deposits	<b>2,460</b>	X	X	X	862	X
1.3 Other financing:						
- Reverse repurchase agreements						
136,217	X	X	X	231,707	X	X
- Finance leases	-	X	X	X	-	X
- Other	<b>176,664</b>	X	X	X	159,744	X
2. Debt instruments						
2.1 Structured instruments	-	X	X	X	-	X
2.2 Other instruments	<b>4,226</b>	X	X	X	4,055	X
<b>Total</b>	<b>795,195</b>	-	<b>795,195</b>	-	<b>739,377</b>	-

Key  
 FV = fair value  
 CA = carrying amount

## SECTION 7 - Loans and receivables with customers - Caption 70

### 7.1 LOANS AND RECEIVABLES WITH CUSTOMERS: BREAKDOWN BY PRODUCT

TYPE OF OPERATIONS/AMOUNTS	31.12.2017						31.12.2016					
	CARRYING AMOUNT		FAIR VALUE		CARRYING AMOUNT		FAIR VALUE					
	UNIMPAIRED	IMPAIRED	L1	L2	L3	UNIMPAIRED	IMPAIRED	PURCHASED	OTHER	L1	L2	L3
	PURCHASED OTHER											
<b>Financing</b>	<b>2,092,076</b>	-	391	2,092,076		1,579,756	-	391	1,579,756			
1. Current accounts	<b>1,761,610</b>	-	391	X	X X	1,237,865	-	391	X	X	X	X
2. Reverse repurchase agreements	<b>204,547</b>	-	-	X	X X	207,517	-	-	-	X	X	X
3. Loans	-	-	-	X	X X	-	-	-	-	X	X	X
4. Credit cards, personal loans and salary backed loan	<b>2,051</b>	-	-	X	X X	2,044	-	-	-	X	X	X
5. Finance leases	-	-	-	X	X X	-	-	-	-	X	X	X
6. Factoring	-	-	-	X	X X	-	-	-	-	X	X	X
7. Other financing	<b>123,868</b>	-	-	X	X X	132,330	-	-	-	X	X	X
<b>Debt instruments</b>												
8. Structured instruments	-	-	-	X	X X	-	-	-	-	X	X	X
9. Other instruments	-	-	-	X	X X	-	-	-	-	X	X	X
<b>Total</b>	<b>2,092,076</b>	-	391	2,092,076		1,579,756	-	391	1,579,756			

### 7.2 LOANS AND RECEIVABLES WITH CUSTOMERS: BREAKDOWN BY DEBTOR/ISSUER

	31.12.2017						31.12.2016					
	IMPAIRED			IMPAIRED								
	UNIMPAIRED	PURCHASED	OTHER	UNIMPAIRED	PURCHASED	OTHER						
	PURCHASED OTHER											
<b>1. Debt instruments</b>												
a) Governments	-	-	-	-	-	-	-	-	-	-	-	-
b) Other government agencies	-	-	-	-	-	-	-	-	-	-	-	-
c) Other issuers												
- non-financial companies	-	-	-	-	-	-	-	-	-	-	-	-
- financial companies	-	-	-	-	-	-	-	-	-	-	-	-
- insurance companies	-	-	-	-	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-	-	-	-	-
<b>2. Financing to:</b>												
a) Governments	-	-	-	-	-	-	-	-	-	-	-	-
b) Other government agencies	1	-	-	-	-	-	-	-	-	-	-	-
c) Other issuers	<b>2,092,075</b>	-	<b>391</b>	1,579,756	-		-			391		
- non-financial companies	<b>96,104</b>	-	-	160	-	-	-	-	-	-	-	-
- financial companies	<b>1,982,911</b>	-	<b>391</b>	1,577,364	-		-			391		
- insurance companies	<b>10,721</b>	-	-	50	-	-	-	-	-	-	-	-
- other	<b>2,339</b>	-	-	2,182	-		-			-	-	-
<b>Total</b>	<b>2,092,076</b>	-	<b>391</b>	<b>1,579,756</b>	-		-			<b>391</b>		

## SECTION 10 - Equity investments - caption 100

### 10.1 EQUITY INVESTMENTS

<b>COMPANY NAME</b>	<b>REGISTERED OFFICE</b>	<b>OPERATING OFFICE</b>	<b>INVESTMENT %</b>	<b>VOTING RIGHTS %</b>
<b>A. Wholly-controlled subsidiaries</b>				
1. Oasi-Diagram S.p.A.	Milano	Milano/Roma	100.00	100.00
2. Nexi Payment S.p.A.	Milano	Milano/Roma	98.74	98.74
3. Help Line S.p.A.	Cividale del Friuli	Cividale del Friuli / Milano	70.00	70.00
		Firenze/Bologna/Siena/Sassari/Roma/Milano/ Padova		
4. Bassilichi SpA	Milan	Milano/ Padova	100.00	100.00
5. Consorzio Triveneto	Padova	Padova	28.88	28.88
<b>B. Jointly-controlled entities</b>				
<b>C. Associates</b>				
1. Hi.Mtf Sim S.p.A.	Milano	Milano	25	25
2. Unione Fiduciaria	Milano	Milano	24	24

On 3 July 2017 there has been the closing of the transaction related to the acquisition of 98.2% Bassilichi Group by Nexi S.p.A. for a book value, in Nexi separate financial statements, of Euro 72.1 million.

Afterwards, Nexi S.p.A. has made a capital increase in Bassilichi S.p.A equal to € 100 million and has acquired shares in the company for € 1 million. As a result of these transaction, Nexi holds 100% of Bassilichi S.p.A. and the related investment is recorded at € 173 million.

In 2017, Nexi S.p.A. has also acquire 28.88% of Consorzio Triveneto's shares, amounting to 10.1 million euros. Considering that Bassilichi S.p.A. already hold 71.12% of Consorzio Triveneto, the total interest held by Nexi is 100%.

Nexi has performed the impairment test for the investments in Bassilichi e Cosorzo Triveneto with book value is Euro 183 million. The estimate of Value in Use has been carried out by applying the Dividend Discount Model in its Excess Capital version based on the same assumptions and metrologies described with reference to the impairment test on goodwill (section 12.2). The main parameter used to estimate the cost of Capital in the calculation of the Value in Use are the follows:

<b>COST OF CAPITAL (KE)</b>	<b>BASSILICHI AND TRIVENETO</b>
Risk free rate 31.12.2017	1.97%
Equity Risk Premium	5.50%
Beta	1.12
<b>Ke</b>	<b>8.15%</b>

Valuation activities on investments submitted to impairment test resulted in any impairment loss.

**10.5 EQUITY INVESTMENTS: CHANGES**

	31.12.2017	31.12.2016
<b>A. Opening balance</b>	<b>1,611,379</b>	520,655
<b>B. Increases</b>		
B.1 Purchases	183,206	25,304
B.2 Reversals of impairment losses		
B.3 Fair value gains		
B.4 Other increases	126	1,185,843
<b>C. Decreases</b>		
C.1 Sales	10	-
C.2 Impairment losses		22,035
C.3 Other decreases		98,389
<b>D. Closing balance</b>	<b>1,794,701</b>	<b>1,611,379</b>
<b>E. Total fair value gains</b>		
<b>F. Total impairment losses</b>		

**SECTION 11 - Property, equipment and investment property - Caption 110****11.1 PROPERTY AND EQUIPMENT: BREAKDOWN OF ASSETS MEASURED AT COST**

ASSETS/AMOUNTS	31.12.2017	31.12.2016
<b>1. Owned</b>		
a) land	2,640	2,640
b) buildings	5,609	5,876
c) furniture	372	512
d) electronic systems	-	-
e) other	1,505	1,115
<b>2. Under finance lease</b>		
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
<b>Total</b>	<b>10,126</b>	<b>10,143</b>

**11.2 INVESTMENT PROPERTY: BREAKDOWN OF ASSETS MEASURED AT COST**

ASSETS/AMOUNTS	CARRYING AMOUNT	31.12.2017			31.12.2016		
		FAIR VALUE			FAIR VALUE		
		L1	L2	L3	L1	L2	L3
<b>1. Owned</b>							
a) land	39,739				39,739		
b) buildings	28,113				29,539		
<b>2. Under finance lease</b>							
a) land	-				-		
b) buildings	-				-		
<b>Total</b>	<b>67,852</b>	<b>73,230</b>			<b>69,278</b>	<b>72,420</b>	

## 11.5 PROPERTY AND EQUIPMENT: CHANGES

	LAND	BUILDINGS	FURNITURE	ELECTRONIC SYSTEMS	OTHER	TOTAL
<b>A. Gross opening balance</b>	<b>3,136</b>	<b>13,534</b>	<b>4,105</b>	-	<b>30,988</b>	<b>51,763</b>
A.1 Total net impairment losses	496	7,658	3,593	-	29,873	41,620
<b>A.2 Net opening balance</b>	<b>2,640</b>	<b>5,876</b>	<b>512</b>	-	<b>1,115</b>	<b>10,143</b>
<b>B. Increases</b>						
B.1 Purchases	-	-	68	-	902	970
B.2 Capitalised improvement costs						
B.3 Reversals of impairment losses						
B.4 Fair value gains recognised in:						
a) equity						
b) profit or loss						
B.5 Exchange rate gains						
B.6 Transfers from investment property						
B.7 Other increases	-	-	42	-	119	161
<b>C. Decreases</b>						
C.1 Sales	-	-	97	-	119	216
C.2 Depreciation	-	267	153	-	487	907
C.3 Impairment losses recognised in:						
a) equity						
b) profit or loss						
C.4 Fair value gains recognised in:						
a) equity						
b) profit or loss						
C.5 Exchange rate losses						
C.6 Transfers to:						
a) investment property						
b) disposal groups						
C.7 Other decreases	-	-	-	-	25	25
<b>D. Net closing balance</b>	<b>2,640</b>	<b>5,609</b>	<b>372</b>	-	<b>1,505</b>	<b>10,126</b>
D.1 Total net impairment losses	496	7,925	3,703	-	30,267	42,391
<b>D.2 Gross closing balance</b>	<b>3,136</b>	<b>13,534</b>	<b>4,075</b>	-	<b>31,772</b>	<b>52,517</b>

## 11.6 INVESTMENT PROPERTY: CHANGES

	<b>TOTAL</b>	LAND	BUILDINGS
<b>A. Opening balance</b>	<b>39,739</b>		<b>29,539</b>
<b>B. Increases</b>			
B.1 Purchases			
B.2 Capitalised improvement costs			
B.3 Fair value gains			
B.4 Reversals of impairment losses			
B.5 Exchange rate gains			
B.6 Transfers from property and equipment			
B.7 Other increases			
<b>C. Decreases</b>			
C.1 Sales			
C.2 Depreciation			1,426
C.4 Fair value losses			
C.4 Impairment losses			
C.5 Exchange rate losses			
C.6 Transfers to other portfolios			
a) property and equipment			
b) non-current assets held for sale			
C.7 Other decreases			
<b>D. Closing balance</b>	<b>39,739</b>		<b>28,113</b>
E. Fair value			73,230

Investment property is covered by IAS 40 and includes property held to earn rental and/or obtain appreciation of invested capital.

Investment property is measured at cost, net of depreciation.

The bank's investment properties granted under operating leases are listed below:

- building in via Verziere 11, Milano,
- building in via Cavallotti 14, Milano,
- building in via Zurigo 3, Milano,
- building in via Broletto 37, Milano,
- building in Corso Europa 18, Milano.

At the reporting date, there are no:

- restrictions to the sale of investment property or the collection of lease payments;
- obligations/contractual commitments to purchase, build, develop, repair or maintain owner-occupied property.

**SECTION 12 - Intangible assets - Caption 120****12.1 INTANGIBLE ASSETS: BREAKDOWN BY ASSET**

ASSETS/AMOUNTS	31.12.2017		31.12.2016	
	FINITE LIFE	INDEFINITE LIFE	FINITE LIFE	INDEFINITE LIFE
<b>A.1 Goodwill</b>	-	<b>246,663</b>	-	<b>246,663</b>
<b>A.2 Other intangible assets</b>				
A.2.1 Assets measured at cost:				
a) Internally generated assets	-	-	-	-
b) Other	<b>63,047</b>	-	66,717	-
A.2.2 Assets measured at fair value:				
a) Internally generated assets	-	-	-	-
b) Other	-	-	-	-
<b>Total</b>	<b>63,047</b>	<b>246,663</b>	<b>66,717</b>	<b>246,663</b>

## 12.2 INTANGIBLE ASSETS: CHANGES

	OTHER INTANGIBLE ASSETS: INTERNALLY GENERATED ASSETS		OTHER INTANGIBLE ASSETS: OTHER			
	GOODWILL	FIN.	IND.	FIN	IND.	TOTAL
<b>A. Opening balance</b>	<b>246,663</b>	-	-	<b>143,425</b>	-	<b>390,088</b>
A.1 Total net impairment losses				76,708		76,708
A.2 Net opening balance	246,663			66,717		313,380
<b>B. Increases</b>						
B.1 Purchases	-	-	-	13,760	-	13,760
B.2 Increase in internally generated assets	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
- business combinations	-	-	-	-	-	-
<b>C. Decreases</b>						
C.1 Sales						-
C.2 Impairment losses						-
- Amortisation	-	-	-	16,389	-	16,389
- Fair value losse						-
+ equity						-
+ profit or loss						-
C.3 Fair value losses recognised in:						-
- equity						-
- profit or loss						-
C.4 Transfers to non-current assets held for sale						-
C.5 Exchange rate losses						-
C.6 Other decreases	-	-	-	1,041	-	1,041
<b>D. Net closing balance</b>	<b>246,663</b>	-	-	<b>63,047</b>	-	<b>309,710</b>
D.1 Total net impairment losses	-	-	-	94,138	-	94,138
<b>E. Gross closing balance</b>	<b>246,663</b>	-	-	<b>157,185</b>	-	<b>403,848</b>
<b>F. Cost</b>						-

Key  
FIN. finite life  
IND. = indefinite life

### Impairment test

Nexi has performed the impairment test on the intangible asset with an indefinite useful life.

The impairment test of the Goodwill has been performed for the following CGU (cash-generating unit) that, except from 2017 changes in the business perimeter, have not been changed in respect to test performed for 2016 Financial Statements:

CGUs	GOODWILL €'min
CGU Payment	200.7
CGU Securities Services	46.0
<b>Total</b>	<b>246.7</b>

The recoverable amount a CGU is the higher of its:

- Fair value less costs of disposal
- Value in Use

The estimate of Value in Use has been carried out by applying the Dividend Discount Model in its Excess Capital version which was developed starting from Nexi Group 2017-2021 Business Plan, which has been approved by the Board of Director (BoD) of the Parent Company on February 9th, 2017. The Business Plan will be applied on a pro-forma basis to take into account the updates approved by the BoD, the changes in the Group perimeter and the items included in the Budget 2018.

