nexi Payments


# 2018 REPORT AND FINANCIAL STATEMENTS

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# CORPORATE OFFICES

at 12 February 2019

## BOARD OF DIRECTORS

| | |
|---|---|
| **Chairman** | Marco Bassilichi |
| **Deputy Chairman** | Antonio Patuelli |
| **Deputy Chairman** | Roberto Romanin Jacur |
| **Chief Executive Officer** | Paolo Bertoluzzo |
| **Directors** | Gabriele Beni<br>Franco Bernabè<br>Francesco Casiraghi<br>Pierpio Cerfogli<br>Simone Cucchetti<br>Mario Fera<br>Maurizio Mussi |

## BOARD OF STATUTORY AUDITORS

| | |
|---|---|
| **Chairman** | Piero Alonzo |
| **Statutory auditors** | Alberto Balestreri<br>Marco Giuseppe Zanobio |
| **Alternate Auditors** | Fabio Oneglia<br>Andrea Vaglié |

# NOTICE OF CALL

The Shareholders are convened at the ordinary Shareholders Meeting which will take place at the registered office of the Company in Milan, Corso Sempione, 55, on **11 March 2019, at 4pm CET**, on first call, and possibly on second call on 12 March 2019, same place and hour, to discuss and resolve upon the following items on

**THE AGENDA**

1. Yearly financial statements as at 31 December 2018; management report of the directors, report of the statutory auditors and report of the auditing firm. related and consequent resolution.

2. Proposal to grant the mandate of external auditing for the fiscal years 2019-2027 pursuant to legislative decree 39/2010 and determination of the relevant remuneration; related and consequent resolutions.

3. Appointment of the board of statutory auditors for the fiscal years 2019, 2020 and 2021 and determination of the relevant remunerations. Related and consequent resolutions.

4. Appointment of the members of the board of directors for the fiscal years 2019, 2020 and 2021, previously determining the number of members. Determination of the relevant remunerations.

# 2018 REPORT AND FINANCIAL STATEMENTS

# 1

## 2018 REPORTS AND FINANCIAL STATEMENTS

# 1.1

## BOARD OF DIRECTORS' REPORT ON OPERATIONS FOR 2018

# BOARD OF DIRECTORS' REPORT ON OPERATIONS FOR 2018

*Dear Shareholders,*

## International economy

The international macro scenario during 2018 was characterised by an initial positive trend, followed by a downturn in the second part of the year, driven above all by the arising of trade tensions which have affected various economies in different ways.

The Euro Zone, in particular, was affected more than other mature economies by the downturn in global trade (which grew during the year by 4.1% compared to 4.8% in 2017), with a decrease in exports which affected mainly the larger manufacturing economies starting with Germany.

## Italian economy and market scenarios

In 2018 GDP growth was of +0.8%, with a trend characterised by a sharp drop in the second half of the year, due to the worsening of the international situation - which weighted on our exports - and to financial tensions linked to the sustainability of our debt, which affected household consumer choices and business investments.

The payment system remains dominated by cash: in 2017, 100 per-capita transactions were carried out using non-cash instruments, compared to 231 in the Euro Zone (Bank of Italy data based on ECB, BRI and Poste Italiane sources).

The payment card sector is going through a phase of development affecting all types of products - with different growth rates.

In 2017 the POS-enabled credit card market grew both in terms of number of cards (+3.4%) and use (volumes +1.9%, transactions + 5.7%); prepaid products also continued to grow, in terms of number of cards in circulation (+7.3%), and especially in terms of volume (+21.0%) and transactions (+26.7%). Credit cards decreased slightly in terms of diffusion (-2.7%), as well as in number of active cards (-1.0%), but their use increased (volumes +5.6%, transactions +10.2%).

Nexi estimates on the market for 2018 see international volumes (VISA + MasterCard) up by 20.1%, with a significant, growing contribution from prepaid and international debit cards, whose POS volumes increased by 37.4%. More specifically: prepaid were up by 18.8%, international up by 53%. Credit increased by 8.6%: The Classic segment by 7.4%, Commercial by 10.4%, Premium by 3.3%.

In regard to the revolving segment, an increase of +4.3% in volumes financed with cards is reported in 2018.

## Evolution of the Group

Starting from 2017, a review of the organisational structure of the former ICBPI banking Group and of the other companies controlled by Mercury was undertaken to bring the organisational structure more in line with the nature of the business carried out. This project of corporate reorganisation was aimed at separating, within the group, the technological and digital payment activities from those connected to the banking license, eliminating the existing competitive disadvantages with respect to competitors and increasing overall efficiency. The reorganisation was in fact in line with the strategy to focus on payment core business with the possibility to concentrate management, time and resources on payments without dissipating them on non-synergic activities.

Due to the effect of the reorganisation, the companies dedicated to payment services initially included in the ICBPI banking Group, were transferred to Latino Italy (now Nexi), with the aim of creating a national leader in payment services.

Furthermore, the reorganisation anticipated the creation of a new British holding company, an investee company of the funds consortium managed by Advent International Corporation, Bain Capital Investors LLC and Clessidra SGR SpA, to which the controlling interest in ICBPI (now Depobank) was transferred.

The above-mentioned reorganisation was implemented through the execution, in a single framework, of the following corporate operations:

- the transformation of Nexi Payments into an electronic money institution;
- the transfer to Nexi Payments of ICBPI non-banking business unit which includes, among others, the ancillary activities to payment services that do not require a banking licence, issuing electronic money, distinctive marks and all the personnel needed to guarantee the fully autonomous management of the new Group of companies headed by Latino Italy (now Nexi);
- the proportional partial spin-off of Nexi (now DepoBank) with Latino Italy (now Nexi) as beneficiary, regarding the equity investments of Nexi (now DepoBank) in Nexi Payments, Oasi Diagram SpA, Helpline SpA, Bassilichi SpA and Consorzio Triveneto SpA;
- the establishment by Mercury UK HoldCo of Equinova UK HoldCo;
- the transfer, through a contribution in kind, to Equinova UK HoldCo of the equity investment held by Mercury UK HoldCo in ICB. More specifically, Mercury UK HoldCo has underwritten newly issued shares in Equinova UK HoldCo, against the contribution in kind of shares held by the same Mercury UK HoldCo in ICB (now Depobank);
- the distribution by Mercury UK HoldCo to its own shareholders of Equinova UK HoldCo shares.

As a result of the company reorganisation completed in July 2018, after the issue of authorisations by the relevant Supervisory Authorities, the corporate structure is as follows:

- Nexi (formerly Latino Italy) holding company of a Group which includes electronic money and payment institutions focused on digital payments:
  a. focused exclusively on its core business and on the development of related technology;
  b. with a flexible corporate structure able to support additional investments (e.g. IT and payment infrastructures) and future M&A activities;
  c. with better access to the capital market thanks to the lower perceived risk of activities related to digital payments compared to regulated banking activities.
- DEPOBank SpA, with a simplified organizational structure and a greater focus on banking services such as:
  a. Securities services;
  b. Settlement services to be offered through a joint commercial offer with Nexi.

The consolidation of the payments business continued also in 2018, through acquisitions by the subsidiary Nexi Payments:

- of the business unit relating to service management activities for merchants at Banca Carige SpA, in continuity with the operations carried out with Monte dei Paschi and Deutsche Bank;
- of the Sparkling18 start-up, one of the most innovative organisations operating in the new digital payments business.

In line with the process of consolidation of Nexi within the digital payments core business, a process of valorisation was initiated for equity investments not considered to be strategic. More specifically, among others, the following non-core equity investments/ activities were sold:

- Mercury Processing Services International (sold by former Latino Italy in December 2017);
- Bassilichi Business Services (sold by the former Bassilichi Group on 30 June 2018);
- Bassilichi CEE (sold by Bassilichi in December 2018).

In addition to what indicated above, it is noted that:

- on 22 January 2019 a binding contract was signed for the sale to Cedacri SpA of the entire equity investment held by Nexi in Oasi. The operation closing is expected during 2019;
- on 28 January 2018 a binding contract was signed for the sale to CSH Srl of the entire equity investment held by Bassilichi and Consorzio Triveneto (both merged

into Nexi Payments) in Moneynet. The operation closing is subject to authorisation from Bank of Italy.

Following the extraordinary operations indicated above, the Group took its current corporate structure composed by Nexi Payments SpA (that controls Moneynet SpA, Bassmart Srl and PayCare Srl), Mercury Payment Services SpA and Help Line SpA.

## Merger by incorporation into Nexi Payments SpA

On 31 December 2018, Bassilichi SpA, Consorzio Triveneto SpA and Sparkling 18 merged into Nexi Payments.

## Governance and control structures

On 3 July 2018, the Board of Directors of Nexi Payments SpA, having acknowledged the resignation submitted by Director Simone Cucchietti, resolved to appoint Mr. Emanuele Cuccio with effect from 3 July 2018.