As regards the Fair Value determination, it was applied the trading multiples method, using the median P/E adjusted multiple of a panel of comparable companies.

The main parameter used to estimate the cost of Capital in the calculation of the Value in Use are the follows:

<b>COST OF CAPITAL (KE)</b>	<b>PAYMENTS</b>	<b>SECURITIES SERVICES</b>
Risk free rate 31.12.2017	1.97%	1.97%
Equity Risk Premium	5.50%	5.50%
Beta	1.15	1.15
<b>Ke</b>	<b>8.32%</b>	<b>8.27%</b>

They have been determined as follows:

- Risk free: gross yield of Italian BTP 10Y at December 31<sup>st</sup> 2017 (Source: Info provider)
- Beta used on consolidated DDM: weighted average of median betas of listed comparable companies identified for each CGU.
- Equity Market Risk Premium: in line with the best professional valuation praxis

In order to determine the Terminal Value of the CGUs:

- g rate: 2.0%, in line with ECB's target for the inflation rate of the Euro Zone.
- a prudential add-on of 100 bps to the discount rate has been applied.

The Distributable dividends during the explicit projections period and sustainable dividend for Terminal Value calculation have been determined considering the compliance with a minimum CET 1 target of 14.0% as established by Bank of Italy. CET1 of 14% is a target ratio for Nexi Group to be calculated on the basis of Mercury UK HoldCo consolidation perimeter.

Valuation activities on investments submitted to impairment test resulted in any impairment loss.

It was carried out a sensitivity analysis to assess the change of the value in use at consolidated level, respect the changes in valuation parameters Ke and g (+/- 25 bps) the analysis does not show any issues.

## SECTION 13 - Tax assets and liabilities - Caption 130 of assets and Caption 80 of liabilities

### 13.1 DEFERRED TAX ASSETS: BREAKDOWN

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>IRAP</b>		
Substitute tax on goodwill	3,505	3,543
Amortisation/depreciation	1,457	1,265
Other	16	81
<b>IRES</b>		
Substitute tax on goodwill	17,307	17,490
Provisions	3,574	3,435
Amortisation/depreciation	8,699	7,714
Other	689	1,018

### 13.2 DEFERRED TAX LIABILITIES: BREAKDOWN

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>IRAP</b>		
Fair value reserves	4,107	4,387
Goodwill	546	507
Other		
<b>IRES</b>		
Fair value reserves	20,396	21,843
Goodwill	2,696	2,504
Other	1,071	1,071

### 13.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN PROFIT OR LOSS)

	<b>31.12.2017</b>	<b>31.12.2016</b>
1. Opening balance	33,571	30,739
<b>2. Increases</b>		
2.1 Deferred tax assets recognised in the year		
a) related to previous years		616
b) due to changes in accounting policies		
c) reversals of impairment losses		
d) other	1,619	3,729
2.2 New taxes or increases in tax rates		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax assets derecognised in the year		
a) reversals	533	1,226
b) impairment due to non-recoverability		
c) change in accounting policies		
d) other		288
3.2 Decrease in tax rates		
3.3 Other decreases		
a) conversion into tax assets as per Law no. 214/2011		
b) other		
4. Closing balance	34,657	33,571

The bank recognises deferred tax assets when it is reasonably certain they will be recovered through future taxable profits of amounts not less than the relevant temporary differences. It estimated an average rate of 27.5% for the IRES tax and a rate of 5.57% for the IRAP tax. Decreases mainly relate to utilisation of the deferred tax liabilities.

#### 13.3.1 Change in deferred tax assets as per Law no. 214/2011 (recognised in profit or loss)

	<b>31.12.2017</b>	<b>31.12.2016</b>
1. Opening balance	27,901	27,184
<b>2. Increases</b>	1,303	1,323
<b>3. Decreases</b>		
3.1 Reversals	310	606
<b>3.2 Conversion into tax assets</b>		
a) arising from the loss for the year		
b) arising from tax losses		
<b>3.3 Other decreases</b>		
4. Closing balance	28,894	27,901

### 13.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNISED IN PROFIT OR LOSS)

	31.12.2017	31.12.2016
<b>1. Opening balance</b>	<b>21,089</b>	<b>17,620</b>
<b>2. Increases</b>		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	230	3,621
2.2 New taxes or increases in tax rates		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	304	152
b) due to changes in accounting policies		
c) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
<b>4. Closing balance</b>	<b>21,015</b>	<b>21,089</b>

### 13.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN EQUITY)

	31.12.2017	31.12.2016
<b>1. Opening balance</b>	<b>975</b>	<b>527</b>
<b>2. Increases</b>		
2.1 Deferred tax assets recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other		2,697
2.2 New taxes or increases in tax rates		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax assets derecognised in the year		
a) reversals	385	2,249
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
3.2 Decrease in tax rates		
3.3 Other decreases		
<b>4. Closing balance</b>	<b>590</b>	<b>975</b>

### 13.6 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNISED IN EQUITY)

	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>1. Opening balance</b>	<b>9,224</b>	<b>12,130</b>
<b>2. Increases</b>		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years		
b) due to changes in accounting policies		
c) other	3,391	
2.2 New taxes or increases in tax rates		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	1,424	6,297
b) due to changes in accounting policies		
c) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
<b>4. Closing balance</b>	<b>7,800</b>	<b>9,224</b>

### SECTION 15 - Other assets - Caption 150

#### 15.1 OTHER ASSETS: BREAKDOWN

<b>ASSETS/AMOUNTS</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
Withholding taxes paid on interest charged to customers and other tax assets	34,827	34,270
Negotiated cheques to be cleared	34,844	11,644
Matured securities and accrued interest to be collected	4,855	70
Currency differences on portfolio transactions	-	-
Commissions and other income to be charged	78,077	75,192
BIREL, transfers, SETIF, received messages to be charged, e-money	139,948	80,074
Sundry and residual items	68,753	38,914
<b>Total</b>	<b>361,304</b>	<b>240,163</b>

The caption "Sundry and residual items" includes the price adjustment of the investment in Bassilichi S.p.A., amounting to Euro 39,5 million.

## LIABILITIES

### SECTION 1 - Due to banks - Caption 10

#### 1.1 DUE TO BANKS: BREAKDOWN BY PRODUCT

TYPE OF OPERATIONS/GROUP COMPONENTS	31.12.2017	31.12.2016
<b>1. Due to central banks</b>	<b>1,774</b>	<b>862</b>
<b>2. Due to banks</b>		
2.1 Current accounts and demand deposits	878,371	813,346
2.2 Term deposits	124,428	215,440
2.3 Financing		
2.3.1 repurchase agreements	-	-
2.3.2 other	-	-
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other liabilities	89,343	70,559
<b>Total</b>	<b>1,093,916</b>	<b>1,100,207</b>
<b>Fair value - level 1</b>		
<b>Fair value - level 2</b>	<b>1,093,916</b>	<b>1,100,207</b>
<b>Fair value - level 3</b>		
<b>Total Fair value</b>	<b>1,093,916</b>	<b>1,100,207</b>

### SECTION 2 - Due to customers - Caption 20

#### 2.1 DUE TO CUSTOMERS: BREAKDOWN BY PRODUCT

TYPE OF OPERATIONS/AMOUNTS	31.12.2017	31.12.2016
1. Current accounts and demand deposits	6,908,257	5,157,171
2. Term deposits	174	209
3. Financing		
3.1 repurchase agreements	340,791	231,676
3.2 other	-	-
4. Commitments to repurchase own equity instruments	-	-
5. Other liabilities	556,155	839,068
<b>Total</b>	<b>7,805,377</b>	<b>6,228,123</b>
<b>Fair value - level 1</b>		
<b>Fair value - level 2</b>	<b>7,805,377</b>	<b>6,228,123</b>
<b>Fair value -level 3</b>		
<b>Total Fair value</b>	<b>7,805,377</b>	<b>6,228,123</b>

## SECTION 4 - Financial liabilities held for trading - Caption 40

### 4.1 FINANCIAL LIABILITIES HELD FOR TRADING: BREAKDOWN BY PRODUCT

TYPE OF OPERATIONS/ GROUP COMPONENTS	31.12.2017				31.12.2016			
	FV				FV*	FV		
	VN	L1	L2	L3		VN	L1	L2
<b>A. Financial liabilities</b>								
1. Due to banks	-	-	-	-		69	90	-
2. Due to customers	1	1	-	-		302	348	-
3. Debt instruments	-	-	-	-		-	-	-
3.1 Bonds	-	-	-	-		-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-
3.1.2 Other	-	-	-	-	X	-	-	-
3.2 Other securities	-	-	-	-		-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-
3.2.2 Other	-	-	-	-	X	-	-	-
<b>Total A</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>		<b>371</b>	<b>438</b>	<b>-</b>
<b>B. Derivatives</b>								
1. Financial derivatives								
1.1 Trading	X		5,670		X	X		7,629
1.2 Associated with fair value option	X				X	X		
1.3 Other								
2. Credit derivatives								
2.1 Trading	X				X	X		
2.2 Associated with fair value option	X				X	X		
2.3 Other	X				X	X		
<b>Total B</b>	<b>X</b>		<b>5,670</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>7,629</b>	<b>-</b>
<b>Total (A + B)</b>	<b>X</b>	<b>1</b>	<b>5,670</b>	<b>-</b>	<b>X</b>	<b>X</b>	<b>438</b>	<b>7,629</b>

Key:

FV = fair value

FV\* = fair value calculated by excluding changes in value due to changes in the issuer's credit standing compared to the issue date.

NA = nominal or notional amount

L1 = level 1

L2 = level 2

L3 = level 3

## SECTION 8 - Tax liabilities - Caption 80

Reference should be made to note 13 of assets for information on deferred tax liabilities.

## SECTION 10 - Other liabilities - Caption 100

### 10.1 OTHER LIABILITIES: BREAKDOWN

	31.12.2017	31.12.2016
Tax liabilities, withholding taxes and other amounts to be paid	18,021	21,288
Cheques, cheque truncation flows to be credited	18,540	11,314
Securities, currency and premium transactions paid for options to be credited	1,934	1,757
Business unit to be settled - Bipelle	0	0
Due to employees	63,460	14,972
Other liabilities for expenses, commissions and interest to be paid	61,130	53,259
Prepaid debit cards	45,554	56,769
Currency differences on portfolio transactions	5,264	17,202
BIREL, transfers, payment flows to be credited, e-money	122,125	123,394
Sundry and residual items	48,600	7,671
<b>Total</b>	<b>384,628</b>	<b>307,626</b>

The caption "Due to employees" includes the incentive for voluntary redundancy and solidarity fund.

## SECTION 11 - Post-employment benefits - Caption 110

### 11.1 POST-EMPLOYMENT BENEFITS: CHANGES

	31.12.2017	31.12.2016
<b>A. Opening balance</b>	<b>11,422</b>	<b>12,149</b>
<b>B. Increases</b>		
B.1 Accruals	151	124
B.2 Other increases	-	13
- including business combinations	-	-
<b>C. Decreases</b>		
C.1 Payments	3,012	382
C.2 Other decreases	491	481
<b>D. Closing balance</b>	<b>8,070</b>	<b>11,422</b>
<b>Total</b>	<b>8,070</b>	<b>11,422</b>

### 11.2 OTHER INFORMATION

#### MAIN DEMOGRAPHIC AND ACTUARIAL ASSUMPTIONS USED TO MEASURE POST-EMPLOYMENT BENEFITS AS AT 31 DECEMBER 2017

Mortality among aged pensioners	Rates relating to Italians broken down by age and gender, published by ISTAT in 2000 and reduced by 25%
Mortality among total and permanent disability pensioners	Rates inferred from the invalidity tables currently used by the reinsurance practice, broken down by age and gender
Advances	1.76%
Turnover	1.86%
Retirement	Rate based on the satisfaction of the first requirement for the mandatory general insurance
Inflation	1.50%
Annual discount rate	1.30%, inferred, in accordance with par. 83 of IAS 19, the index Iboxx Corporate AA 10+ duration detected at the measurement date. To this end it was decided the performance with a duration comparable to the duration of the collective of the evaluated employees

### Sensitivity analysis

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

€'000	CHANGE IN POST-EMPLOYMENT BENEFITS (AMOUNT)	CHANGE IN POST-EMPLOYMENT BENEFITS (PERCENTAGE)
<b>Change in actuarial assumptions:</b>		
<b>- Discount rate:</b>		
	-0.50%	453
	0.50%	-418
<b>- Employee turnover</b>		
	-0.50%	29
	0.50%	-28

## SECTION 12 - Provisions for risks and charges - Caption 120

### 12.1 PROVISIONS FOR RISKS AND CHARGES: BREAKDOWN

CAPTIONS/COMPONENTS	31.12.2017	31.12.2016
1. Internal pension funds	875	940
2. Other provisions for risks and charges	23,273	22,621
<b>Total</b>	<b>24,148</b>	<b>23,561</b>

### 12.2 PROVISIONS FOR RISKS AND CHARGES: CHANGES

CAPTIONS/COMPONENTS	PENSION PLANS	OTHER PROVISIONS	TOTAL
<b>A. Opening balance</b>	940	22,621	23,561
<b>B. Increases</b>			-
B.1 Accruals		2,287	2,287
B.2 Discounting	8		8
B.3 Changes due to variations in discount rate			-
B.4 Other increases			-
<b>C. Decreases</b>			-
C.1 Utilisations	68	1,635	1,703
C.2 Changes due to variations in discount rate	5		5
C.3 Other decreases			-
<b>D. Closing balance</b>	<b>875</b>	<b>23,273</b>	<b>24,148</b>

### 12.3 Defined benefit internal pension plans

#### 1. Description and related risks

The liability for defined benefit internal pension plans includes the accruals made for the bank's obligation to its former employees. The estimated liability amounts to € 875 thousand at the reporting date.

#### 2. Changes in defined benefit plan liabilities (assets) and related repayment rights.

The present value of the defined benefit liability at 31 December 2016 amounts to €940 thousand. The bank paid benefits totaling €65 thousand during the year. The other changes relate to discounting costs.

## 12.4 Provisions for risks and charges - Other provisions

The other provisions mainly relate to claims/litigation with respect to which an outlay of resources by the bank is deemed probable. They also include accruals for donations.

The decrease is a result of the elimination of existing risks, partly due to settlement of the related costs and partly to the release of previously set-up provisions.