## Shareholders' meeting

In 2018, the Company's Shareholders' Meeting was held four times:

- on April 19, in an ordinary session, it resolved the approval of the 2017 financial statements, the appointment of the Board of Statutory Auditors and its Chairman, and the determination of the remuneration due to the members of the Board of Directors for the 2018 financial year;
- on 28 May, in an extraordinary session, it resolved to amend articles 1, 2, 4, 18, 20 and 22 of the Articles of Association and to increase the share capital by a total of Euro 145,044,000 and the subsequent amendment to article 8 of the Articles of Association;
- on 12 September, in an extraordinary session, it resolved to amend articles 9.2 and 9.4 of the Articles of Association;
- on 2 October, in an ordinary session, it approved the merger through incorporation of Bassilichi SpA and Consorzio Triveneto SpA in Nexi Payments SpA, and the merger through incorporation of Sparkling 18 Srl in Nexi Payments SpA.

## Board of Directors

The Board of Directors, in exercising the conferred powers of ordinary and extraordinary administration, met sixteen times during 2018.

The Board, whose mandate will expire with the approval of the Financial Statements for 2018, is composed of eleven members.

## Board of Statutory Auditors

The Board of Statutory Auditors, whose mandate will expire with the approval of the Financial Statements for 2020, is composed of five members (three statutory and two substitute). As part of its control over the administration and management of the Company, it met fourteen times in 2018.

## Supervisory Body pursuant to Leg. Decree 231/2001

In 2018 the Board of Statutory Auditors met six times as a Supervisory Body.

## Organizational structures

With reference to the guidelines of the Industrial Plan 2017-2021, in line with the transformation process already started in 2016, in 2018 the organisational structure was reviewed in the light of two operations:

- July 2018: transfer to Nexi Payments of the technological and digital payments business units and of part of the "Corporate Centre" functions that perform control and support processes;
- December 2018: merger through incorporation of Bassilichi SpA, Consorzio Triveneto SpA and Sparkling 18 in Nexi Payments.

The general organisational structure sees the Business Units (Digital Payments & Cards; Merchant Services & Solutions; Digital Banking Solutions), Sales Management, the Operations Department and the CIO Division reporting to the Chief Executive Officer.
In terms of staff, the functions of Control (Risk Management; Compliance & AML), support Management and Areas (CEA, CFO, Certification Authority) including the Business Development Division dedicated to strategic initiatives in support of the Company's business (more specifically, product innovation and services in areas such as digital business).

More specifically, the main changes have affected:

- with regard to the Digital Banking Solutions business unit, the incorporation of the structure dedicated to the ATM & Self Banking business line, which now includes both the activities carried out by Nexi Payments and the business units operations deriving from the incorporation of Bassilichi; furthermore, the Digital Corporate Banking function now includes two new organisational units dedicated to Marketing and Product Development for its area of competence; with regard to the other two business units (Digital Payments & Cards and Merchant Services & Solutions) interventions have been focused on the development of digital products in the context of issuing and on corporate proposition in the context of merchants;
- in terms of Operations, the creation of structures which include the activities of operations deriving from Bassilichi and Consorzio Triveneto; furthermore, in the Operational Planning & Change Management staff unit, the procedure dedicated to address aspects relative to the operational model of Operations and to define specific processes has been strengthened;
- in the context of the CIO Area, the identification in staff of each IT line of the role of Transformation & Service Officer (point of reference for IT Competence relating to the management of project portfolios, budgets, passive cycle, SLA) and the role of Solution Architect (reference point for IT Competence relating to the management of general architecture of systems/applications also in terms of compliance to guidelines and standards defined by the IT Strategy & Governance structure); the organisational separation between areas of responsibility for "Key Initiatives" linked to complex projects and the "applications" linked to "Business-as-usual" types of activity; the creation of Data & Analytics, an online structure dedicated to the management of the integrity, quality and the entire cycle of data life, with the aim of facilitating its availability to and use by the entire organisation;
- the creation of the Privacy & Data Protection organisational unit relating to the Compliance & AML control function, where the Data Protection Officer is located, with the task of monitoring the correct compliance with current privacy regulations, with particular reference to European Regulation 2016/679 relating to the protection of physical persons with regard to the treatment of personal data, as well as the free circulation of such data ("GDPR");
- the re-organisation of the Audit function to improve its focus on company business priorities; creation of the Monitoring & QA Audit unit, which is tasked, among other things, with verifying compliance to certification schemes, also voluntary ones (e.g. PCI);
- the re-organisation, within the CFO Area, of control and financial analysis structures into three separate functions dedicated, from a partnership point of view, to the following areas of competence: business (BU & Commercial Business Partners), general costs and monitoring of expenditure (Business Partner Costs & CM), costs linked to infrastructure and technological services (ICT Costs Management & Administration Support). Still in the CFO Division, merging into a single business unit, Strategic Planning & Reporting, of strategic planning, reporting and project monitoring functions.

In order to facilitate the work and support business activities in an even more effective manner, part of the CIO Area was transferred to the new office in via Montefeltro, in Milan, on 1 June 2018. The objective, in the context of the IT Strategy, is to give adequate space to the technological hub, centre of the implementation of Information Technology projects, and follows initiatives such as the creation of the Control Room and of "hubs" dedicated to Digital and Corporate Banking & Atm business.

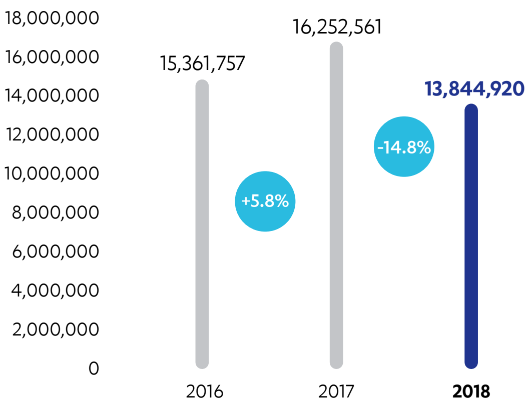
As part of the Quality Management System, the audits on the confirmation of the ISO9001 Certification for Nexi Payments were positive.

## Business performance

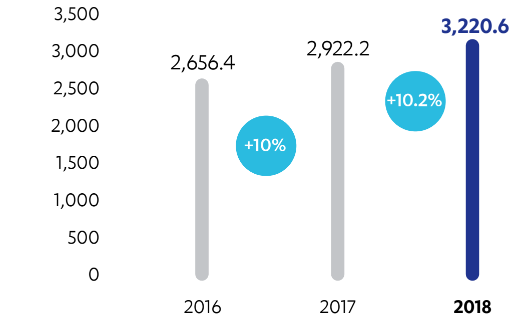
The 2018 business performance led to a total management of approximately 13.8 million cards and over 3.2 billion transactions.

The decline in the card portfolio is mainly determined by the massive block of inactive cobranded prepaid cards.

**OVERALL STOCK OF MANAGED CARDS**




**OVERALL NUMBER OF TRANSACTIONS MANAGED**
(Values in millions of transactions)

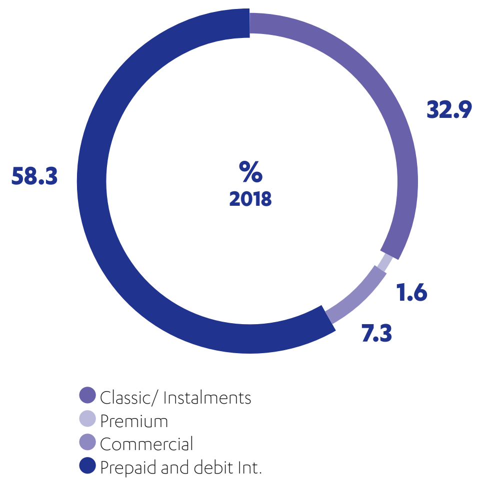


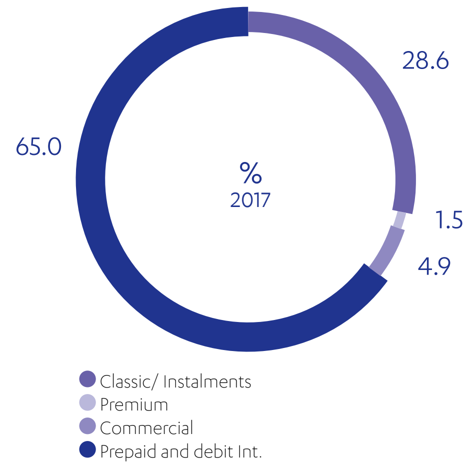

Activities are analysed below in relation to the four main business lines managed by the company:
- Issuing and acquiring activities directly licensed and on behalf of banks;
- Servicing activities;
- POS and ATM terminal management activities;
- DCB and Clearing activities.