## SECTION 14 - Equity - Captions 130, 150, 160, 170, 180, 190 and 200

### 14.1 "SHARE CAPITAL" AND "TREASURY SHARES": BREAKDOWN

CAPTIONS/AMOUNTS	31.12.2017	31.12.2016
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves	1,692,494	1,712,313
4. Treasury shares (-)	(32)	(32)
5. Valuation reserves	60,531	62,562
6. Profit for the year	89,491	84,164
<b>Total</b>	<b>2,033,283</b>	<b>2,049,806</b>

### 14.2 SHARE CAPITAL - NUMBER OF SHARES: CHANGES

CAPTIONS/TYPES	ORDINARY	OTHER
<b>A. Opening balance</b>		
- fully paid-in	14,185,790	
- not fully paid-in		
A.1 Treasury shares (-)	75,191	
<b>A.2 Outstanding shares: opening balance</b>	<b>14,110,599</b>	
<b>B. Increases</b>		
B.1 New issues		
- against consideration:		
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- bonus issues:		
- to employees		
- to directors		
- other		
B.2 Sale of treasury shares		
B.3 Other increases		
<b>C. Decreases</b>		
C.1 Cancellations		
C.2 Repurchases of treasury shares		
C.3 Disposals of equity investments		
C.4 Other decreases		
<b>D. Outstanding shares: closing balance</b>	<b>14,110,599</b>	
D.1 Treasury shares (+)	75,191	
D.2 Closing balance	14,185,790	
- fully paid-in		
- not fully paid-in	14,185,790	

The outstanding and fully paid-in shares number 14,185,790, while treasury shares in portfolio amount to 75,191.

#### **14.4 INCOME-RELATED RESERVES: OTHER INFORMATION**

	<b>AMOUNTS AS AT</b>	
	<b>31.12.2017</b>	<b>31.12.2016</b>
Legal reserve	20,000	20,000
Statutory reserves		
Other reserves	1,672,495	1,692,313
<b>Total</b>	<b>1,692,495</b>	<b>1,712,313</b>

#### **POSSIBLE UTILISATION OF RESERVES**

<b>DESCRIPTION</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>UTILISATION</b>
Legal	20,000	20,000	a
Share premium reserve	148,242	148,242	a,b,c
Valuation reserves	46,219	46,219	a,b,c
Fair value reserve	15,599	17,702	d
Actuarial reserve	-1,287	-1,358	
Reserve for treasury shares in portfolio	32	32	e
Unrestricted reserve for treasury shares	746	746	a,b,c
Income-related reserves as per Law no. 289/2002	10,848	10,848	a,b,c
Goodwill arising on merger	1,293,617	1,293,617	a,b,c
Other income-related reserves	367,252	387,070	a,b,c
<b>Total reserves</b>	<b>1,901,268</b>	<b>1,923,117</b>	

a = to cover losses

b = dividends

c = capital increases

d = undistributable until realised

e = unusable until sale of treasury shares in portfolio

## 14.6 OTHER DISCLOSURES

### 1. Guarantees and commitments

<b>OPERATIONS</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
1) Financial guarantees issued	<b>101,550</b>	110,351
a) Banks	<b>2,421</b>	322
b) Customers	<b>99,129</b>	110,029
2) Commercial guarantees issued	<b>3,739</b>	3,910
a) Banks	-	83
b) Customers	<b>3,739</b>	3,827
3) Irrevocable commitments to disburse funds	<b>179,145</b>	110,930
a) Banks	<b>129,402</b>	1,247
i) certain use	<b>129,402</b>	1,247
ii) uncertain use	-	-
b) Customers	<b>49,743</b>	109,683
i) certain use	<b>9,052</b>	2,934
ii) uncertain use	<b>40,691</b>	106,749
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets pledged as collateral for third party commitments	-	-
6) Other commitments	-	-
<b>Total</b>	<b>284,434</b>	<b>225,191</b>

### 2. Assets pledged as guarantee for liabilities and commitments

<b>PORTFOLIOS</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
1. Financial assets held for trading	-	-
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	<b>102,100</b>	98,288
4. Held-to-maturity investments	-	-
5. Loans and receivables with banks	-	-
6. Loans and receivables with customers	-	-
7. Property, equipment and investment property	-	-

Assets pledged as guarantee are mainly government bonds securing the bank's operations in the relevant markets..

#### 4. MANAGEMENT AND TRADING ON BEHALF OF THIRD PARTIES

CAPTIONS/TYPES	31.12.2017	31.12.2016
<b>1. Execution of customer orders</b>		
a) Purchases		
1. settled	<b>24,954,867</b>	21,844,663
2. unsettled	-	-
b) Sales	-	-
1. settled	<b>24,355,604</b>	22,076,792
2. unsettled	-	-
<b>2. Asset management</b>		
a) individual	-	-
b) collective	-	-
<b>3. Securities custody and administration</b>		
a) third party securities held as part of depository bank services (excluding asset management)	<b>51,546,933</b>	48,247,564
1. securities issued by the reporting entity	-	-
2. other securities	<b>51,546,933</b>	48,247,564
b) third party securities on deposit (excluding asset management): other	<b>65,791,721</b>	72,051,407
1. securities issued by the reporting entity	<b>39,694</b>	39,694
2. other securities	<b>65,752,027</b>	72,011,713
c) third party securities deposited with third parties	<b>100,324,138</b>	103,822,347
d) securities owned by the bank deposited with third parties	<b>2,471,922</b>	3,116,743
4. Order collection and transmission		
a) Purchases		
1. settled	<b>1,604,579</b>	1,277,278
2. unsettled	-	-
b) Sales	-	-
1. settled	<b>1,457,839</b>	1,372,114
2. unsettled	-	-
<b>5. Placement of secured and unsecured securities</b>		
a) Placement of unsecured securities	<b>461,790</b>	506,738
b) Placement of secured securities	<b>6,500</b>	3,803

## Part C - Notes to the Income Statement

### SECTION 1 - Interest - Captions 10 and 20

#### 1.1 INTEREST AND SIMILAR INCOME: BREAKDOWN

CAPTIONS/CATEGORIES	DEBT INSTRUMENTS	FINANCING	OTHER ASSETS	31.12.2017	31.12.2016
1. Financial assets held for trading	443	-	-	<b>443</b>	396
2. Available-for-sale financial assets	27,697	-	-	<b>27,697</b>	26,240
3. Held-to-maturity investments	131	-	-	<b>131</b>	337
4. Loans and receivables with banks	195	7,705	1,724	<b>9,624</b>	6,308
5. Loans and receivables with customers	-	19,846	2	<b>19,848</b>	15,385
6. Financial assets at fair value through profit or loss	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	10	11,518	<b>11,518</b>	6,224
<b>Total</b>	<b>28,466</b>	<b>27,551</b>	<b>13,244</b>	<b>69,260</b>	<b>54,890</b>

#### 1.4 INTEREST AND SIMILAR EXPENSE: BREAKDOWN

CAPTIONS/CATEGORIES	LIABILITIES	SECURITIES	OTHER	31.12.2017	31.12.2016
1. Due to central banks	-	-	-	-	-
2. Due to banks	2,215	-	-	<b>2,215</b>	2,897
3. Due to customers	4,102	-	-	<b>4,103</b>	1,873
4. Securities issued	-	-	-	-	-
5. Financial liabilities held for trading	60	-	-	<b>60</b>	41
6. Financial liabilities at fair value through profit or loss	-	-	-	-	-
7. Other liabilities and provisions	-	-	10,494	<b>10,494</b>	6,065
8. Hedging derivatives	-	-	-	-	-
<b>Total</b>	<b>6,377</b>	-	<b>10,494</b>	<b>16,871</b>	<b>10,876</b>

## SECTION 2 - Fees and commissions - Captions 40 and 50

### 2.1 FEE AND COMMISSION INCOME: BREAKDOWN

TYPE OF SERVICES/SECTORS	31.12.2017	31.12.2016
a) guarantees issued	177	177
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	-	-
1. trading in financial instruments	10,556	10,452
2. foreign currency transactions	-	-
3. asset management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. securities custody and administration	5,086	4,889
5. depository services	51,449	48,779
6. securities placement	1,482	1,861
7. order collection	1,863	1,618
8. consultancy services	237	207
8.1 concerning investments		
8.2 concerning financial structure	237	207
9. distribution of third party services	-	-
9.1 asset management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	-	-
9.3 other products	-	-
d) collection and payment services	55,586	61,519
e) servicing services for securitisations	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) keeping and management of current accounts	-	-
j) other services	4,003	3,945
<b>Total</b>	<b>130,439</b>	<b>133,448</b>

## 2.2 FEE AND COMMISSION INCOME: DISTRIBUTION CHANNELS OF PRODUCTS AND SERVICES

CHANNELS/SECTORS	31.12.2017	31.12.2016
<b>a) bank branches:</b>		
1. asset management		
2. securities placement		
3. third party services and products		
<b>b) off premises:</b>		
1. asset management		
2. securities placement		
3. third party services and products		
<b>c) other distribution channels:</b>		
1. asset management		
2. securities placement	1,482	1,861
3. third party services and products		

## 2.3 FEE AND COMMISSION EXPENSE: BREAKDOWN

SERVICES/SECTORS	31.12.2017	31.12.2016
a) guarantees received	55	50
b) credit derivatives	-	-
c) management and brokerage services:		
1. trading in financial instruments	513	343
2. foreign currency transactions	64	53
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	6,165	5,780
5. placement of financial instruments	1,293	1,695
6. securities settlement	1,743	1,924
7. off-premises distribution of financial instruments, products and services	-	-
d) collection and payment services	16,660	20,631
e) other services	3,382	3,560
<b>Total</b>	<b>29,875</b>	<b>34,036</b>

## SECTION 3 - Dividends and similar income - Item 70

### 3.1 DIVIDENDS AND SIMILAR INCOME: BREAKDOWN

CAPTIONS/INCOME	31.12.2017		31.12.2016	
	DIVIDENDS	INCOME FROM OEIC UNITS	DIVIDENDS	INCOME FROM OEIC UNITS
A. Financial assets held for trading	16		4	
B. Available-for-sale financial assets	1,567		419	
C. Financial assets at fair value through profit or loss	-		-	
D. Equity investments	89,801		95,543	
<b>Total</b>	<b>91,385</b>	-	<b>95,966</b>	-

## SECTION 4 - Net trading income - Caption 80

### 4.1 NET TRADING INCOME: BREAKDOWN

OPERATIONS/EARNING COMPONENTS	GAINS (A)	TRADING INCOME (B)	LOSSES (C)	TRADING LOSSES (D)	NET TRADING INCOME [(A+B) - (C+D)]
<b>1. Financial assets held for trading</b>					
1.1 Debt instruments	143	3,116	235	363	2,661
1.2 Equity instruments	-	662	3	414	245
1.3 OEIC units	-	-	-	13	-13
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
<b>2. Financial liabilities held for trading</b>					
2.1 Debt instruments	-	-	-	-	-
2.2 Liabilities	-	-	-	-	-
2.3 Other	-	-	-	-	-
<b>3. Other financial assets and liabilities: net exchange rate gains</b>					
4. Derivatives	-	-	-	-	-
4.1 Financial derivatives:	-	-	-	-	-
- On debt instruments and interest rates	-	-	-	-	-
- On equity instruments and equity indexes	80	8,117	63	7,395	739
- On currencies and gold	-	-	-	-	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
<b>Total</b>	<b>223</b>	<b>11,895</b>	<b>301</b>	<b>8,185</b>	<b>5,284</b>

## SECTION 6 - Gain (loss) from sales/repurchases - Caption 100

### 6.1 NET GAIN FROM SALES OR REPURCHASES: BREAKDOWN

CAPTIONS/EARNING COMPONENTS	31.12.2017			31.12.2016		
	GAIN	LOSS	NET GAIN	GAIN	LOSS	NET GAIN
<b>Financial assets</b>						
1. Loans and receivables with banks		-	-		-	-
2. Loans and receivables with customers		-	-		-	-
3. Available-for-sale financial assets		-	-		-	-
3.1 Debt instruments		-	-		-	-
3.2 Equity instruments	211	-	211	-	-	-
3.3 OEIC units	6,800	-	6,800	-	-	-
3.4 Financing		-	-		-	-
4. Held-to-maturity investments	-	-	-	-	-	-
<b>Total assets</b>	<b>7,011</b>	-	<b>7,011</b>	-	-	-
<b>Financial liabilities</b>						
1. Due to banks		-	-		-	-
2. Due to customers		-	-		-	-
3. Securities issued		-	-		-	-
<b>Total liabilities</b>	<b>-</b>	-	<b>-</b>	-	-	-

The gain from OEIC are related to the sale in H2 2017 of the shares in investment fund.

## SECTION 8 - Net impairment losses - Caption 130

### 8.2 IMPAIRMENT LOSSES ON AFS FINANCIAL ASSETS: BREAKDOWN

OPERATIONS/EARNING COMPONENTS	IMPAIRMENT LOSSES (1)		REVERSALS OF IMPAIRMENT LOSSES (2)		TOTAL 31.12.2017 (3)=(1)-(2)	TOTAL 31.12.2016 (3)=(1)-(2)		
	INDIVIDUAL		INDIVIDUAL					
	DERECOGNITION	OTHER	A	B				
A. Debt instruments								
B. Equity instruments		392			392	700		
C. OEIC units		3,507			3,507	1,512		
D. Financing to banks								
E. Financing to customers								
<b>F. Total</b>	<b>-</b>	<b>3,899</b>	<b>-</b>	<b>-</b>	<b>3,899</b>	<b>2,212</b>		

Key  
A = from interest  
B = other reversals

## SECTION 9 - Administrative expenses - Caption 150

### 9.1 PERSONNEL EXPENSE: BREAKDOWN

TYPE OF EXPENSE/AMOUNTS	31.12.2017	31.12.2016
1) Employees	134,823	84,605
a) wages and salaries	60,284	63,142
b) social security charges	15,329	14,753
c) post-employment benefits	283	390
d) pension costs	115	167
e) accrual for post-employment benefits	59	124
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:		
- defined contribution plans	4,186	3,934
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	54,567	2,095
2) Other personnel	783	2,137
3) Directors and statutory auditors	1,208	1,130
4) Retired personnel	-	-
5) Cost recoveries for employees seconded to other companies	-2,969	-704
6) Cost reimbursements for third party employees seconded to the bank	3,340	-
<b>Total</b>	<b>137,185</b>	<b>87,168</b>

The caption "Other employee benefits", mainly includes the incentives for voluntary redundancy and solidarity fund.

### 9.2 AVERAGE NUMBER OF EMPLOYEES PER CATEGORY

	31.12.2017	31.12.2016
a) managers	41	35
b) junior managers	379	368
c) other employees	375	417

### 9.3 Defined benefit internal pension plans: costs and revenue

The defined benefit internal pension plan currently only covers former employees as the present fund is a defined contribution benefit plan.

Costs recognised in profit or loss for the defined benefit plan (mainly interest expense) amount to € 8.0 thousand.

There are no plan assets.

## 9.5 OTHER ADMINISTRATIVE EXPENSES: BREAKDOWN

TYPE OF EXPENSE	31.12.2017	31.12.2016
- data processing	28,931	36,832
- post office, valuables transportation and couriers	973	1,127
- external services	9,524	10,219
- interbank network traffic	6,248	8,982
- IT connections and automation costs	4,057	3,923
- access to markets	2,212	2,145
- professional services	20,087	28,912
- agents' commissions	1,503	1,446
- bank draft books	71	124
- maintenance and lease	19,100	11,045
- building running costs, leases, heating and lighting	5,220	5,115
- stationery and printed matter	219	225
- insurance	505	453
- telegraph, telephone and telex	441	548
- card processing	-	-
- outsourcing back office	-	-
- membership fees	1,453	1,448
- surveillance and cleaning	730	755
- other	6,841	7,207
- taxes and duties	2,761	2,493
<b>Total</b>	<b>110,876</b>	<b>123,000</b>

## SECTION 10 - Net accruals to provisions for risks and charges - Caption 160

### 10.1 NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES: BREAKDOWN

TYPE OF EXPENSE	31.12.2017	31.12.2016
Accruals to provisions	1,418	1,519
<b>Total</b>	<b>1,418</b>	<b>1,519</b>

## SECTION 11 - Depreciation and net impairment losses on property, equipment and investment property - Caption 170

### 11.1 DEPRECIATION AND NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY: BREAKDOWN

ASSETS/EARNING COMPONENTS	AMORTISATION (A)	IMPAIRMENT LOSSES (B)	REVERSALS OF IMPAIRMENT LOSSES (C)	CARRYING AMOUNT (A + B - C)
A. Property, equipment and investment property				
A.1 Owned				
- Property and equipment	907			907
- Investment property		1,426		1,426
A.2 Under finance lease				
- Property and equipment				
- Investment property				
<b>Total</b>	<b>2,333</b>			<b>2,333</b>

**SECTION 12 - Amortisation and net impairment losses on intangible assets - Caption 180****12.1 AMORTISATION AND NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS: BREAKDOWN**

<b>ASSETS/EARNING COMPONENTS</b>	<b>AMORTISATION (A)</b>	<b>IMPAIRMENT LOSSES (B)</b>	<b>REVERSALS OF IMPAIRMENT LOSSES (C)</b>	<b>CARRYING AMOUNT (A + B - C)</b>
A. Intangible assets				-
A.1 Owned				-
- Generated internally				-
- Other	16,389		-	16,389
A.2 Under finance lease				-
<b>Total</b>	<b>16,389</b>		-	<b>16,389</b>

**SECTION 13 - Other operating expense and income - Caption 190****13.1 OTHER OPERATING EXPENSE: BREAKDOWN**

	<b>31.12.2017</b>	<b>31.12.2016</b>
Other Costs	2,135	2,180
Transfer of revenue from services	3,842	4,046
<b>Total</b>	<b>5,977</b>	<b>6,226</b>

**13.2 OTHER OPERATING INCOME: BREAKDOWN**

	<b>31.12.2017</b>	<b>31.12.2016</b>
Lease income	1,485	1,546
Services	76,846	74,027
Recoveries of stamp duties from customers and post office expenses	145	215
Other income	2,907	3,029
<b>Total</b>	<b>81,383</b>	<b>78,816</b>

## SECTION 14 - Share of profits of investees - Caption 210

### 14.1 SHARE OF PROFITS OF INVESTEES: BREAKDOWN

EARNING COMPONENTS/AMOUNTS	31.12.2017	31.12.2016
A. Income		
1. Fair value gains		
2. Gains on sales	14,590	-
3. Reversals of impairment losses		
4. Other income		
B. Costs		
1. Fair value losses		22,035
2. Impairment losses		
3. Losses on sales		
4. Other costs		
<b>Net profits (losses)</b>	<b>14,590</b>	<b>-22,035</b>

Gains on sales are referred to the sale of the "TAPF" business unit.

## SECTION 17 - Gains (losses) on sales of investments - Caption 240

### 17.1 NET GAINS ON SALES OF INVESTMENTS: BREAKDOWN

EARNING COMPONENTS/AMOUNTS	31.12.2017	31.12.2016
A. Property		
- Gains on sales	-	-
- Losses on sales	-	-
B. Other assets		
- Gains on sales	-	-
- Losses on sales	7	-
<b>Net gains</b>	<b>- 7</b>	<b>-</b>

## SECTION 18 - Income taxes - Caption 260

### 18.1 INCOME TAXES: BREAKDOWN

EARNING COMPONENTS/AMOUNTS	31.12.2017	31.12.2016
1. Current taxes	11,886	21,310
2. Change in current taxes from previous years (+/-)	1,924	-564
3. Decrease in current taxes for the year (+)		
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 (+/-)	1,087	583
5. Change in deferred tax liabilities (+/-)	74	-78
6. Tax expense for the year (-)	14,971	21,251

**18.2 RECONCILIATION BETWEEN THE THEORETICAL AND EFFECTIVE IRES TAX EXPENSE**

<b>IRES</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
Reconciliation between the theoretical and effective tax rate		
Theoretical tax rate	<b>27.5%</b>	27.5%
Tax exempt income and other decreases	<b>-52.46%</b>	-82.7%
Non-deductible costs	<b>1.5%</b>	16.7%
Effective tax rate	<b>-23.46%</b>	-38.5%

**18.3 RECONCILIATION BETWEEN THE THEORETICAL AND EFFECTIVE IRAP TAX EXPENSE**

<b>IRAP</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
Reconciliation between the theoretical and effective tax rate:		
Theoretical tax rate	<b>5.57%</b>	5.57%
Tax exempt income and other decreases	<b>-5.1%</b>	-8.2%
Non-deductible costs	<b>2.9%</b>	7.4%
Effective tax rate	<b>3.4%</b>	4.7%

## Part D - Comprehensive income

### BREAKDOWN OF COMPREHENSIVE INCOME

CAPTIONS	GROSS AMOUNT	INCOME TAX	NET AMOUNT
10. Profit for the year	X	X	89,490,653
<b>Items that will not be reclassified subsequently to profit or loss</b>			
20. Property, equipment and investment property			
30. Intangible assets			
40. Defined benefit plans	97,345	-26,770	70,575
50. Non-current assets held for sale			
60. Share of valuation reserves of equity-accounted investees			
<b>Items that will be reclassified subsequently to profit or loss</b>			
70. Hedges of investments in foreign operations:			
a) fair value gains (losses)			
b) reclassification to profit or loss			
c) other changes			
80. Exchange rate gains (losses):			
a) unrealised gains (losses)			
b) reclassification to profit or loss			
c) other changes			
90. Cash flow hedges:			
a) fair value gains (losses)			
b) reclassification to profit or loss			
c) other changes			
100. Available-for-sale financial assets:			
a) fair value gains (losses)	-3,140,780	1,038,656	-2,102,124
b) reclassification to profit or loss:			
- impairment losses			
- gains/losses on sales			
c) other changes			
110. Non-current assets held for sale:			
a) fair value gains (losses)			
b) reclassification to profit or loss			
c) other changes			
120. Share of valuation reserves of equity-accounted investees:			
a) fair value gains (losses)			
b) reclassification to profit or loss:			
- impairment losses			
- gains/losses on sales			
c) other changes			
<b>130. Other comprehensive expense</b>	<b>-3,043,436</b>	<b>1,011,887</b>	<b>-2,031,549</b>
<b>140. Comprehensive income (expense) (captions 10 + 130)</b>	<b>-3,043,436</b>	<b>1,011,887</b>	<b>87,459,104</b>

## Part E - Risks and related hedging policies

### Introduction

In this part of the Notes provides the quantitative information on risks relative to Nexi parent company. For qualitative methods on the risk management and monitoring information on the organization of the Bank's risk management, on its processes and key functions, risk culture within the Bank and on the ways in which it is guaranteed diffusion, the main risks arising from the business model of the Bank, the risk appetite and the way in which these risks are managed, the use of stress tests under the governance of risk strategies, see this exhibition in Part E of the Notes consolidated.

### SECTION 1 - Credit risk

#### QUALITATIVE DISCLOSURE

Qualitative informations are explained in part E of consolidated financial statements.

#### A. CREDIT QUALITY

##### **A.1 IMPAIRED AND UNIMPAIRED LOANS: CARRYING AMOUNT, IMPAIRMENT LOSSES, PERFORMANCE, BUSINESS AND GEOGRAPHICAL DISTRIBUTION**

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

PORTFOLIOS/QUALITY	NON-PERFORMING LOANS	PROBABLE DEFAULT	IMPAIRED PAST DUE LOANS	UNPAIRED PAST DUE LOANS	OTHER UNIMPAIRED EXPOSURES	TOTAL
1. Available-for-sale financial assets	-	-	-	-	2,501,990	<b>2,501,990</b>
2. Held-to-maturity investments	-	-	-	-	4,966	<b>4,966</b>
3. Loans and receivables with banks	-	-	-	-	795,195	<b>795,195</b>
4. Loans and receivables with customers	391	-	-	-	2,092,076	<b>2,092,467</b>
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
<b>Total 31.12.2017</b>	<b>391</b>	-	-	-	<b>5,394,227</b>	<b>5,394,618</b>
<b>Total 31.12.2016</b>	<b>391</b>	-	-	-	<b>5,504,969</b>	<b>5,505,360</b>

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

<b>PORTFOLIOS/ QUALITY</b>	<b>IMPAIRED ASSETS</b>			<b>UNIMPAIRED ASSETS</b>			<b>TOTAL (CARRYING AMOUNT)</b>
	<b>GROSS AMOUNT</b>	<b>INDIVIDUAL IMPAIRMENT</b>	<b>CARRYING AMOUNT</b>	<b>GROSS AMOUNT</b>	<b>COLLECTIVE IMPAIRMENT</b>	<b>CARRYING AMOUNT</b>	
1. Available-for-sale financial assets	-	-	-	2,501,990	-	2,501,990	<b>2,501,990</b>
2. Held-to-maturity investments	-	-	-	4,966	-	4,966	<b>4,966</b>
3. Loans and receivables with banks	-	-	-	795,195	-	795,195	<b>795,195</b>
4. Loans and receivables with customers	2,088	1,697	391	2,092,076	-	2,092,076	<b>2,092,467</b>
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
<b>Total 31.12.2017</b>	<b>2,088</b>	<b>1,697</b>	<b>391</b>	<b>5,394,227</b>	-	<b>5,394,227</b>	<b>5,394,618</b>
<b>Total 31.12.2016</b>	<b>2,139</b>	<b>1,748</b>	<b>391</b>	<b>5,504,970</b>	-	<b>5,504,970</b>	<b>5,505,360</b>

<b>PORTFOLIOS/QUALITY</b>	<b>ASSETS WITH POOR CREDIT QUALITY</b>		<b>OTHER ASSETS</b>
	<b>CUMULATED IMPAIRMENT LOSSES</b>	<b>CARRYING AMOUNT</b>	<b>CARRYING AMOUNT</b>
1. Financial assets held for trading	-	-	17,376
2. Hedging derivatives	-	-	-
<b>Total 31.12.2017</b>	-	-	<b>17,376</b>
<b>Total 31.12.2016</b>	-	-	<b>13,153</b>

**A.1.3 Loans and receivables with banks on and off-statement of financial position: gross amounts, carrying amounts and past due brackets**

TYPE OF EXPOSURES/ AMOUNTS	GROSS AMOUNT						UNIMPAIRED ASSETS	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT	CARRYING AMOUNT				
	IMPAIRED ASSETS													
	UP TO 3 MONTHS	FROM 3 TO 6 MONTHS	FROM 6 MONTHS AFTER 1 TO 1 YEAR	YEAR										
<b>A. ON-STATEMENT OF FINANCIAL POSITION</b>														
a) Non-performing loans	-	-	-	-	-	-	-	-	-	-				
- including: negotiated exposures	-	-	-	-	-	-	-	-	-	-				
b) Probable defaults	-	-	-	-	-	-	-	-	-	-				
- including: negotiated exposures	-	-	-	-	-	-	-	-	-	-				
c) Impaired past due loans	-	-	-	-	-	-	-	-	-	-				
- including: negotiated exposures	-	-	-	-	-	-	-	-	-	-				
d) Unimpaired past due loans	-	-	-	-	-	-	-	-	-	-				
- including: negotiated exposures	-	-	-	-	-	-	-	-	-	-				
e) Other unimpaired exposures	-	-	-	-	-	811,859	-	-	-	811,859				
- including: negotiated exposures	-	-	-	-	-	-	-	-	-	-				
<b>Total A</b>	-	-	-	-	-	<b>811,859</b>	-	-	-	<b>811,859</b>				
<b>B. OFF-STATEMENT OF FINANCIAL POSITION</b>														
a) Impaired	-	-	-	-	-	-	-	-	-	-				
b) Other	-	-	-	-	-	5,687	-	-	-	5,687				
<b>Total B</b>	-	-	-	-	-	<b>5,687</b>	-	-	-	<b>5,687</b>				
<b>Total A+B</b>	-	-	-	-	-	<b>817,546</b>	-	-	-	<b>817,546</b>				

**A.1.6 Loans and receivables with customers on and off-statement of financial position: gross amounts, carrying amounts and past due brackets**

TYPE OF EXPOSURES/ AMOUNTS	GROSS AMOUNT							
	IMPAIRED ASSETS							
	UP TO 3 MONTHS	FROM 3 TO 6 MONTHS	FROM 6 MONTHS AFTER 1 TO 1 YEAR	YEAR	UNIMPAIRED ASSETS	INDIVIDUAL ASSETS IMPAIRMENT	COLLECTIVE IMPAIRMENT	CARRYING AMOUNT
<b>A. ON-STATEMENT OF FINANCIAL POSITION</b>								
a) Non-performing loans	-	-	-	2,088	-	1,697	-	391
- including: negotiated exposures	-	-	-	-	-	-	-	-
b) Probable defaults	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
c) Impaired past due loans	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
d) Unimpaired past due loans	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-
e) Other unimpaired exposures	-	-	-	-	4,598,265	-	-	4,598,265
- including: negotiated exposures	-	-	-	-	-	-	-	-
<b>Total A</b>	-	-	-	<b>2,088</b>	<b>4,598,266</b>	<b>1,697</b>	-	<b>4,598,656</b>
<b>B. OFF-STATEMENT OF FINANCIAL POSITION</b>								
a) Impaired	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	599,941	-	-	599,941
<b>Total B</b>	-	-	-	-	<b>599,941</b>	-	-	<b>599,941</b>
<b>Total A+B</b>	-	-	-	<b>2,088</b>	<b>5,198,206</b>	<b>1,697</b>	-	<b>5,198,597</b>