### Issuing and acquiring activities directly licensed and on behalf of banks

- Card portfolio increased compared to 2017 (+20.1%), totalling almost 7.7 million cards at end of the period; this decline was caused by the massive block of inactive co-branded prepaid cards (over 2 million cards);
- breakdown by product of the new issues of the year (1.6 million cards) reflects a general increase in the prepaid product compared to the previous periods;

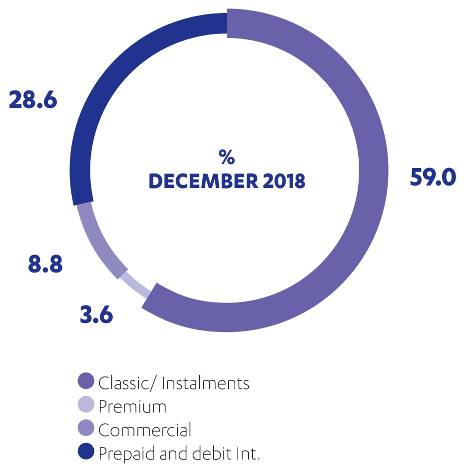
**NEW ISSUES**

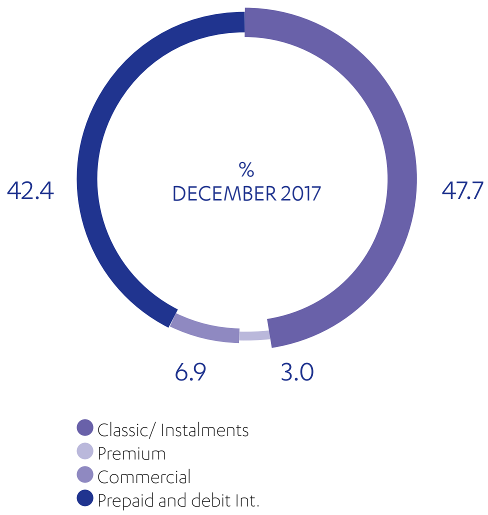


- breakdown by product of the cards in circulation at the end of the year highlights a significant reduction in the prepaid product, generating an increase in the weight of the other products in the portfolio;

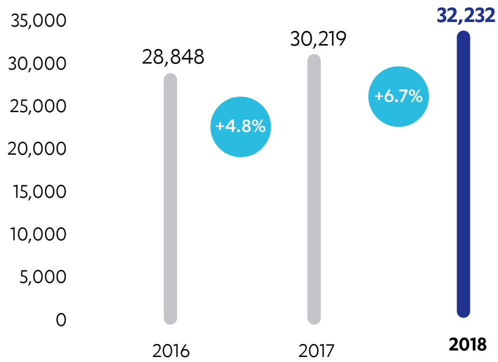
**STOCK**



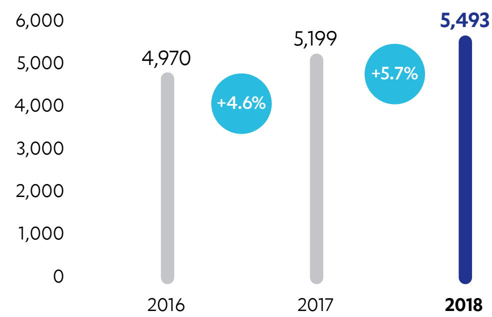

- total spending of the cardholders amounted to about Euro 32.2 billion and reported, compared to 2017, a growth of 6.7%, with positive performance both in the Direct Licensed model (+5.9%) and the on behalf of Banks model (+8.8%);

**TOTAL SPEND**
(Values in Euro millions)




- average use of Directly Licensed credit cards, which remains among the highest in the market, increased (+5.7%), also as a result of promotions and spending stimulation implemented during 2018;

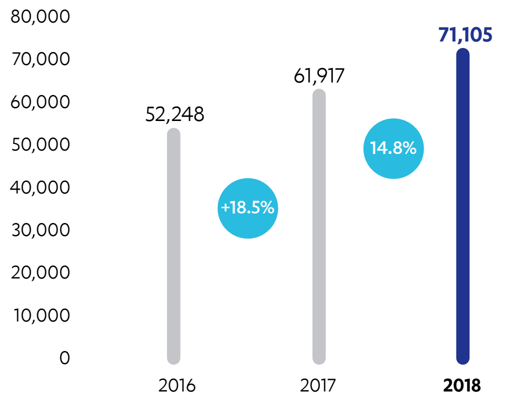
**CREDIT CARD AVERAGE SPEND**
(Values in Euro)



- acquiring transaction volumes were around Euro 71.1 billion, +14.8% compared to 2017; the growth was also influenced by the acquisition of the Acquiring business units of Monte dei Paschi di Siena and Deutsche Bank in 2017, which contributed to the management of incremental Pagobancomat volumes for the whole year in 2018 and by the acquisition of Carige in 2018 (again with regard only to incremental Pagobancomat volumes).

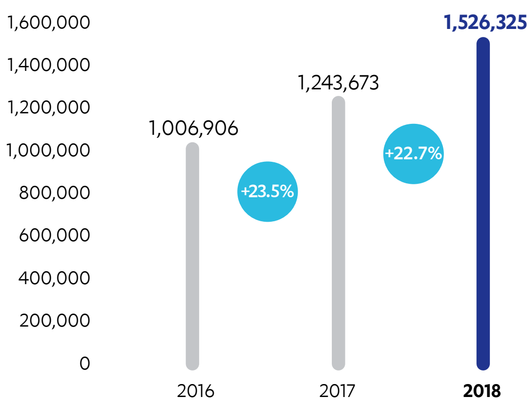
Net of inorganic increase, growth compared to 2017 was of +8.8%.

**TOTAL TRANSACTIONS**
(Values in Euro millions)




- overall number of managed issuing and acquiring transactions showed a growth of 22.7%.

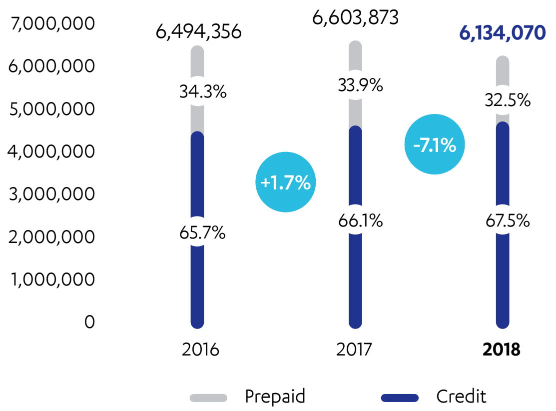
**NUMBER OF TRANSACTIONS MANAGED**
(Values in '000 of transactions)




## Servicing activities

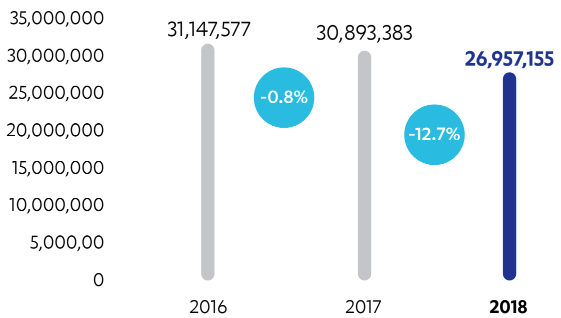
- Stock of cards managed on behalf of third party licensees totalled approximately 6.1 million cards, down 7.1% compared to the previous year; in detail, the credit sector showed a contraction of 5.2% while for prepaid products this was of 10.9%;

**CREDIT/PREPAID STOCK**
(No. of cards)



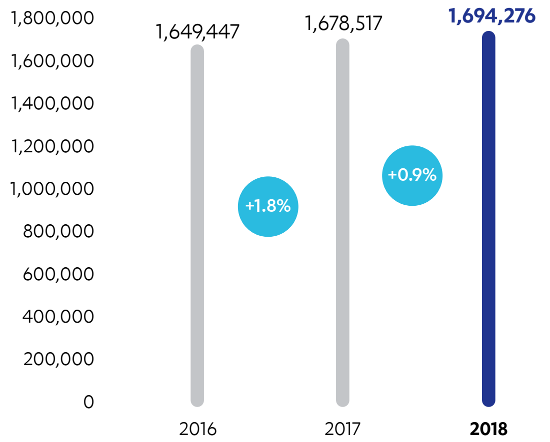

- the number of functions linked to national debit cards (27 million) was down compared to 2017 (12.7%);

**NATIONAL DEBIT STOCK**
(No. of functions)



- the total number of transactions managed (1,694 million) is up compared to last year (+0.9%).

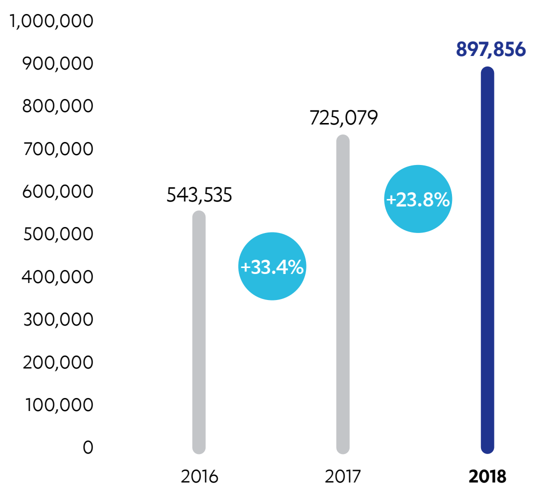
**NUMBER OF TRANSACTIONS MANAGED**
(Values in '000 of transactions)




## Terminal management activity

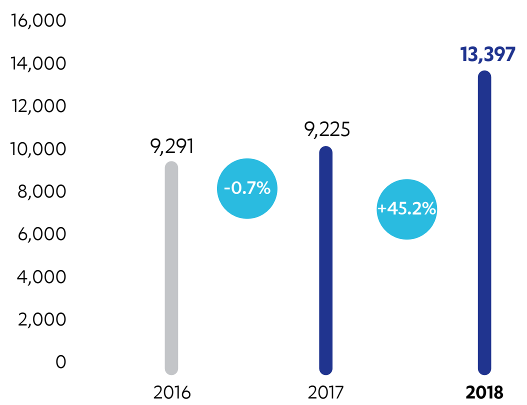
- POS stock managed (898 thousand units), composed of e-commerce terminals (24.4 thousand units) and physical terminals (about 873.4 thousand units), has significantly increased due to the acquisition, during the year, of the Bassilichi Group (+23.8%). Net of inorganic increase, growth compared to 2017 was of +4.4%;

**NUMBER OF POS (PHYSICAL AND VIRTUAL) MANAGED**




- ATM terminals managed total 13.4 thousand units with an increase of 45.2% compared to 2017 due to the acquisition during the year of the Bassilichi Group. Net of inorganic increase, the ATM portfolio showed a decrease of -4.8% compared to 2017.

**NUMBER OF ATM MANAGED**




## DCB and Clearing activities

- DCB stations at the end of the year stood at 223.4 thousand; this figure cannot be compared with the previous year as it refers to Nexi SpA (formerly ICBPI);
- the number of domestic Clearing transaction stood at 242 million; this figure cannot be compared with the previous year as it refers to Nexi SpA (formerly ICBPI);
- the number of SEPA Clearing transaction stood at 248 million; this figure cannot be compared with the previous year as it refers to Nexi SpA (formerly ICBPI).

# Operating results

## Statement of financial position

The data of the statement of financial position highlighted as at 31 December 2018 are compared to closing figures for the previous year.
The items of the statement of financial position are influenced by the effect of the transfer of the Payments and Corporate Centre business unit which took place on 1 July in the context of the corporate restructuring, by the new funding model which requires the derecognition from the financial statements of cardholders credits in factoring without recourse and by the mergers through incorporation of Bassilichi SpA, Consorzio Triveneto and Sparkling18, which took place at the end of the financial year. Therefore these elements make comparison with data from the previous year not significant. It is also noted that the data for 2017 was adjusted to reflect completion of the purchase price allocations of the 2017 business combinations.

As at 31 December 2018 total assets amount to Euro 2,865.0 million against Euro 3,629.5 million in 2017.

**ASSETS (Amount in Euro mln)**

| | 31.12.2018 | 31.12.2017 | Delta % |
|---|---|---|---|
| Available-for-sale financial assets | 100.1 | 83.2 | 20.4% |
| Receivables | 1,393.0 | 2,572.2 | - 45.8% |
| Equity investements | 1 | - | - |
| Tangible assets | 110.2 | 83.2 | 32.5% |
| Intangible assets | 835.7 | 600.2 | 39.2% |
| Tax assets | 37.1 | 39.8 | - 6.8% |
| Other assets | 381.0 | 250.9 | 51.8% |
| Non-current assets and groups of assets held for sale | 7.1 | - | |
| **Total Assets** | **2,865.0** | **3,629.5** | |

**LIABILITIES (Amount in Euro mln)**

| | 31.12.2018 | 31.12.2017 | Delta % |
|---|---|---|---|
| Payables | 1,046.1 | 2,298.5 | - 54.5% |
| Tax liabilities | 48.2 | 15.0 | 221.8% |
| Other liabilities | 639.8 | 504.0 | 27.0% |
| Employee severance indemnities | 11.0 | 6.0 | 83.9% |
| Provisions for risks and charges | 40.6 | 13.0 | 211.1% |
| Associated liabilities to assets held for sale | 6.1 | - | - |
| Shareholder's equity | 959.3 | 711.6 | 34.8% |
| Profit (Loss) | 113.8 | 81.4 | 39.8% |
| **Total liabilities** | **2,865.0** | **3,629.5** | |

In particular:

- financial assets measured at fair value with impact on overall profitability are mainly represented by Visa shares held and amount to Euro 100.1 million, compared with Euro 83.2 million in 2017;
- financial assets measured at amortised cost amounted to Euro 1,393.0 million, against Euro 2,572.2 million in 2017. More specifically:
  - loans and receivables with banks amounted to Euro 428.2 million against Euro 33.6 million last December. These loans and receivables mainly refer to current account balances used to manage the new Treasury model;
  - loans and receivables with financial institutions amounted to Euro 314.6 million against Euro 173.2 million as at 31 December 2017;
  - receivables with customers amounted to Euro 650.2 million against Euro 2,365.4 million last December. The main difference relates to the transfer of cardholder's receivables to factoring without the course which led to a decrease in the exposure to cardholders.
- equity investments stood at Euro 1.0 million and refer to associated companies acquired as an effect of the merger with Bassilichi;
- tangible assets amounted to Euro 110.2 million against Euro 83.2 million in 2017; the difference includes the fixed assets acquired as an effect of the transfer of the payment business unit, by the operations with Bassilichi, Consorzio Triveneto and Sparkling18, as well as the amortisation for the period and the sale of the property in Assago;
- intangible assets amounted to Euro 835.7 million and include the goodwill for Euro 584.6 million, against Euro 600.2 million in 2017; the increase in the goodwill sub-item is linked to the acquisition of Carige acquiring business unit for Euro 22.4 million as well as the goodwill relative to Sparkling18 due to the effect of the merger operation for Euro 3.3 million and the goodwill relative to the payments business unit transferred for Euro 119.8 million. The increase in other intangible assets is mainly due to investments for software development and projects as well as fixed intangible assets acquired by the effect of the transfer of the payments business. It is specified that at the end of the P.P.A. of the acquisition operation of MPS and DB acquiring businesses, part of the goodwill posted for Euro 126.7 was allocated to intangible fixed assets with a finite useful life. This effect has already been recalculated in comparison with the previous year;
- tax assets amounted to Euro 37.1 million (of which deferred tax assets Euro 30.2 million) against Euro 39.8 million in 2017;
- other assets amounted to Euro 381.0 million against Euro 250.9 million in the previous financial year;
- non-current assets and asset groups held for sale amounted to Euro 7.1 million and are represented by equity investments in Moneynet and Paycare.

As for the liability items:

- financial assets measured at amortised cost amounted Euro 1,046.1 million, represented by receivables with banks of Euro 2,298.5 million in 2017. The main difference relates to the different management method of the funding deriving from the transfer of loans and receivables;
- tax liabilities amounted to Euro 48.2 million, of which Euro 26.4 million are for deferred tax and Euro 21.8 million for current tax, against Euro 14.9 million in 2017;
- other liabilities amounted to Euro 620.1 million against Euro 497.4 million in 2017;
- severance indemnities amounted to Euro 11.0 million against Euro 6.0 million in 2017; the increase mainly relates to the effects of the extraordinary operations during the financial year;
- provisions for risks and charges totalled Euro 40.6 million against Euro 13.0 million in 2017, the increase reflects the effects of contractual charges and customer claims.

Equity amounted to Euro 959.3 million against Euro 711.6 million in the previous year; the change refers to the allocation of profits for previous period of Euro 83.4 million, the transfer of the Payments and Corporate Centre business for Euro 145.0 million, for Euro 6.3 for IFRS2 effects and effects of merger operations which have led to an increase in share capital for Euro 4.4 million and a merger deficit of Euro 10.1 million and an increase in the valuation reserve of Euro 10.7 million. Furthermore, the increase in the valuation reserve is mainly linked to financial assets measured at fair value with impact on overall profitability of Euro 5.7 million. Shareholders' equity also includes the effect deriving from the first application of IFRS 9 and IFRS 15, which have had to a positive effect on shareholders' equity of Euro 2.2 million.

**NEXI PAYMENTS - INCOME STATEMENT (Amount in Euro thousands)**

| | 31.12.2018 | 31.12.2017 | Variation % |
|---|---|---|---|
| Net fee and commission income | 664,248 | 552,847 | 20.2% |
| Net interest income | (9,659) | (12,420) | - 22.2% |
| Net trading/hedging income | 164 | (553) | - 129.7% |
| Dividends from equity investments and AFS | 0 | 0 | - |
| **Operating revenue** | **654,753** | **539,874** | **21.3%** |
| Payroll and related costs | (76,447) | (44,006) | 73.7% |
| Production costs | (116,983) | (103,438) | 13.1% |
| ICT costs | (139,766) | (123,534) | 13.1% |
| General expenses | (31,941) | (37,476) | - 14.8% |
| **Administrative expenses** | **(365,136)** | **(308,453)** | **18.4%** |
| Other net operating expenses/income | 8,100 | 5,289 | 53.2% |
| Net accruals for risk and charge | (9,249) | (7,302) | 26.7% |
| **Operating costs (net of DA)** | **(366,285)** | **(310,467)** | **18.0%** |
| **EBITDA** | **288,468** | **229,407** | **25.7%** |
| Depreciation and amortization | (42,458) | **(35,120)** | **20.9%** |
| **EBIT** | **246,010** | **194,287** | **26.6%** |
| Depr.&Amort. (customer contract) | (9,706) | **(3,824)** | **153.8%** |
| Non recurring/extraordinary items | (60,432) | **(70,460)** | **- 14.2%** |
| **Pre-tax profit** | **175,873** | **120,003** | **46.6%** |
| Income taxes | (62,042) | (38,576) | 60.8% |
| **Net profit** | **113,831** | **81,428** | **39.8%** |

## Income Statement

The figures in income statement as at 31 December 2018 are compared with figures for the same period in the previous year and are not comparable due to the effect of the acquisitions of the MPS and DB books in 2017, as well as the effect of transferring the Payment and Corporate Centre business units which contribute to the result for the period from 1 July 2018.