### A.1.7 On-statement of financial position loans and receivables with customers: gross impaired positions

PURPOSES/CATEGORIES	NON-PERFORMING LOANS	PROBABLE DEFAULTS	IMPAIRED PAST DUE LOANS
<b>A. Gross opening balance</b>	<b>2,139</b>	-	-
- including: positions transferred but not derecognised			
<b>B. Increases</b>			
B.1 transfers from performing loans	-	-	-
B.2 transfers from other impaired loan categories	-	-	-
B.3 Other increases	-	-	-
<b>C. Decreases</b>			
C.1 transfers to performing loans	-	-	-
C.2 derecognitions	-	-	-
C.3 collections	51	-	-
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other impaired loan categories	-	-	-
C.7 other decreases	-	-	-
<b>D. Gross closing balance</b>	<b>2,088</b>	-	-
- including: positions transferred but not derecognised			

### A.1.8 On-statement of financial position loans and receivables with customers: changes in impaired positions

PURPOSES/CATEGORIES	NON-PERFORMING LOANS	PROBABLE DEFAULTS	IMPAIRED PAST DUE LOANS			
	TOTAL	INCLUDING: NEGOTIATED EXPOSURES	TOTAL	INCLUDING: NEGOTIATED EXPOSURES	TOTAL	INCLUDING: NEGOTIATED EXPOSURES
<b>A. Opening balance</b>	<b>1,748</b>					
- including: positions transferred but not derecognised						
<b>B. Increases</b>						
B.1 impairment losses	-					
B.1 bis losses on sales						
B.2 transfers from other impaired exposure categories						
B.3 other increases						
<b>C. Decreases</b>						
C.1 fair value gains						
C.2 reversals of impairment losses due to collection	51					
C.3 gains on sales	-					
C.4 derecognitions						
C.5 transfers to other impaired exposure categories						
C.6 other decreases						
<b>D. Closing balance</b>	<b>1,697</b>					
- including: positions transferred but not derecognised						

### A.3 BREAKDOWN OF GUARANTEED EXPOSURE BY TYPE OF GUARANTEE

### **A.3.1 Guaranteed loans and receivables with banks**

### **A.3.2 Guaranteed loans and receivables with customers**

**B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE****B.1 BREAKDOWN OF LOANS AND RECEIVABLES WITH CUSTOMERS ON AND OFF-STATEMENT OF FINANCIAL POSITION BY BUSINESS SEGMENT (CARRYING AMOUNT)**

EXPOSURES/COUNTER PARTS	GOVERNMENTS AND CENTRAL BANKS			OTHER GOVERNMENT AGENCIES			FINANCIAL COMPANIES		
	CARRYING AMOUNT	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT	CARRYING AMOUNT	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT	CARRYING AMOUNT	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT
<b>A. On-statement of financial position</b>									
A.1 Non-performing loans	-	-	-	-	-	-	391	1,491	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	2,502,302	-	-	1,348	-	-	1,983,856	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
<b>Total A</b>	<b>2,502,302</b>	-	-	<b>1,348</b>	-	-	<b>1,984,246</b>	<b>1,491</b>	-
<b>B. Off-statement of financial position</b>									
B.1 Non-performing loans	-	-	-	-	-	-	-	-	-
B.2 Probable defaults	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	129,063	-	-	263	-	-	143,035	-	-
<b>Total B</b>	<b>129,063</b>	-	-	<b>263</b>	-	-	<b>143,035</b>	-	-
<b>Total (A + B) 31.12.2017</b>	<b>2,631,365</b>	-	-	<b>1,611</b>	-	-	<b>2,127,281</b>	<b>1,491</b>	-
<b>Total (A + B) 31.12.2016</b>	<b>3,172,292</b>	-	-	<b>395</b>	-	-	<b>1,797,989</b>	<b>1,491</b>	-

EXPOSURES/COUNTER PARTS	INSURANCE COMPANIES			NON-FINANCIAL COMPANIES			OTHER		
	CARRYING AMOUNT	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT	CARRYING AMOUNT	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT	CARRYING AMOUNT	INDIVIDUAL IMPAIRMENT	COLLECTIVE IMPAIRMENT
<b>A. On-statement of financial position</b>									
A.1 Non-performing loans									
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.2 Probable defaults	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	10,866	-	-	97,554	-	-	2,339	-	-
- including: negotiated exposures	-	-	-	-	-	-	-	-	-
<b>Total A</b>	<b>10,866</b>	-	-	<b>97,554</b>	<b>206</b>	-	<b>2,339</b>	-	-
<b>B. Off-statement of financial position</b>									
B.1 Non-performing loans									
B.2 Probable defaults	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	7,128	-	-	738	-	-	-	-	-
<b>Total B</b>	<b>7,128</b>	-	-	<b>738</b>	-	-	-	-	-
<b>Total (A + B) 31.12.2017</b>	<b>17,994</b>	-	-	<b>98,292</b>	<b>206</b>	-	<b>2,339</b>	-	-
<b>Total (A + B) 31.12.2016</b>	<b>153</b>	-	-	<b>2,036</b>	<b>257</b>	-	<b>2,182</b>	-	-

**B.2 BREAKDOWN OF LOANS AND RECEIVABLES WITH CUSTOMERS ON AND OFF-STATEMENT OF FINANCIAL POSITION BY GEOGRAPHICAL SEGMENT (CARRYING AMOUNT)**

EXPOSURES/ GEOGRAPHICAL AREAS	ITALY	OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT	TOTAL IMPAIRMENT	CARRYING AMOUNT
<b>A. On-statement of financial position</b>									
<b>A.1 Non-performing loans</b>									
A.1.1 Non-performing loans	391	1,697	-	-	-	-	-	-	-
A.1.2 Probable defaults	-	-	-	-	-	-	-	-	-
A.1.3 Impaired past due loans	-	-	-	-	-	-	-	-	-
A.1.4 Unimpaired exposures	4,586,230	-	10,625	-	1,410	-	-	-	-
<b>Total A</b>	<b>4,586,620</b>	<b>1,697</b>	<b>10,625</b>	<b>-</b>	<b>1,410</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>B. Off-statement of financial position</b>									
<b>B.1 Non-performing loans</b>									
B.1.1 Non-performing loans	-	-	-	-	-	-	-	-	-
B.1.2 Probable defaults	-	-	-	-	-	-	-	-	-
B.1.3 Other impaired assets	-	-	-	-	-	-	-	-	-
B.1.4 Unimpaired exposures	280,194	-	18	-	16	-	-	-	-
<b>Total B</b>	<b>280,194</b>	<b>-</b>	<b>18</b>	<b>-</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A + B) 31.12.2017</b>	<b>4,866,814</b>	<b>1,697</b>	<b>10,643</b>	<b>-</b>	<b>1,426</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A + B) 31.12.2016</b>	<b>4,960,660</b>	<b>1,748</b>	<b>13,577</b>	<b>-</b>	<b>185</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>624</b>

### B.3 BREAKDOWN OF LOANS AND RECEIVABLES WITH BANKS ON AND OFF-STATEMENT OF FINANCIAL POSITION BY GEOGRAPHICAL SEGMENT (CARRYING AMOUNT)

EXPOSURES/ GEOGRAPHICAL AREAS	ITALY	OTHER EUROPEAN COUNTRIES		AMERICAS	ASIA	REST OF THE WORLD		
	NET AMOUNT	TOTAL IMPAIRMENT	NET AMOUNT	TOTAL IMPAIRMENT	NET AMOUNT	TOTAL IMPAIRMENT	NET AMOUNT	TOTAL IMPAIRMENT
<b>A. On-statement of financial position</b>								
A.1 Non-performing loans								
A.2 Probable defaults	-	-	-	-	-	-	-	-
A.3 Impaired past due loans	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	734,558	-	37,542	-	27,359	-	8,736	-
<b>Total A</b>	<b>734,558</b>	<b>-</b>	<b>37,542</b>	<b>-</b>	<b>27,359</b>	<b>-</b>	<b>8,736</b>	<b>-</b>
<b>B. Off-statement of financial position</b>								
B.1 Non-performing loans								
B.2 Probable defaults	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Unimpaired exposures	4,633	-	1,055	-	-	-	-	-
<b>Total B</b>	<b>4,633</b>	<b>-</b>	<b>1,055</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total (A + B) 31.12.2017</b>	<b>739,191</b>	<b>-</b>	<b>38,597</b>	<b>-</b>	<b>27,359</b>	<b>-</b>	<b>8,736</b>	<b>-</b>
<b>Total (A + B) 31.12.2016</b>	<b>714,947</b>	<b>-</b>	<b>39,315</b>	<b>-</b>	<b>8,004</b>	<b>-</b>	<b>5,303</b>	<b>-</b>

### B.4 LARGE EXPOSURES

	<b>31.12.2017</b>	<b>31.12.2016</b>
a) Carrying amount	11,103,404	10,130,883
b) Weighted amount	-	-
c) Number	4	4

### C. Securitisations and transfers of assets

Nexi has not undertaken these types of transaction.

### D. Disclosure on structured entities (other than securitisation vehicles)

CAPTIONS TYPE OF STRUCTURED ENTITY	RECOGNISED ASSETS	TOTAL ASSETS (A)	RECOGNISED LIABILITIES	TOTAL LIABILITIES (B)	CARRYING AMOUNT (C = B-A)	MAXIMUM EXPOSURE AT RISK TO LOSS (D)	DIFFERENCE BETWEEN EXPOSURE AT RISK TO LOSS AND CARRYING AMOUNT (E = D-C)	
2. OEIC units	Available-for-sale financial assets	20,916	-	-	20,916	75,000	54,084	

**E. Transfers**

Nexi has not performed any transfers

**F. Credit risk measurement models**

The bank does not have internal models to measure credit risk given its profile.

## SECTION 2 - Market risk

### 2.1 INTEREST RATE AND PRICE RISK - REGULATORY TRADING BOOK

#### QUALITATIVE DISCLOSURE

Qualitative informations are explained in part E of consolidated financial statements.

#### QUANTITATIVE DISCLOSURE

##### **1. REGULATORY TRADING BOOK: BREAKDOWN BY RESIDUAL Maturity (REPRICING DATE) OF ON-STATEMENT OF FINANCIAL POSITION FINANCIAL ASSETS AND LIABILITIES AND DERIVATIVES**

###### CURRENCY: EURO

TYPE AND RESIDUAL TERM	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
<b>1. Assets</b>								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	107	-	112	-
- other	1,016	3,707	1,409	2,248	4,402	1,024	130	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>								
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	2	-	-	-	-
+ short positions	-	-	-	2	-	-	-	-
- Other derivatives								
+ long positions	274	58,250	703	651	92,900	15,692	-	-
+ short positions	294	151,712	808	359	301	15,745	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	37,987	45,251	-	-	-	-	-
+ short positions	-	905,929	45,285	-	-	-	-	-

**CURRENCY: OTHER**

<b>TYPE AND RESIDUAL TERM</b>	<b>ON DEMAND</b>	<b>UP TO 3 MONTHS</b>	<b>FROM 3 TO 6 MONTHS</b>	<b>FROM 6 MONTHS TO 1 YEAR</b>	<b>FROM 1 TO 5 YEARS</b>	<b>FROM 5 TO 10 YEARS</b>	<b>AFTER 10 YEARS</b>	<b>OPEN TERM</b>
<b>1. Assets</b>								
1.1 Debt instruments								
- with early repayment option	50	-	-	-	8	128	26	-
other	169	1	-	174	547	196	268	-
1.2 Other assets	-	-	-	-	-	-	-	-
<b>2. Liabilities</b>								
2.1 Repurchase agreements								
2.2 Other liabilities	-	-	-	-	-	-	1	-
<b>3. Financial derivatives</b>								
3.1 With underlying security								
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	902,358	45,037	-	-	-	-	-
+ short positions	-	37,902	45,037	-	-	-	-	-

**2.2 INTEREST RATE AND PRICE RISKS - BANKING BOOK****QUALITATIVE DISCLOSURE**

Qualitative informations are explained in part E of consolidated financial statements.

## QUANTITATIVE DISCLOSURE

### 1. BANKING BOOK: BREAKDOWN BY RESIDUAL MATURITY (BY REPRICING DATE) OF FINANCIAL ASSETS AND LIABILITIES

CURRENCY: EURO

TYPE AND RESIDUAL TERM	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
<b>1. Assets</b>								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	781,209	4,966	15,897	-	1,709,124	-	-	-
1.2 Financing to banks	230,201	480,215	-	2,460	-	-	-	-
1.3 Financing to customers								
- current accounts	1,746,450	-	-	-	-	-	-	-
- other financing								
- with early repayment option	-	-	-	-	-	-	-	-
- other	123,876	204,730	175	339	1,355	-	-	-
<b>2. Liabilities</b>								
2.1 Due to customers								
- current accounts	6,088,255	-	-	-	-	-	-	-
- other payables								
- with early repayment option	-	-	-	-	-	-	-	-
- other	20,159	340,791	-	-	-	-	-	-
2.2 Due to banks								
- current accounts	803,296	-	-	-	-	-	-	-
- other payables	212,671	-	-	-	-	-	-	-
2.3 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
<b>3. Financial derivatives</b>								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
<b>4. Other off-statement of financial position transactions</b>								
+ long positions	-	1,014	-	-	-	-	-	6,069
+ short positions	-	7,083	-	-	-	-	-	-



## 2.3 CURRENCY RISK

### QUALITATIVE DISCLOSURE

Qualitative informations are explained in part E of consolidated financial statements.