The income statement as at 31 December 2018 shows an EBITDA of Euro 288,468 million (+25.7% compared to 2017) and net profit of Euro 113,831 million, higher than that for the same period in the previous year (+39.8%).

In particular, compared to 2017, the following is reported:
- net fees and commissions from services amounted to Euro 664.248 million, compared to Euro 552.847 million in 2017;
- the interest margin is negative for Euro 9.659 million, while in 2017 it was negative for Euro 12.420 million;
- the result of the trading/hedging activities amounted to Euro 0.164 million against Euro 0.553 million in the previous year.

Total for Operating Revenues amounted to Euro 654.753 million, compared with Euro 539.874 million in 2017.

Administrative expenses amounted to Euro 365.136 million against Euro 308.453 million in 2017, and breakdown is as follows:
- personnel expenses amounted to Euro 76.447 million against Euro 44.006 million in 2017;
- production expenses amounted to Euro 116.983 million, compared with Euro 103.438 million in 2017;
- ICT expenditure amounted to Euro 139.766 million, compared with Euro 123.534 million in 2017;
- general expenses amounted to Euro 31.941 million, compared with Euro 37.476 million in the previous year.

Other operating income was positive for Euro 8.100 million against Euro 5.289 million in 2017.

Operating provisions were negative for Euro 9.249 million against Euro 7.302 million in 2017;

The total of the items listed above resulted in Operating Costs for Euro 366.285 million, compared with Euro 310.467 million in 2017.

The results listed above show an EBITDA of Euro 288.468 million against Euro 229.407 million as at 31 December 2017.

Value adjustments on tangible and intangible assets amounted to Euro 42.458 million against Euro 35.120 million as at 31 December 2017.

The result is added to other components amounting to Euro 70.138 million, as follows:

- amortisation of customer contracts for Euro 9.706 million;
- transformation program costs for Euro 28.371 million;
- personnel conciliation charges for Euro 1.460 million;
- factoring fees for Euro 1.250 million;
- negotiation activities charges (Collar Visa) for Euro 2.102 million;
- income for sale of Banche Venete acquiring books for Euro 21.000 million;
- M&A charges and registry taxes on Carige acquiring books for Euro 1.639 million;
- contractual charges and penalties (Giotto project) for Euro 13.058 million;
- branding costs of Euro 6.625 million;
- other charges for Euro 0.773 million;
- YAP for Euro 7.403 million;
- contractual charges and penalties for Euro 25.501 million;
- cash bonus charges for Euro 6.350 million;
- recalculation of DB acquiring books price for Euro 9.000 million;
- prescription of cards negative balances for Euro 4.010 million.

Gross profit for the period amounted to Euro 175.873 million, which net of taxes for the period amounting to Euro 62.042 million resulted in a Net Profit of Euro 113.831 million.

## Relations with banks and commercial initiatives

Also in 2018, the Italian banking sector was affected by a process of optimisation of distribution networks of the major banking institutions, with a view to progressive consolidation of the market which has characterised this sector in Italy for the last few years.

In this context, the payments sector has been confirmed as an area of great interest for all the main Italian banks that, under the influence of current trends, are motivated by any increasingly greater focus on the relationship with their customers with a view to continue to satisfy needs and requirements in all sectors.

The payments market is characterized by ever increasing investments in technology, with increasingly shorter innovation cycles, an evolution in regulation with significant impacts on margins, mandatory adjustments required by international networks and an increase in competition with entry of non-traditional market players on a global scale.
In this context, Nexi Payments stands as a Partner of Italian Banks in the ambitious path of innovation of digital payments in Italy, with the aim of achieving a decisive acceleration in the diffusion of payment systems to achieve levels of penetration and use typical of large European countries.

During 2018, Nexi Payments strengthened its commercial offer to support partner banks, innovating the offer in the Digital Payments&Cards, Merchant Services and Digital Banking&Solutions sectors.

In particular, new commercial solutions have been introduced relating to:

- c-less ATM offer;
- smartPOS offer;
- extension of acceptance of e-commerce agreements to the entire network;
- new front-end ATMs;
- new corporate banking functions.

The Company has also expanded its business proposition with Samsung Pay and Google Pay features, new payment systems for cardholders in possession of Samsung smartphones with Android operating systems.

The new digital payment systems use NFC technology and work in a very simple way by placing the device on a POS designed for contact-less credit and debit cards; transactions are then finalised with Touch ID, i.e. the recognition of fingerprints or security codes.

With the objective of strengthening the value of the partnership with banks, an integrated program of initiatives for continuous involvement was launched in 2018 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 September, the annual convention dedicated to the Partner Banks was also organized, an opportunity for the presentation of the Nexi commercial strategy and for sharing the news of the offer in all business areas.

In order to make the commercial proposition more effective and respond more promptly to the needs of the partner banks, Nexi Payments has strongly strengthened the front line with the addition of new skills and new managerial profiles for the management of the commercial partnership with the Banks and the Public Administration.

With the aim of ensuring timely monitoring of delivery activities, the activities of the Commercial Operations and Service Management were strengthened, with the assignment of specific responsibilities and clear accountability to manage the execution of customer projects.

Furthermore, in 2018 the Sales Advisory&Trade engagement team was activated; working directly on the territory, it works alongside the bank's commercial chain, with training and business development support.

With the objective of supporting partner banks in an effective go-to-market activity, the Sales Advisory&Trade engagement team has provided, for example the following activities:

- Nexi Academy: modular training courses offered remotely through Webinars, classroom training and Video Pills;
- Advisory: analysis of business data to support the development of sales strategy;
- Trade Engagement: working alongside the sales network directly in the branch (Nexi Days) and organisation of dedicated events (i.e. category associations).

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 such as for example:

- plans to stimulate the commercial action of partner banks' networks targeted at the growth of the range of cards, the support of issues of international debit products, the growth of the POS portfolio, and participation to loyalty and digital services;
- activities targeted at the growth of digital payments, stimulating the activation of new cards and promoting the growth of spend volumes;
- expansion of acceptance networks for merchant;
- participation in calls for tender issued by major banks in the field of Issuing, Merchant Services and Payments.

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 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 and revenues over the next few years.

In the field of services aimed at the public administration, commercial activity has continued both in the cross-selling offer of treasury and receipts services, working alongside partner banks' managers operating on the territory to promote POS and acquiring services on main customer bodies, and in the start of cooperation with responsible bodies and treasuries of partner banks for the preparation of an offer of value-added services dedicated to the public administration.

On Node of Payments, during the 2018 Nexi was a partner of the Agency for Digital Italy in the experimentation stage of WISP 2.0, the new architecture for online payments on PagoPA, with the objective of simplifying user experience, reducing leaving rates and increasing volumes of digital payments.

## Service leadership, multi-channelling and innovation

In 2018, in line with the transformation processes launched in the previous year, the operating structures working on daily life procedures have increasingly focused on the service offered to the customer.

In accordance with the strategic guidelines and the company objectives, the specialist contributions necessary to support and finalize the business acquisition and evolution initiatives, as well as the regulatory adjustments in the sector, were also ensured, including:

- Bassilichi's organisational integration and design of the target operating model;
- acquisition of Carige Acquiring Book in the area of the new Referral model, ensuring continuity of service and minimizing the impact on operating structures;
- completion of extension of the dynamic 3DSecure service, with the new portfolios of MPS business cards and Widiba cards;
- completion of the VCR project with the implementation of the new regulations for dispute management for the VISA network and the start of the MDR project for the new regulations on disputes for the Mastercard network;
- adequate processes and opportunities in line with the requirements of the PSD2 regulation;
- full attention was paid to achieve the objectives to improve the effectiveness and efficiency of the processes, as well as the introduction of appropriate cor-

rective actions where possible areas for improvement were identified.

In this context, initiatives included:

- the creation with Mercury Payment Solutions SpA of the personalisation process of Group Cards, the largest Italian centre for the personalisation of cards with potential production of over 15 million cards per year;
- the start of digital printing of cards in small production batches;
- the setting of a new Banks Support operating model, implemented in October for the issuing section and which will be implemented in the first quarter of 2019 for Merchant Services;
- the rationalisation of POS inventories, reduced on average by 38%, with significant increase in efficiency;
- the start of the rationalisation process of suppliers of POS services on the territory;
- the decrease by over 20% on net frauds compared to 2017, positioning Nexi at the peak of network benchmark performance, achieved through various initiatives:
  - the rationalisation of fraud prevention alerts system and the start of the alert service through IOSICURO texts, with the increase in efficiency and efficacy in the area of fraud prevention and significant improvement in customer experience;
  - the implementation of a new Fraud Scoring model in relation to MasterCard transactions.
- the start of a fraud prevention project based on artificial intelligence and developed in cloud which will be launched in the first half of 2019 for the issuing sector and later for Merchant Services, which will allow a further significant increase in performance;
- the implementation of interventions of rationalisation of disputes operating processes with a reduction of around 75% in paper documentation and an operating efficiency of 15% achieved also through some robotic applications;
- a strong improvement in customer care service levels, with the growth of customer satisfaction indicators on all operating lines, obtained through organisational interventions (control room, unity of processes and quality) and improved monitoring tools;
- an excellent performance of the company virtual assistant with over 310 thousand interactions and high satisfaction level on the part of the users.

Monitoring of the main service indicators and periodic reporting of SLAs and penalties continued, in compliance with existing contractual relations and with the objective of carrying out actions to minimize the impact deriving from the increase in volumes and the start-up of new service areas.

In this context of continuous improvement, the review, integration and identification of new operational KPIs and customer service continue which, together with the periodic observation of the performance of the main cost drivers - running and planning - can guarantee and strengthen the supervision and monitoring of all services.

Lastly, the Operations Department sponsored the start of the company's Customer Centricity project, aimed at promoting and consolidating a culture of continuous listening to the voice of customers and subsequent reviewing of company processes throughout the company. During the year, Net Promoter Scores were observed on several contact points for cardholders (over 80 thousand observations) and merchants (over 9 thousand).

Project outcomes are constant topic of discussion at Executive Committee level and during the several meeting opportunities with company structures.

The Company further expanded its commercial offer in the field of mobile proximity payments in 2018. In regard to this, in March 2018 Nexi launched Samsung Pay, the payment system via smartphone/smartwatch compatible with the most recent Samsung devices and, in September 2018, it was the main issuer to launch Google Pay, a payment system compatible with all Android devices with an operating system higher than 4.4., on the Italian market.

Thanks to these two services available on the entire card portfolio, Nexi boasts the most complete offer on the Italian mobile payment services market, covering the entire range of Apple and Android compatible devices.

## Digital transformation

In the context of the strategy of the company's digital offer, in 2018 Nexi continued the digital transformation process of digital products and services and strengthened its value proposition according to the following strategic guidelines:

- continuous digitalisation of cardholders' payment experience and of linked services;
- evolution of the offer for merchants, both in terms of new services and of new communication channels;
- support to banks thanks to the development of new services, for example in Digital Corporate Banking and in the area of Open Banking.

More specifically, the following initiatives are noted:

- the launch of the new depobank.it website on occasion of the spin-off of the company business linked to "banking" activities;
- complete review of the portal dedicated to cardholders and setup of the multi-company infrastructure to include banks' needs in the servicing area;

- complete review of the Nexi Pay App dedicated to cardholders and setup of the API infrastructure to include banks' needs in relation to the integration of Nexi services in bank properties;
- migration and disposal of obsolete properties towards new ones in the area of issuing and acquiring;
- complete review of the Xpay payment gateway (multichannel);
- development of new capabilities linked to the safety of eCommerce (3DS2.0) payments;
- development of new capabilities linked to regulatory compliance required by PSD2;
- continuous improvement of the Nexi Business App dedicated to Nexi retailers;
- launch of the new nexi.it/smartpos website and localisation of the software to allow the product's launch on the market;
- the issue of features required for the renewal of the Nexi Digital Corporate (wave 1) platform. For small business, the solution is ready to launch integration works with interested banks;
- successful award of the tender by Consorzio CBI for the development and management in outsourcing of "Gateway CBI Globe", or the Open Banking System platform which brings together third parties and banks in Italy, compliant with the PSD2 regulations, also allowing the development of competitive and co-operative VAS;
- development of new procedures and expansion of the capacity to guarantee better stability of infrastructural components of the Corporate Banking platform;
- optimisations of demand and fix management processes;
- reclassification of backlog physiological level on maintenance interventions accumulated in periods preceding excellence thresholds;
- optimisation of the Customer Care process and implementation of support technologies for assistance to customers;
- evolution of Nexi in IMEL and concentration of activities and services based on the DepoBank banking licence through corporate restructuring operations;
- launch of the instant payment solution with ACH Nexi and interlink with EBA;
- launch of the new digitisation solution of CIT cheques;
- complete review of the ATM Full Outsourcing offer to support banks in their projects of migration and review of Agency distribution models;
- launch of new technological products for the ATM channel in a multichannel point of view: infrastructure and new GT, new front-end touch, new system of proactive monitoring;
- launch of new Fast services, with simpler and faster withdrawal and deposit processes;
- development of evolved functionalities typical of self-banking.

## Customer value management

In 2018 the Customer Value Management (CVM) activity was strengthened and offered as a service to partner banks.

More specifically, CVM is based on four key areas:
- the iosi Engagement Program: loyalty and engagement programme which every day offers customers useful services and rewards based on their profile and behaviour, with 3.4 million customers registered, of which around 575,000 pay (15 Euro/year) to access services reserved for iosi PLUS customers;
- campaign as a service: a catalogue of over 20 initiatives, continuously improving, and a set of skills, methods and tools available to partner banks to enhance the value of their customer base in each phase of the life cycle, from acquisition to retention, through the implementation of automatic, multichannel and multi-steps campaigns;
- customer science: a team of data scientists specialised in the development of advanced analytical models, in the creation of hyper-profiles, in the measure of performance of digital payment instruments to understand the behaviour of customers, anticipate their needs and develop new CVM initiatives;
- marketing automation: the system that allows Nexi to engage with customers by executing near-real-time, multistep and contextual campaigns.

The iosi engagement program (nexi.it/privati/iosi) allows Partner Banks to offer their customers a free engagement program with added value services, discounts and special offers based on their profile, portfolio, behaviour and customer value, stimulating interaction with the Bank, the discovery and use of iosi payment instruments is composed of five free services:
- ioCONTROLLO: to monitor each week's purchases made with the Nexi card, with over 52 million of texts sent in 2018 alone;
- ioSICURO: a new service that proactively asks the customer to confirm expenses identified as suspicious by fraud detection algorithms;
- ioPROTETTO: to protect travel, purchases and withdrawals made with the Nexi card thanks to a policy with increased limits and free emergency services;
- ioSPECIALE: to access reserved discounts and exclusive offers personalised on the basis of the customer's passions, with over 800 thousand total accesses and one customer in two choosing to profile themselves with the passion test;

- ioVINCO: the first instant win competition that offers the customer the possibility of winning every time they use their Nexi card and double the opportunity if it is a mobile payment.

In 2018, the engagement programme allowed to substantially increase the frequency of use of digital payment instruments, with an overall increase of volumes of over Euro 300 million and interaction with Nexi through digital channels.

In particular ioVINCO, accessible only through the Nexi Pay App, engaged 382,000 active unique players, generating 18.6 million interactions (surprise boxes opened) and 1.7 million incremental transactions.

The most sophisticated and high-value customers can access paid premium iosi PLUS services:

- iosi PLUS COLLECTION: the collection of points that transforms purchases into exclusive products of the best brands;
- iosi PLUS TRAVEL: a dedicated travel agency with offers and discounts on travel packages;
- iosi PLUS EVENTS: a ticketing service for favourite events;
- iosi PLUS SMART MEMO: to remember deadlines and commitments.

In 2018 the new collection points were reviewed and relaunched, redesigning gift profiling with respect to Nexi customer profiles and introducing double points for mobile payments, with the redesign of the customer experience from prize claim to delivery.

Quarterly monitoring of the NPS engagement programme was also launched.

With the Campaign service, Partners Banks have at their disposal a set of modular campaigns ready for use for each stage of the customer's life-cycle.

A dedicated team accompanies the Partner Bank in the execution of end-to-end initiatives: from the identification of the strategy to profile customers, the definition of the execution target, the creation of the business case to the analysis of results and benchmarking with similar initiatives.

The team supports the Partner Banks in the following activities:

- analysis and targeting: basic and advanced analytical methods for the creation of trigger, hyper-profiled target, business case;
- mechanics and offer: design of the value proposition and the campaign mechanics;
- contact flow and communication: design of the campaign diagram, production and execution in partnership with the Partner Bank;
- automation: execution and monitoring through marketing automation systems;
- monitoring and reporting: definition of objectives, of the business case and analysis of results during the execution and closure of the campaign through specialist attribution models on digital payment instruments.

With reference to the licensed Partner Bank's perimeter, more than 30 automatic journeys have been activated which manage critical stages of the customer's life cycle, such as for example onboarding of new customers, the adoption and stimulus to use of mobile payments, the discovery and activation of services such as Easy Shopping, in addition to initiatives aimed at the stimulation of use and prevention of inactivity.

During 2018, over 200 campaigns were executed with an average increase of 53% in issues in the period of the campaign, an increase of 10% in new customer's activated cards within 60 days of card issue and 8% in reactivation of inactive cards at renewal.