### QUANTITATIVE DISCLOSURE

#### 1. BREAKDOWN OF ASSETS, LIABILITIES AND DERIVATIVES BY CURRENCY

CAPTIONS	CURRENCY					
	US DOLLAR	YEN	POUND STERLING	SWISS FRANC	CANADIAN DOLLAR	OTHER CURRENCIES
<b>A. Financial assets</b>						
A.1 Debt instruments	1,598	-	-	-	-	-
A.2 Equity instruments	2,565	-	-	23	-	153
A.3 Financing to banks	11,795	5,476	12,497	7,218	3,237	37,870
A.4 Financing to customers	15,030	-	-	-	-	129
A.5 Other financial assets	-	-	-	-	-	-
<b>B. Other assets</b>	<b>15</b>	<b>8</b>	<b>5</b>	<b>3</b>	<b>4</b>	<b>11</b>
<b>C. Financial liabilities</b>						
C.1 Due to banks	46,380	11,241	224	6,870	1,426	11,809
C.2 Due to customers	476,603	134,987	112,327	18,095	18,062	61,022
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
<b>D. Other liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>E. Financial derivatives</b>						
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ long positions	524,840	181,802	100,093	24,037	16,297	37,368
+ short positions	33,985	40,930	-	6,099	23	1,902
<b>Total assets</b>	<b>555,843</b>	<b>187,287</b>	<b>112,595</b>	<b>31,282</b>	<b>19,538</b>	<b>75,532</b>
<b>Total liabilities</b>	<b>556,968</b>	<b>187,158</b>	<b>112,551</b>	<b>31,063</b>	<b>19,511</b>	<b>74,733</b>
<b>Difference (+/-)</b>	<b>-1,125</b>	<b>129</b>	<b>44</b>	<b>219</b>	<b>27</b>	<b>799</b>

## 2.4 DERIVATIVES

### A.FINANCIAL DERIVATIVES

#### A.1 REGULATORY TRADING BOOK: NOTIONAL AMOUNTS AT THE REPORTING DATE

UNDERLYING ASSETS/ TYPE OF DERIVATES	31.12.2017		31.12.2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
1. Debt instruments and interest rates				
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity instruments and share indexes			-	-
a) Options	764	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currencies and gold			-	-
a) Options	-	-	-	-
b) Swaps	5,461	-	62,731	-
c) Forwards	822,399	-	1,101,122	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	12	-	-	-
<b>Total</b>	<b>828,636</b>	<b>-</b>	<b>1,163,853</b>	<b>-</b>

**A.3 FINANCIAL DERIVATIVES: GROSS POSITIVE FAIR VALUE - BREAKDOWN BY PRODUCT**

PORTFOLIOS/TYPE OF DERIVATES	POSITIVE FAIR VALUE			
	31.12.2017		31.12.2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
A. Regulatory trading book				
a) Options	382	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	1,094	-	1,374	-
f) Futures	-	-	-	-
g) Other	4	-	373	-
B. Banking book - hedging				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>1,480</b>	<b>-</b>	<b>1,748</b>	<b>-</b>

**A.4 FINANCIAL DERIVATIVES: GROSS NEGATIVE FAIR VALUE - BREAKDOWN BY PRODUCT**

PORTFOLIOS/TYPE OF DERIVATES	NEGATIVE FAIR VALUE			
	31.12.2017		31.12.2016	
	OVER THE COUNTER	CENTRAL COUNTERPARTIES	OVER THE COUNTER	CENTRAL COUNTERPARTIES
A. Regulatory trading book				
a) Options	<b>382</b>	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	<b>5,240</b>	-	7,350	-
f) Futures	-	-	-	-
g) Other	<b>48</b>	-	278	-
B. Banking book - hedging				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - other derivatives				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>5,670</b>	-	<b>7,629</b>	-

**A.5 OTC FINANCIAL DERIVATIVES - REGULATORY TRADING BOOK: NOTIONAL AMOUNTS,  
GROSS POSITIVE AND NEGATIVE FAIR VALUE BY COUNTERPARTY - CONTRACTS NOT IN-  
CLUDED IN NETTING AGREEMENTS**

CONTRACTS NOT INCLUDED IN COMPAION AGREEMENTS	GOVERNMENTS AND CENTRAL BANKS	OTHER GOVERNMENT AGENCIES	BANKS	FINANCIAL COMPANIES	INSURANCE COMPANIES	NON-FINANCIAL COMPANIES	OTHER
<b>1) Debt instruments and interest rates</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>2) Equity instruments and share indexes</b>							
- notional amount	-	-	382	382	-	-	-
- positive fair value	-	-	-	382	-	-	-
- negative fair value	-	-	382	-	-	-	-
- future exposure	-	-	-	57	-	-	-
<b>3) Currencies and gold</b>							
- notional amount	-	-	782,824	45,037	-	-	-
- positive fair value	-	-	1,094	-	-	-	-
- negative fair value	-	-	4,739	549	-	-	-
- future exposure	-	-	6,608	450	-	-	-
<b>4) Other assets</b>							
- notional amount	12	-	-	-	-	-	-
- positive fair value	4	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>Total</b>	<b>16</b>	<b>-</b>	<b>796,029</b>	<b>46,857</b>	<b>-</b>	<b>-</b>	<b>-</b>

## A.9 RESIDUAL MATURITY OF OTC FINANCIAL DERIVATIVES: NOTIONAL AMOUNTS

UNDERLYING/RESIDUAL TERM	UP TO 1 YEAR	FROM 1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
<b>A. Regulatory trading book</b>				
A.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
A.2 Financial derivatives on equity instruments and share indexes	764	-	-	764
A.3 Financial derivatives on currencies and gold	827,861	-	-	827,861
A.4 Financial derivatives on other assets	-	-	12	12
<b>B. Banking book</b>				
B.1 Financial derivatives on debt instruments and interest rates	-	-	-	-
B.2 Financial derivatives on equity instruments and share indexes	-	-	-	-
B.3 Financial derivatives on currencies and gold	-	-	-	-
B.4 Financial derivatives on other assets	-	-	-	-
<b>Total A + B at 31.12.2017</b>	<b>828,625</b>	-	12	<b>828,637</b>
<b>Total A + B at 31.12.2016</b>	<b>1,163,853</b>	-	-	<b>1,163,853</b>

### B. CREDIT DERIVATIVES

Nexi does not have credit derivatives at the reporting date.

### C. FINANCIAL DERIVATIVES

Nexi does not have credit derivatives at the reporting date.

## SECTION 3 - Liquidity risk

### QUALITATIVE DISCLOSURE

Qualitative informations are explained in part E of consolidated financial statements.

## **QUANTITATIVE DISCLOSURE**

## **1. BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY RESIDUAL CONTRACTUAL Maturity**

## CURRENCY: EURO

## CURRENCY: OTHER

## SECTION 4 - Operational risks

### QUALITATIVE DISCLOSURE

Qualitative informations are explained in part E of consolidated financial statements.

### QUANTITATIVE DISCLOSURE

	<b>OPERATIONAL RISKS</b>		
<b>TOTAL INCOME</b>	<b>31.12.2017</b>	<b>TOTAL INCOME</b>	<b>31.12.2016</b>
2015	282,339	2014	300,050
2016	322,442	2015	282,339
2017	338,016	2016	322,442
<b>Average total income</b>	<b>314,265</b>		<b>301,610</b>
<b>Operational Risk</b>	<b>47,140</b>		<b>45,242</b>

## Part F - Equity

### B. QUANTITATIVE DISCLOSURE

#### B.1 EQUITY: BREAKDOWN BY CAPTIONS

CAPTIONS/AMOUNTS	31.12.2017	31.12.2016
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves		
- income-related		
a) legal	20,000	20,000
b) statutory		
c) treasury shares	777	777
d) other	1,660,869	1,680,687
- other	10,848	10,848
4. Equity instruments		
5. (Treasury shares)	-32	-32
6. Valuation reserves		
- Available-for-sale financial assets	15,599	17,702
- Property, equipment and investment property		
- Intangible assets		
- Hedges of investments in foreign operations		
- Cash flow hedges		
- Exchange rate gains (losses)		
- Non-current assets held for sale		
- Net actuarial losses on defined benefit pension plans	-1,287	-1,358
- Share of valuation reserves of equity-accounted investees		
- Special revaluation laws	46,219	46,219
7. Profit for the year	89,491	84,164
<b>Total</b>	<b>2,033,283</b>	<b>2,049,806</b>

#### B.2 FAIR VALUE RESERVES (AFS FINANCIAL ASSETS): BREAKDOWN

ASSETS/AMOUNTS	31.12.2017		31.12.2016	
	FAIR VALUE GAINS	FAIR VALUE LOSSES	FAIR VALUE GAINS	FAIR VALUE LOSSES
1. Debt instruments	14,107	-189	18,669	-967
2. Equity instruments	1,248	-	-	-
3. OEIC units	433	-	-	-
4. Financing				
<b>Total</b>	<b>15,788</b>	<b>-189</b>	<b>18,669</b>	<b>-967</b>

### B.3 FAIR VALUE RESERVES (AFS FINANCIAL ASSETS): CHANGES

	<b>DEBT INSTRUMENTS</b>	<b>EQUITY INSTRUMENTS</b>	<b>OEIC UNITS</b>	<b>FINANCING</b>
<b>1. Opening balance</b>	<b>17,702</b>			
<b>2. Increases</b>				
2.1 Fair value gains			433	
2.2 Reclassification of fair value losses to profit or loss:				
due to impairment				
on sale				
2.3 Other increases		1,248		
<b>3. Decreases</b>				
3.1 Fair value losses				
3.2 Impairment losses				
3.3 Reclassification of fair value gains to profit or loss: on sale				
3.4 Other decreases	3,784			
<b>4. Closing balance</b>	<b>13,918</b>	<b>1,248</b>	<b>433</b>	

### B.4 ACTUARIAL RESERVES: CHANGES

The actuarial reserve solely refers to the Italian post-employment benefits vested before 1 January 2006. As there are no plan assets, the reserve only includes the actuarial gains or losses on the liability, which changed as follows:

	<b>GROSS ACTUARIAL LOSSES</b>	<b>INCOME TAXES</b>	<b>RESERVE</b>
<b>Opening balance</b>	<b>-1,794</b>	<b>435</b>	<b>-1,358</b>
Actual gains	97	-27	71
Actuarial losses			-
<b>Closing balance</b>	<b>-1,697</b>	<b>409</b>	<b>-1,287</b>

## SECTION 2 - Own funds and ratios

### 2.1 - OWN FUNDS

#### A. QUALITATIVE DISCLOSURE

As of 1 January 2015, banks and banking groups are required to comply with the new minimum capital requirements in relation to risk-weighted assets. The requirements will be progressively increased up to the levels established for 2019, when the transitional regime will end. A capital conservation buffer will be gradually phased in from 1 January 2017 to the end of 2018 in order to reach the target level of 2.5% in 2019.

The banks' total regulatory capital is the sum of the following:

- Tier 1 capital, comprising common equity Tier 1 and additional Tier 1.
- Tier 2 capital

## B. QUANTITATIVE DISCLOSURE

	31.12.2017	31.12.2016
<b>A. Common Equity Tier 1 (CET1) before application of prudential filters</b>	<b>1,943,793</b>	1,945,808
including CET1 instruments covered by the transitional measures	-	-
<b>B. CET1 prudential filters (+/-)</b>		
<b>C. CET1 including the elements to be deducted and the effects of the transitional regime (A+/-B)</b>	<b>1,943,793</b>	1,945,808
<b>D. Elements to be deducted from CET1</b>	<b>-306,468</b>	-310,369
<b>E. Transitional regime - Impact on CET1 (+/-)</b>	<b>-2,862</b>	-6,537
<b>F. Total Common Equity Tier 1 (Common Equity Tier 1 - CET1) (C-D +/- E)</b>	<b>1,634,462</b>	1,628,902
<b>G. Additional Tier 1 (AT1) gross of elements to be deducted and the effects of the transitional regime</b>	-	-
including AT1 instruments covered by the transitional measures	-	-
<b>H. Elements to be deducted from AT1</b>	-	-
<b>I. Transitional regime - Impact on AT1 (+/-)</b>	-	-
<b>L. Total Additional Tier 1 (AT1) (G-H +/- I)</b>	-	-
<b>M. Tier 2 (T2) including the elements to be deducted and the effects of the transitional regime</b>	-	-
including T2 instruments covered by the transitional measures	-	-
<b>N. Elements to be deducted from T2</b>	-	-
<b>O. Transitional regime - Impact on T2 (+/-)</b>	<b>1,433</b>	3,540
<b>P. Total Tier 2 (T2) (M-N+/-O)</b>	<b>1,433</b>	<b>3,540</b>
<b>Q. Total own funds (F + L + P)</b>	<b>1,635,895</b>	<b>1,632,442</b>

## 2.2 Capital adequacy

### A. QUALITATIVE DISCLOSURE

Nexi's own funds exceed those provided for by the regulatory requirements.

### B. QUANTITATIVE DISCLOSURE

<b>CATEGORIES/AMOUNTS</b>	<b>UNWEIGHTED AMOUNTS</b>		<b>WEIGHTED AMOUNTS/ REQUIREMENTS</b>	
	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>A. EXPOSURES</b>				
A.1 Credit and counterparty risk				
1. Standardised method	13,675,664	12,526,857	2,554,905	2,278,484
2. IRB approach				
2.1 Basic				
2.2 Advanced				
3. Securitisations				
<b>B. CAPITAL REQUIREMENTS</b>				
B.1 Credit and counterparty risk			204,392	182,279
B.2 Credit valuation adjustment risk		117		154
B.3 Regulation risk		-	-	-
B.4 Market risk		-	-	-
1. Standard method		1,413	805	
2. Internal models		-	-	
3. Concentration risk		-	-	
B.5 Operational risk		-	-	-
1. Basic method	47,140		45,242	
2. Standardised method	-		-	
3. Advanced method	-		-	
B.6 Other calculation elements	-		-	
B.7 Total prudential requirements	253,063		228,480	
<b>C. EXPOSURES AND CAPITAL RATIOS</b>				
C.1 Risk-weighted assets			3,163,286	2,855,997
C.2 CET 1 capital / Risk-weighted assets (CET1 capital ratio)		51.67%		57.03%
C.3 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)		51.67%		57.03%
C.4 Total own funds / Risk-weighted assets (Total capital ratio)		51.72%		57.16%

## Part H - Related party transactions

### 1. Fees of key management personnel

The fees paid by the bank to its directors and key management personnel are set out below.

EARNINGS COMPONENTS/AMOUNTS	31.12.2017
Directors	924
Other key management personnel and members of supervisory committees	7,965
<b>Total</b>	<b>8,889</b>

### 2. Related party transactions

The aim of IAS 24 (Related party transactions) is to ensure that an entity's financial statements include the additional disclosures necessary to understand whether its financial position and performance may be altered by related party transactions and balances.

Based on this standard, applied to its organisational and governance structure, Nexi identified the following related parties:

- a) parties that controls Nexi, directly or indirectly, also through subsidiaries, trustees or through a third party, even jointly or possesses an interest in Nexi which enables it to exercise significant influence;
- b) entities that are controlled or jointly controlled by the above indicated parties;
- c) entities that are controlled or jointly controlled or under the significant influence of Nexi;
- d) Key Managers of Nexi or its parent and entities in which they exercises control, joint control or significant influence;
- e) is a close relative of a natural person included in letters a) or d) above;
- g) is a collective or individual Italian or foreign supplementary pension fund established for the employees of Nexi or of any other entity related

The effects of transactions carried out with the related parties identified above are summarised in the following table.