Customer Science has defined the roadmap of analytical projects to support the areas indicated above the entire business unit. In particular, the data-driven segmentation of Nexi was issued and a model of hyper-profiling which allows to associate any of Nexi's customers with a series of characteristics by similarity.

To this are added machine learning models for the estimation of the risk of insolvency, MRF models for the stimulation to use, abandonment risk models for mobile payments. The business intelligence dashboard for the daily monitoring of services and products which might be extended to banks in 2019 complete the picture.

Lastly, with regard to Marketing automation, migration to the new environment is being completed, with the redesign of all the campaigns and the E2E management process of dispatch of communications to customers, also through the adoption of cloud cooperation systems.

## Communication and brand management

Following the path undertaken in 2017, which saw the start of the new company's positioning and identity, 2018 was focused on brand consolidation to promote the acceleration of diffusion of digital payments in the country and make the company's transformation and Nexi's innovation of offer more tangible.

Brand monitoring analyses have highlighted that, one year after the launch date, Nexi is recognised by 36% of the population and by 37% of merchants, with a consideration at the purchase stage of 20%.

Nexi is perceived by all to be reliable, safe, competent, technological, modern, fast, forward looking, simple, digital. An image positioning similar to that of innovation brand leaders that have been present on the market for many years.

The results of the brand positioning have been achieved thanks to the continuous commitment in promoting, alongside Partner Banks, marketing innovations, new functionalities and new services to create value for end customers.

To support Nexi's innovation, a communication plan over several channels has been structured: from materials for bank branches, to mailings, events, sponsorships, advertising campaigns on traditional and digital media, and social media. All this to stimulate customers to view digital payments as simple, safe and fast instruments.

In particular for the Partners Banks, several meetings were organised to share the strategic vision on the innovation of digital payments and to support day-to-day commercial activities. In particular, Nexi Days were planned, together with the Sales Advisory structure to train commercial networks, to meet customers in branches to introduce novelties in card offer, mobile payments and SmartPOS. Always in relation to banking networks, webinar sessions were designed to share market approach, innovative ideas and new payment solutions targeted to private customers, merchants and companies.

Advertising campaigns, together with direct communications to private customers and merchants, in most cases co-branded with banks, have focused our commitment on the diffusion of digital payments in Italy in a simple way through the proposition of different initiatives such as mobile payments, the "ioVINCO" instant win competition, the new SmartPOS offer, micro-payments to motivate the acceptance and use of payment cards also for small expenses, the app to offer analytic data to merchants, and instant payments.

Nexi has promoted the diffusion of digital payments also through numerous events on the territory which have involved very different targets: from start-up developers with a view to open innovation, to category associations, in particular those of retailers, to end customers.

Furthermore, Nexi has implemented an important editorial plan, in cooperation with ADN Kronos and Class CNBC, to support knowledge and education in the use of product's new functionalities.

## Nexi Payments SpA purchasing observatory

In 2018, Nexi's Purchasing Observatory, which has widened its scope of observation from purchases to electronic payments, has confirmed its new focus on insights which better fulfil demands from the press. Verticalizations on purchasing behaviour at highest seasonal peaks throughout the year and analyses on specific issues such as online payments, Fitness & Wellness and Smart Mobility, have been added to traditional analyses of monthly purchase trends.

## Human resources

As regards human resources, the number of employees as at 31 December 2018 totalled 1,036 resources, compared to 540 as at 31 December 2017. The significant increase in personnel is partly due to the restructuring of the Nexi Group which, among other things, saw the transfer of resources from the Parent Company Nexi SpA to Nexi Payments SpA.

| | 31.12.2017 | 31.12.2018 |
|---|---|---|
| Managers | 33 | 70 |
| Middle management | 220 | 498 |
| White collar staff | 287 | 439 |
| Other* | | 29 |
| **Total** | **540** | **1,036** |
| TI | 538 | 1,028 |
| TD | 2 | 8 |

* Semi-subordinate employees.

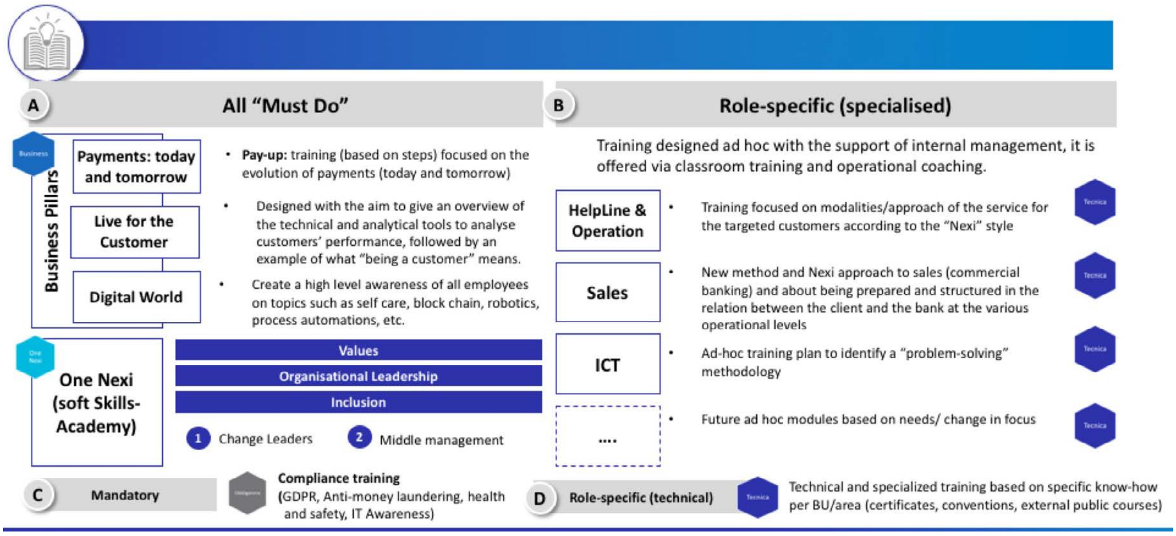
## Information relating to personnel and the environment

On the issue of Training, a Nexi Payments' Training Plan has been defined, "Training to accelerate the digital transformation of Nexi Payments", submitted for financing to the Banking and Insurance Fund in 2018 and still at supply stage.

The areas relating to training have been divided into 5 types:

- compulsory training: includes activities aimed at acquiring knowledge that is suitable to comply with legal and industry regulations (for example: privacy, security, etc.);
- specialist training: includes activities aimed at acquiring, maintaining and developing specialist knowledge relating to one's own professional family and business area. In 2018 ad-hoc training programs were organised for the marketing area with focus on the sales process characteristic of Nexi Payments. Also, a dedicated programme exclusive to call centre operators, with the aim of refocusing an approach oriented to customer satisfaction and its importance;
- technical training aimed at operating improvement including instruments, methods, and vertical know-how relating to one's job;
- management training: it includes activities aimed at the acquisition and improvement of personal abilities ("know how to be"), in particular includes training aimed at operating efficiency (Project management on the job, problem-solving, work smarter), to personal efficiency (empowerment, effective communication) and to the management of people through Broadbanding and Performance Management - Workshop Leader, knowing how to be in the new organisational environment (Nexi Values workshop);
- business training: to understand our relevant market, the trends and evolutions, our positioning and strategy, products and services, and define a common and shared language and business categories. For this purpose, the Pay UP path was launched which has involved all of Nexi Payments' colleagues and will become onboarding training for all new employees.

The training actions in Nexi Payments' plan are in line with the 2018-2019 Learning Strategy summarised below:




The objective of the training plan introduced were:

- to promote the diffusion of digital culture throughout the company and the development of a common base knowledge relative to the world of innovation of financial services and payment systems;
- to create a common and shared knowledge base on the issue of customer experience and service logics towards customer centricity;
- to develop a strong sense of belonging to Nexi Payments to better address the transformation approach.

In 2018, Nexi Payments' training activities served 1,016 resources for a total of 25,500 training hours, of which 35% was compulsory training, 40% business training, 5% specialist training, 8% technical training, 12% management training, with an average of around 25 hours for all employees.

Training activities took place through a blended approach, with a mix of classroom and online training, social learning, and participatory facilitation. The updating of skills, on request of the various managers (so-called on-demand) has included both the participation to intra-company courses and the organisation of internal classrooms that have involved the entire population.

All of the compulsory training actions validated at the beginning of the year have been delivered. Part of the contents, where possible and in compliance with the regulations, have been updated and reviewed in line with current regulations.

## Health and safety

In terms of Health and Safety, an assessment of work-related stress risk has been carried out in accordance with the new INAIL method (2017 edition) and has determined, as its final outcome, that the stress risk is not relevant in almost all of the sites with the exception of some limited environments, such as a part of administration staff located in Milan, where the necessary in-depth examination required by the same method will be carried out.

Monitoring activities of the quality of workplaces, such as microclimate (temperature, humidity, ventilation and air quality) and lighting (natural artificial light) have continued. As required by the law, evacuation drills were carried out at each location.