RELATED PARTY TRANSACTIONS (€'000)	TOTAL	SUBSIDIARIES	OTHER RELATED PARTIES	DIRECTORS, MANAGERS AND MEMBERS OF SUPERVISORY BODIES
70. Loans and receivables with customers	2,092,467	1,768,127		-
120. Intangible assets	309,710	-	921	-
150. Other assets	361,304	64,076	90	-
20. Due to customers	7,805,377	104,724	625,705	-
100. Other liabilities	384,628	68,854	793	150
10. Interest and similar income	69,260	18,544	160	-
20. Interest and similar expense	16,871	18,924	-	-
40. Fee and commission income	130,439	3,384	-	-
150. Administrative expenses	248,062	80,283	10,141	8,889
190. Other net operating income	75,406	68,870	85	-

Centralised transactions with Nexi group companies are usually governed by specific agreements that, while aiming at optimising synergies, economies of scale and purpose and to use centers of excellence, make reference to objective parameters that are constant over time, characterised by transparency and substantial fairness. Transfer pricing is defined and formalised based on parameters that account for the actual use of the service by each end user.

Other transactions with related parties that are part of the bank's normal business operations, are usually take part at market conditions.

## Part I - Share-based payments

None.



# REPORT OF THE BOARD OF STATUTORY AUDITORS

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**2017**

**NEXI S.P.A.**

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**BOARD OF STATUTORY AUDITORS' REPORT  
TO THE SHAREHOLDERS' MEETING**

(pursuant to art. 2429, paragraph 2, of the Italian Civil Code)

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During the 2017 financial year, the Board of Statutory Auditors performed its supervisory duties within the terms established by current regulations, including regulatory duties. The activity of the Board of Statutory Auditors took place in coordination with KPMG S.p.A., which is assigned with the statutory audit of the accounts.

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*Transactions of particular importance - Corporate governance*

In 2017, significant acquisitions were completed, some of which were already launched in 2016.

In June, upon obtaining the necessary authorizations from the competent Supervisory Authorities, acquisitions of the business units relating to the merchant acquiring activities of Banca Monte dei Paschi di Siena and Deutsche Bank Italia were completed.

In July, the 100% acquisition of Bassilichi S.p.A., the parent company of the Bassilichi Group, a specialist in the sector of payments and services for the business, was completed, for which an agreement was signed at the end of 2016.

Lastly, In December, the sale of the business unit - active in the transfer agent services for pension funds - was finalized to CSE Consorzio Servizi Bancari, with which a preliminary agreement was signed in October.

### *2017/2021 Business Plan and Rebranding*

During the meeting of 9 February 2017, the Board of Directors approved the Group's 2017/2021 Business Plan, which is based on the guidelines that had already been discussed and approved by the board on 22 June 2016.

The ambition of this Plan is to make the Group the national leader in digital payments. The key objectives of the Plan include the revision of the Group's corporate structure to make the legal structure of the individual components consistent with the nature of the business actually performed.

To this end, on 16 October 2017, the Board of Directors initially approved the overall and general framework of a corporate reorganization project of the banking group controlled by Nexi S.p.A. and the other subsidiaries of Mercury UK HoldCo Ltd, aimed at separating, within the group, the technological and digital payments activities from those connected to the banking license.

The reorganization therefore entails the creation of Nexi Payments (Imel), focused on digital payments, and Nexi (bank), with greater focus on banking services such as Securities Services and "Settlement" to be provided through a joint commercial offer between Nexi and Nexi Payments.

At the start of 2018, the Boards of Directors of Nexi and Nexi Payments definitively approved the project that was submitted to the competent Supervisory Authorities for the necessary authorizations.

As part of the Group's transformation process, a rebranding project was launched, involving both the Parent Company and CartaSi, motivated by the need to renew the two brands.

The Board of Directors of Nexi therefore undertook an assessment process of the adequacy of the company name of the two companies with respect to the reference market. The Board of Directors of the Parent Company thus resolved to change the name of ICBPI to "Nexi S.p.A." and CartaSi to "Nexi Payments S.p.A." in order to be more consistent with the current positioning of the companies in the digital payments market.

On 25 October 2017, the Shareholders' Meetings of ICBPI and CartaSi, held in an

extraordinary session, therefore resolved to amend their respective company names with effect from 10 November 2017, consequently adapting the Articles of Associations.

Nexi S.p.A. also transferred its registered office to Milan, Corso Sempione 55 with effect from 10 November 2017.

On 27 July 2017, following the acquisition of Bassilichi S.p.A., the Chairman of the Board of Directors of Nexi Payments, Franco Bernabè, resigned from the position of Chairman, maintaining the role of board member. The Board therefore resolved to co-opt Marco Bassilichi as Board Member and Chairman of the Board of Directors, subsequently confirmed by the Shareholders' Meeting, held in an ordinary session on 25 October 2017, until the approval date of the financial statements as at 31 December 2018.

#### *Nexi Group Organizational Structures*

In line with the transformation process already started in 2016, the activities during the year aimed at achieving the organizational efficiency necessary to finance investments and meet the strategic objectives of the 2017-2021 Business Plan were completed.

In particular, with the changes to the Group's organizational structure made in May and November 2017, the implementation of the Group's organizational model was completed, with a greater focus of the structures, improving customer orientation and simplifying the decision-making process.

As for the Parent Company, the main additions and changes to the organizational structures include, *inter alia*:

- the centralization of the activities previously managed by the CFO of Nexi Payments, the transfer of the three organizational units of the Securities Services Institutional Sales Trading, Market Making and Middle Office to the Treasury unit, and the establishment of the Post Merger Integration (PMI) organizational unit; Project Governance for the management and integration of the Group's industrial and strategic activities;
- the establishment and specialization of the CISO function in the CIO Area, which includes, in a dedicated area, all management activities related to IT security and Business Continuity;
- the establishment of the IT Governance & Strategy function, in the CIO Area, to oversee the activities relating to architectures, the management of the project portfolio and the operational management of contracts with outsourcers;
- the assignment of the CIO Area, the software development and maintenance activities relating to Interbank Corporate Banking and other Banca-Impresa services to the Payments & CBI competence centre, previously allocated to the corresponding BU;
- actions in the CIO Area for the optimization of the monitoring of new strategic projects (IT Strategy).

Reference should be made to the Management Report for the main changes to the organizational structures of the other companies of the Nexi Group.

#### *Intragroup transactions, with related parties*

The Board of Directors adequately reported and illustrated the transactions carried out with the related parties indicated, in accordance with IAS 24, in the Report on Operations and in the Explanatory Notes, to which reference should be made.

It is recalled that, in order to oversee the risk that the proximity of certain parties (so-called "related parties") to the decision-making centres of the company could jeopardize the objectivity and impartiality of company decisions, with possible distortions in the allocation process of resources, exposure of the company to risks not adequately measured or controlled, potential damage to the company itself and its stakeholders, the Nexi Group adopted a Regulation on Operations with Related

Parties in compliance with the provisions contained in the Bank of Italy circular Italy n. 263 of 2006 ("New prudential supervision provisions for banks").

Relations with other Group companies, aimed at optimizing synergies and economies of scale, are governed by specific contractual agreements.

\* \* \*

*Activities carried out by the Board of Statutory Auditors during the year*

- The Board of Statutory Auditors supervised compliance with the law, the regulatory provisions and the Articles of Association.
- The financial statements for the year ended 31 December 2017 and the consolidated financial statements, complete with the Explanatory Notes and accompanied by the Directors' Report on operations, were approved by the Board of Directors on 21 March 2018 and made available to the Board of Statutory Auditors according to the law.
- In carrying out the control activity, the Board of Statutory Auditors complied with the rules established by Legislative Decree no. 39/2010, the Bank of Italy Circular 285/2013, the Communication of the Bank of Italy no. 264010 of 4/3/2008 and subsequent updates, the Joint Document of the Bank of Italy, Consob, Isvap no. 2 of 6/2/2009 and n. 4 of 3/3/2010, the contents of art. 2429, paragraph 2 of the Civil Code, as well as the principles of conduct recommended by the public accountants and auditors (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).
- In order to perform the aforesaid supervisory functions, the Board of Statutory Auditors acquired the information both through meetings with the heads of the competent corporate structures, especially those of control, and through participation in the meetings of the Board of Directors, the Group Risk Committee and the Remuneration Committee. It is recalled that the Board of Auditors was assigned, on 18 December 2015, the Supervisory Board functions under Decree N. 231/2001.
- During the 2017 financial year, the Board of Statutory Auditors attended all the meetings of the Board of Directors and met with the Chief Executive Officer,

the Chief Financial Officer and the Chief Information Officer for further analyses on some subjects. In these meetings, it received adequate information on the activities carried out and on transactions of significant economic, financial and capital importance of Nexi and/or its subsidiaries. It is reasonably possible to ensure that the actions resolved and implemented are compliant with the law and the Articles of Association, and are not manifestly imprudent, or risky, or in conflict of interest, or in conflict with the resolutions passed by the shareholders' meeting, or such to compromise the capital position.

- The Board of Statutory Auditors monitored, insofar as it falls within the competence, the scope of the matters that are the subject of operational overlap with the partner banks pursuant to the regulations introduced by art. 36 of the law decree 6 December 2011 n. 201 (so-called interlocking ban) and delegated to the Chief Executive Officer, also referring to the Board of Directors.
- The Board of Statutory Auditors supervised, insofar as it falls within the competence, the adequacy of the organizational structure, which is constantly being improved, the compliance with the principles of correct administration and the adequacy and compliance of the contractual standards agreed for services provided by other companies of the group. This is done by gathering information from the managers of the organizational functions and meetings with the auditing company, for the purpose of the mutual exchange of relevant data and information. In this regard, there are no particular observations to report.
- The functions of audit, risk management and compliance, centralized in the Parent Company, operate for the whole group; the adequacy of the overall internal control system was verified with frequent meetings with the managers of the these functions, with the examination of the reports periodically submitted to the Board of Statutory Auditors, the Board of Directors and the Group Risk Committee (Quarterly Tableau de Bord, progress reports on scheduled activities and annual activity plans, etc.).

In particular:

- in the meeting of 9 February 2017, the Board of Directors approved the

- revision of certain RAF metrics;
- In the meeting of 21 March 2017, the Board of Directors acknowledged the results of the activities carried out by the Control Functions and the Anti-Money Laundering Function in 2016 and approved the related 2017 action plans; on the same date, it acknowledged the Report on important operating functions, the Report on major malfunctions in 2016 – the management of retail payment systems, the Report on the internal reporting system of violations of the ICBPI Group for 2016, the Report on methods of carrying out investment services, the annual self-assessment report on the continuity of the suitability requisites of the Depositary;
  - in the meeting of 27 April 2017, the Board of Directors approved the ICAAP Report as at 31 December 2017;
  - in the meeting of 1 August 2017, the Board of Directors acknowledged certain changes made to the ICAAP Report and sent to the Bank of Italy; on the same date, the Board approved an updated version of the Policy for the Management of Conflicts of Interest;
  - in the meeting of 13 December 2017, the Board of Directors implemented the updated version of the following internal regulations:
    - Policy for the Management on Conflicts of Interest
    - Policy for the management of obligations relating to market manipulation and abuse of Privileged information (Market Abuse Policy);
    - Code of Conduct;
    - Execution Policy;
    - Policy for Nexi Group anti-money laundering and counter-terrorism;
  - The Board of Statutory Auditors monitored the correct anti-money laundering controls by the Company with periodic meetings with the representatives of the Anti-Money Laundering Function.
  - The Board of Statutory Auditors supervised the implementation, by the Company, of the remedial actions and actions identified and suggested by the Audit Department.
  - The Supervisory Body, established in the provision of the legislative decree 8 June 2001, n. 231 and whose functions were consolidated in the Board of

Statutory Auditors, continued its activity without finding anomalies or reprehensible facts, as shown in the periodic Reports made to the corporate bodies.

- The adequacy of the administrative-accounting system and the reliability of the latter were verified to correctly represent the management facts. This is achieved through the acquisition of information from the managers of the respective functions, the examination of company documents and the analysis of the results of the work performed by the auditing firm, as well as supervising the activities of those in charge of internal control.
- The Board of Statutory Auditors held periodic meetings with the representatives of the auditing firm, exchanging information regarding the company's accounting control activity. In relation to this activity, significant questions and / or critical issues related to the supervision of the financial reporting process did not emerge.
- In addition to the auditing tasks of the annual and semi-annual accounts, the auditing company KPMG S.p.A. and other subjects belonging to the "network" of the auditing company were assigned different tasks, in respect of which, in the 2017 financial year, invoices were received for the amounts indicated below:

ENTITA' KPMG	DESCRIZIONE DEL SERVIZIO	CORRISPETTIVI FATTURATI NEL 2017 (INCLUSE SPESE)
KPMG Advisory S.p.A.	CYBER SECURITY SERVICES (SUPPORTO PROGRAMMA DI COMPLIANCE & APPLICATION MAINTENANCE SISTEMA IAG)	79.055
KPMG Advisory S.p.A.	COMPLIANCE GAP ANALYSIS	48.150
KPMG Advisory S.p.A.	SUPPORTO PER L'ANALISI DI MERCATO DI INCENTIVI PUBBLICI ATTUALIA PROMOZIONE DEL SETTORE DEI PAGAMENTI DIGITALI	61.180
		188.385

- The management report for the year 2017 complies with the current regulations, consistent with the resolutions of the governing body and with the results of the financial statements; as already mentioned, it contains adequate information on the activities of the year and on intragroup transactions and with related parties. The explanatory note to part E contains the indication of risks and related coverage policies, as recommended by the joint documents of

Bank of Italy, Consob, Isvap n. 2 of 6 February 2009 and n. 4 of 3 March 2010.

- The financial statements are prepared according to the structure and the schedules required by current regulations. In particular, the financial statements for the year ended 31 December 2017, in compliance with the provisions of EC Regulation no. 1606 of 19 July 2002, was drawn up in compliance with the International accounting standards, International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Boards (IASB), as approved by the European Commission and adopted by the Italian Legislature with the Legislative Decree 38/2005.

In preparing the financial statements, the IAS / IFRS standards in force as at 31 December 2017 were applied, as well as the instructions on the financial statements issued by the Bank of Italy with the Measure dated 22 December 2005, the contextual Circular no. 262, and subsequent updates. No exceptions were made to the application of the IAS / IFRS accounting standards.

On 6 April 2018, the auditing firm issued its report. The opinion expressed on the financial statements is of conformity, as it provides: (i) a truthful and correct representation of the capital and financial situation as well as of the economic results and cash flows, and (ii) complies with the accounting principles. The opinion regarding the Management Report is also in conformity with the law.

- The auditing company declared that, in the provision of art. 17 of the legislative decree 39/2010, there are no causes that could compromise its independence.
- During the year, the Board of Statutory Auditors issued the opinions required by law, the Supervisory regulations and the Articles of association. *Inter alia*, the following opinions should be noted:
  - on 21 March 2017, pursuant to art. 136 TUB, for the extension of the consultancy contract. On the same date, for the variable remuneration of the CEO for 2016 and the variable remuneration of the members of the General Management for the 2017 financial year;
  - on 21 March 2017, pursuant to art. 2386 of the Italian Civil Code, for the co-option in the position of director of Mr. Federico Ghizzoni and the related

- compensation;
- on 27 April 2017, for the recruitment of the Head of the Internal Audit Function in compliance with the provisions of the Bank of Italy circular no. 285 of 17 December 2013;
  - on 1 August 2017, pursuant to art. 2389 of the Italian Civil Code, for determining the compensation payable to the Chairman of the Board of Directors;
- The Board of Statutory Auditors did not receive any complaints pursuant to art. 2408 Italian Civil Code or depositions.
  - The supervisory activity of the Board of Statutory Auditors was acknowledged in the minutes of the 24 meetings held in 2017. The Board of Statutory Auditors also took part in the 11 meetings of the Board of Directors: the documentation supporting the arguments put on the agenda was complete and sent well in advance.
  - During the supervisory activity performed and based on the information obtained from the auditing company, no omissions, or reprehensible facts, or irregularities, or, in any case, significant facts emerged such to require the reporting to the supervisory bodies or a mention in this report.

\* \* \*

**Supervisory Activities pursuant to art. 3 paragraph 7 of legislative decree n. 254/2016**

The Board of Statutory Auditors supervised compliance with the provisions of Legislative Decree 254/2016 concerning non-financial communications and information on diversity; the subject in charge of the statutory auditing of the accounts - KPMG S.p.A. - verified the preparation of the non-financial statement and issued a "limited assurance engagement" regarding the compliance of the information provided with respect to the requirements of the decree and the reporting standards and guidelines used for the preparation of this information.

**Supervisory Activities pursuant to art. 19 of legislative decree n. 39/2010**

It is recalled that, pursuant to art. 19 of legislative decree n. 39/2010, the Board of Statutory Auditors is responsible for monitoring the financial reporting process, monitoring the effectiveness of the internal quality control and risk management systems of the company and Internal audit, monitoring the statutory audit of the financial statements and verifying and monitoring the independence of the auditing firm.

Even if the aforementioned report in part already provides the indications referred to in the above-mentioned art. 19, in particular, it should be noted that the supervisory activity referred to the financial reporting process, the internal control and risk management system, the statutory audit activity and the auditor's independence did not reveal any additional elements to report.

\* \* \*

**Proposal to the Shareholders' Meeting**

- **Financial statements as at 31 December 2017**

Considering also the results of the activities carried out by the subject responsible for accounting control, the results contained in the report issued on 6 April 2018, the Board of Statutory Auditors expresses a favourable opinion on the approval of the financial statements as at 31 December 2017 which closes with a net profit of € 89,490,653 (2016: € 84,163,727); no impediment to the proposal concerning its destination indicated by the Board of Directors.

The mandate given by the Shareholders' Meeting to this Board of Statutory Auditors expires with the approval of the financial statements for the year ended 31 December 2017. The Board of Statutory Auditors thanks the management and all the company functions for the support provided in carrying out its institutional activities.

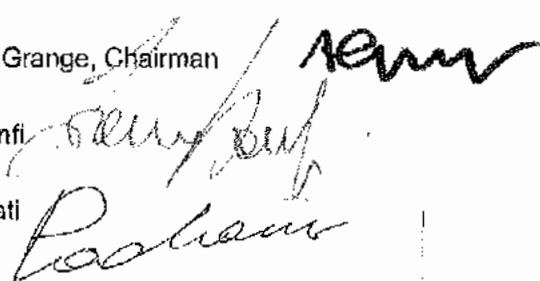
Milan, 9 April 2018

The Board of Statutory Auditors

Alessandro Grange, Chairman

Lorenzo Banfi

Paolo Lazzati

The image shows three handwritten signatures stacked vertically. The top signature is 'Alessandro Grange' in cursive. The middle signature is 'Lorenzo Banfi' in a stylized, slanted cursive. The bottom signature is 'Paolo Lazzati' in a cursive script.



# REPORT OF THE AUDITING COMPANY

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**2017**

(Translation from the Italian original which remains the definitive version)

## **Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014**

*To the shareholders of  
Nexi S.p.A.*

### **Report on the audit of the separate financial statements**

#### ***Opinion***

We have audited the separate financial statements of Nexi S.p.A. (the "Company"), which comprise the statement of financial position as at 31 December 2017, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Nexi S.p.A. as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15.

#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of Nexi S.p.A. in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Key audit matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial

statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Classification and measurement of financial assets at fair value**

*Notes to the separate financial statements - "Part A - Accounting policies": paragraphs A.2.1 "Financial assets held for trading", and A.2.2 "Available-for-sale financial assets" and section A.4 "Fair value disclosure"*

*Notes to the separate financial statements - "Part B - Notes to the statement of financial position - Assets": sections 2 "Financial assets held for trading" and 4 "Available-for-sale financial assets"*

*Notes to the separate financial statements - "Part C - Notes to the income statement": section 8 "Net impairment losses"*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>The separate financial statements at 31 December 2017 include financial assets of €2,647 million.</p> <p>These financial assets comprise assets measured at fair value of €127 million for which there is no quoted price on an active market and which the directors have classified at level 2 of the fair value hierarchy.</p> <p>Classifying and measuring fair value level 2 financial instruments is a complex process that entails a high level of judgement.</p> <p>For the above reasons, we believe that the classification and measurement of financial assets at fair value are a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>— understanding the Company's processes for the acquisition, sale, classification and measurement of financial instruments;</li><li>— sample-based test of the classification of financial instruments in the appropriate fair value level;</li><li>— analysing the reasonableness of the parameters used by the directors to measure them; we carried out these procedures with the assistance of experts of the KPMG network;</li><li>— analysing the significant changes in the financial instruments' portfolio mix compared to the previous year and discussing the results with the relevant internal departments;</li><li>— assessing the appropriateness of the disclosures on financial instruments and the related fair value levels.</li></ul>

**Measurement of the investment in Bassilichi S.p.A.**

*Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.7 "Equity investments"*

*Notes to the separate financial statements -"Part B - Notes to the statement of financial position - Assets": section 10 "Equity investments"*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>On 3 July 2017, the Company acquired control over Bassilichi S.p.A. (98.20%) and recognised an equity investment of €72.1 million in its separate financial statements. Subsequently, an increase of €100 million in the share capital of Bassilichi S.p.A was approved and the Company acquired an additional stake for €1 million. As a result of these transactions, the Company wholly owns Bassilichi S.p.A. and the related investment's carrying amount is €173 million. During our audit, we paid special attention to the acquisition of Bassilichi S.p.A. as measuring its carrying amount entails a high level of judgement, since it is particularly complex and based on valuation models that require estimates, which, by their very nature, are uncertain and subjective, of cash flows and the related discounting.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— analysing the contract documents relating to the acquisition;</li> <li>— analysing the acquiree's assets and liabilities at the acquisition date and at 31 December 2017;</li> <li>— analysing the valuation approach, assumptions and methods used to measure the acquired equity investment; we carried out these procedures with the assistance of experts of the KPMG network;</li> <li>— assessing the appropriateness of the disclosures about the acquisition.</li> </ul>

**Recoverability of goodwill**

*Notes to the separate financial statements -"Part A - Accounting policies": paragraphs A.2.9 "Intangible assets" and A.2.17 "Other information"*

*Notes to the separate financial statements "Part B - Notes to the statement of financial position - Assets": section 12 "Intangible assets"*

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>The separate financial statements at 31 December 2017 include goodwill of €247 million. The Company's directors calculated the recoverable amount of goodwill as the higher of its fair value less costs of disposal and value in use. They estimated its value in use applying the dividend discount model (excess capital version) based on the Group's 2017-2021 business plan approved by the Company's board of directors on 9 February 2017 and considering its subsequent amendments approved by the board of directors on 18 January 2018,</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— understanding the process adopted to prepare the impairment test;</li> <li>— checking the accuracy of the data used to estimate the recoverable amount by comparing them to the figures of the 2017-2021 business plan approved by the Company's board of directors on 9 February 2017 and considering its subsequent amendments approved by the board of directors, changes in the reference scope and the 2018 budget;</li> <li>— checking the reasonableness of the model adopted for impairment testing</li> </ul>

<b>Key audit matter</b>	<b>Audit procedures addressing the key audit matter</b>
<p>changes in the reference scope and the 2018 budget.</p> <p>The fair value has been measured using the market multiples method, using the median value of a sample of comparables.</p> <p>These methods are very complex and use valuation methods that require estimates, which, by their very nature, are uncertain and subjective, of the calculation of the expected cash flows and the other parameters, including the discount rate.</p> <p>For the above reasons, we believe that the recoverability of goodwill is a key audit matter.</p>	<p>and the related assumptions, including by means of comparison with external data and information; we carried out these procedures with the assistance of experts of the KPMG network;</p> <p>— assessing the appropriateness of the disclosures about goodwill and the related impairment test.</p>

***Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Nexi S.p.A. for the separate financial statements***

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the Company or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the Company's financial reporting process.

***Auditors' responsibilities for the audit of the separate financial statements***

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

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

**Nexi S.p.A.**

*Independent auditors' report*  
31 December 2017

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

***Other information required by article 10 of Regulation (EU) no. 537/14***

On 7 May 2010, the shareholders of Nexi S.p.A. appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2010 to 31 December 2018.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the Collegio Sindacale, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

## **Report on other legal and regulatory requirements**

### ***Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10***

The directors of Nexi S.p.A. are responsible for the preparation of the Company's directors' report at 31 December 2017 and for the consistency of such report with the related separate financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the Company's separate financial statements at 31 December 2017 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the separate financial statements of Nexi S.p.A. at 31 December 2017 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 6 April 2018

KPMG S.p.A.

(signed on the original)

Roberto Fabbri  
Director of Audit



# SHAREHOLDERS' MEETING RESOLUTIONS

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**2018**



# Shareholders' Meeting resolutions

of 26 April 2018

Below is a summary of the resolutions adopted by the Ordinary Shareholders' Meeting held on second call on 26 April 2018.

**1. FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017; REPORT ON OPERATIONS OF THE BOARD OF DIRECTORS; REPORTS OF THE BOARD OF STATUTORY AUDITORS AND THE EXTERNAL AUDITOR; RELATED RESOLUTIONS.**

The Shareholders' Meeting approved the financial statements as of December 31, 2017 as presented by the Board of Directors and the relative assignment of the profit of the financial year.

**2. APPOINTMENT OF THE BOARD OF DIRECTORS AFTER DETERMINING THE NUMBER AND TERM OF OFFICE OF THE DIRECTORS. DETERMINATION OF RELATED FEES; RELATED RESOLUTIONS.**

The Shareholders' Meeting resolved to determinate on 15 the number of the members of the Board of Directors and appointed as members of the Board of Directors, until the approval of the financial statements at December 31, 2020:

Mr. Franco Bernabè;

Mr. Luca Bassi;

Mr. Paolo Bertoluzzo;

Mr. James Brocklebank;

Mr. Giuseppe Capponcelli;

Mr. Francesco Casiraghi;

Mrs. Michaela Castelli;

Mr. Umberto Colli;

Mr. Simone Cucchetti;

Mr. Stuart Gent;

Mr. Federico Ghizzoni;

Mr. Larry Klane;

Mr. Robin Marshall;

Mr. Jeffrey Paduch;

Mr. Ottavio Rigodanza.

**3. APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS AND ITS CHAIRMAN. DETERMINATION OF RELATED FEES; RELATED RESOLUTIONS.**

The Shareholders' Meeting resolved to appoint as members of the Statutory Auditors, until the approval of the financial statement at December 31, 2020:

Mr. Gianluigi Fiorendi (Chairman);

Mr. Lorenzo Banfi (Statutory auditor);

Mr. Paolo Lazzati (Statutory auditor);

Mr. Gianluca Pozzi (Substitute auditor);

Mr. Andrea Brambilla (Substitute auditor).

**4. NEXI GROUP REMUNERATION POLICIES; RELATED RESOLUTIONS.**

The Shareholders' Meeting approved the remuneration policies of Nexi Group as proposed by the Board of Directors.



# CORPORATE POSITIONS

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**2018**



# Corporate positions

at 26 April 2018

<b>BOARD OF DIRECTORS</b>	<b>Chairman</b>	Franco Bernabè
	<b>Deputy Chairman</b>	Giuseppe Capponcelli
	<b>Chief Executive Officer</b>	Paolo Bertoluzzo
	<b>Directors</b>	Luca Bassi James Brocklebank Francesco Casiraghi Michaela Castelli Umberto Colli Simone Cucchetti Stuart Gent Federico Ghizzoni Larry Klane Robin Marshall Jeffrey Paduch Ottavio Rigodanza
<b>BOARD OF STATUTORY AUDITORS</b>	<b>Chairman</b>	Gianluigi Fiorendi
	<b>Statutory auditors</b>	Lorenzo Banfi Paolo Francesco Maria Lazzati
	<b>Substitute auditors</b>	Gianluca Pozzi Andrea Brambilla
<b>GENERAL MANAGEMENT</b>	<b>General Manager</b>	Paolo Bertoluzzo
	<b>Deputy Vice General Manager</b>	Pier Paolo Cellerino



# SHAREHOLDERS' LIST

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**2018**



# Shareholders' list

<b>Mercury UK HoldCo Limited</b>	London
<b>Banco BPM S.p.A.</b>	Milan
<b>Credito Valtellinese S.p.A.</b>	Sondrio
<b>Banca Popolare di Sondrio S.c.p.A.</b>	Sondrio
<b>BPER Banca S.p.A.</b>	Modena
<b>UBI Banca S.p.A.</b>	Bergamo
<b>Banca Popolare di Cividale S.c.p.A.</b>	Cividale
<b>Nexi S.p.A.</b>	Milan
<b>ICCREA Holding S.p.A.</b>	Rome
<b>Banca Sella Holding S.p.A.</b>	Biella
<b>Banca Popolare del Frusinate S.c.p.A.</b>	Frosinone
<b>Banca Popolare Vesuviana Soc. Coop.</b>	S. Giuseppe Vesuviano

## **Nexi S.p.A.**

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T. +39 02 77051 • F. +39 02 7705 346  
Share capital € 42.557.370,00 fully paid in  
Registered with Bank and Banking Group Register under no. 5000.5  
Milan Registry of Companies Tax Code: 00410710586  
VAT no. 13212880150 • Register of Economic Activities (REA) 318847

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