## Main risks

The main risks to which the Company is exposed are represented by operational risk and credit risk. The procedures put in place to mitigate such risks are described in the specific section of the Explanatory Notes.

Also, in 2018, the activity carried out by the Risk Management Department was aimed at supporting Management in view of a prudent and effective management of the company business, while ensuring at the same time full compatibility with the risk governance process, through the definition of and compliance with the risk tolerance defined in the Risk Appetite Framework.

In order to hedge the risk of a fall in the price and 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 arising from the potential liabilities of the former Visa Europe acquired by Visa Inc.) in the portfolio, a collar was stipulated on a number of shares that does not take into account the discount applied in the financial statements, but which has a strike such that, from an economic point of view, the payoff of the derivative, in case for the reduction of the equivalent value in Euro of the Class A Shares below the book value, is equal to the reduction in the value of the security compared to the hedging target.

## Business continuity

With regard to the Company's development prospects, no specific critical issues are noted, other than in relation to any currently unforeseen market negative fluctuations; in particular, no critical issues are noted with regard to business progress, as a positive evolution is anticipated for the market for credit and debit card which, even though on the one hand it is strictly linked to consumer trends, on the other is benefiting from a favourable trend, influence by the fact that this types of payment means are gaining ever greater market shares, at the expense of the use of cash.

Lastly, the Company can rely on a large number of customer Banks with which the relationship has consolidated over time and strengthened by belonging to the Gruppo Nexi.

The Directors confirm the reasonable expectations that the Group will continue its operations in the near future and that, as a result, the financial statements for the year 2018 have been drafted from the perspective of business continuity. Therefore, they have not noticed symptoms in the capital and financial structure and in the operational situation trends that could constitute cause for uncertainty of business continuity.

## Research and development activities

Pursuant to Article 2428, paragraph 2 of the Civil Code, it is stated that the Company has not registered any amounts for research and development in the total assets.

## Relations with subsidiary companies, associated companies and parent companies

The Company is authorised to exercise its activity of Electronic Money Institution (IMEL) by the Bank of Italy and is subject to the direction and coordination of the Parent Company, Nexi SpA.

As at 31 December 2018, the Parent Company controlled the capital of the Company with an equity investment of 98.92%, pursuant to art. 2428 of the Civil Code; it should be noted that the Company does not directly or indirectly hold treasury shares or shares of the Parent Company through nominees or trust companies.

## Transactions with related parties

In order to control the risk that the vicinity of certain people (so-called Related Parties) to the company's decision-making bodies might compromise the objectivity and impartiality of business decisions with possible distortions in the allocation process of resources, expose the company to risks not adequately measured or, potentially damage the company and its stakeholders, the Nexi Group has adopted a Regulation on Transactions with Related Parties published on the website www.nexi.it which defines the procedure for internal management and for outside communication of privileged information and procedures for the setting up and management of the registry of people who have access to privileged information.

During the financial year, transactions with related parties were not entered into at conditions other than the conditions normally applied on the market or that have had a material effect on the financial position or results of the Group during the reporting period. For more information on transactions with related parties, refer to the Explanatory Notes.

## Significant events after the reporting period

Is currently in progress completion of sale to Comdata SpA of Nexi Payments' entire stake in Paycare Srl.

## Business outlook

The Nexi Group will leverage the initiatives provided for in the new 2019-2023 Business Plan, 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.

## Registered office

Corso Sempione 55, 20149 Milan.

## Allocation of net profit

It is proposed to distribute unit dividend of Euro 0.60 for each of the 110,030,008 shares and, subsequently, to share the profit the year as follows:

| | |
|---|---|
| - to reserve | Euro 47,813,196 |
| - dividend to allocate to shareholders | Euro 66,018,004 |

# 1.2

## FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

# FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

## BALANCE SHEET

(Amount in Euro)

| ASSETS | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **10. Cash and cash equivalents** | **32,235** | **20,461** |
| **30. Financial assets measured at fair value through OCI** | **100,114,393** | **83,174,012** |
| **40. Financial assets measured at amortized cost** | **1,392,997,371** | **2,572,233,316** |
| *a) loans to banks* | *428,202,589* | *33,603,658* |
| *b) loans to financial companies* | *314,601,047* | *173,233,569* |
| *c) loans to customers* | *650,193,735* | *2,365,396,089* |
| **70. Equity investments** | **739,894** | **-** |
| **80. Property, equipment and investment property** | **110,215,111** | **83,188,336** |
| **90. Intangible assets:** | **835,709,304** | **600,196,041** |
| of which: | | |
| a) goodwill | 584,614,146 | 438,904,706 |
| **100. Tax assets** | **37,120,923** | **39,810,210** |
| *a) current* | *6,912,517* | *18,115,162* |
| *b) deferred* | *30,208,406* | *21,695,048* |
| **110. Non-current assets and groups of assets held for sale** | **7,117,526** | **-** |
| **120. Other assets** | **380,961,818** | **250,906,498** |
| **TOTAL ASSETS** | **2,865,008,575** | **3,629,528,874** |

| LIABILITIES AND EQUITY | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **10. Financial liabilities measured at amortized cost** | **1,046,115,048** | **2,298,506,245** |
| *a) debts* | *1,046,115,048* | *2,298,506,245* |
| **20. Financial liabilities held for trading** | **3,153,693** | **1,051,432** |
| **40. Hedging Derivatives** | **16,556,888** | **5,520,019** |
| **60. Tax liabilities** | **48,241,464** | **14,990,182** |
| *a) current* | *21,804,538* | *-* |
| *b) deferred* | *26,436,926* | *14,990,182* |
| **70. Liabilities associated with assets held for sale** | **6,050,000** | **-** |
| **80. Other liabilities** | **620,120,889** | **497,417,238** |
| **90. Post-employement benefits** | **11,038,595** | **6,003,504** |
| **100. Provisions for risks and charges:** | **40,572,103** | **13,042,160** |
| *c) other provisions* | *40,572,103* | *13,042,160* |
| **110. Share capital** | **66,018,005** | **56,888,798** |
| **140. Share premium** | **142,577,684** | **2,273,684** |
| **150. Reserves** | **702,739,276** | **621,794,301** |
| **160. Valuation reserves** | **47,993,728** | **30,614,140** |
| **170. Profit (Loss) of the year** | **113,831,200** | **81,427,171** |
| **TOTAL LIABILITIES AND EQUITY** | **2,865,008,575** | **3,629,528,874** |

## INCOME STATEMENT

(Amount in Euro)

| | 2018 | 2017 |
|---|---|---|
| **10. Interest and similar income** | **19,944,181** | **21,568,701** |
| **20. Interest and similar expense** | **-29,716,254** | **-33,988,555** |
| **30. NET INTEREST EXPENSE** | **-9,772,073** | **-12,419,854** |
| **40. Fee and commission income** | **1,058,846,317** | **951,451,121** |
| **50. Fee and commission expense** | **-603,947,275** | **-566,208,211** |
| **60. NET FEE AND COMMISSION INCOME** | **454,899,043** | **385,242,910** |
| **70. Dividends and similar income** | **426,305** | **248,473** |
| **80. Net trading income** | **-2,266,579** | **-1,604,100** |
| **90. Net value in hedge accounting** | **-** | **999,156** |
| **100. Profit/loss on disposal or repurchase of:** | **-5,625,533** | **-** |
| *b) Financial assets measured at fair value through OCI* | *-5,625,533* | - |
| **120. OPERATING MARGIN** | **437,661,162** | **372,466,585** |
| **130. Amortisation and net impairment losses for credit risks associated with** | **-2,040,758** | **-1,505,702** |
| *a) Financial assets measured at amortized cost* | *-2,040,758* | *-1,505,702* |
| **150. NET RESULT OF FINANCIAL MANAGEMENT** | **435,620,404** | **370,960,883** |
| **160. Administrative expenses:** | -481,263,154 | -431,143,267 |
| *a) personnel expense* | *-84,973,766* | *-69,958,742* |
| *b) other administrative expenses* | *-396,289,388* | *-361,184,525* |
| **170. Net provisions for risks and charges:** | **-20,165,774** | **-1,814,271** |
| *b) other net provisions* | *-20,165,774* | *-1,814,271* |
| **180. Amortisation and net impairment losses on property and equipment** | **-22,538,802** | **-21,667,414** |
| **190. Amortisation and net impairment losses on intangible assets** | **-29,500,093** | **-17,276,624** |
| **200. Other operating costs / income** | **272,539,382** | **220,943,463** |
| **210. OPERATING COSTS** | **-280,928,441** | **-250,958,113** |
| **250. Profit (Loss) on disposal of investments** | **21,181,401** | **-** |
| **260. PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **175,873,364** | **120,002,770** |
| **270. Income Taxes** | **-62,042,164** | **-38,575,599** |
| **280. PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS** | **113,831,200** | **81,427,171** |
| **300. PROFIT (LOSS) OF THE YEAR** | **113,831,200** | **81,427,171** |

## STATEMENT OF COMPREHENSIVE INCOME OF FINANCIAL INTERMEDIARIES

(Amount in Euro)

| Captions | 2018 | 2017 |
|---|---|---|
| **10. Profit (loss) of the year** | **113,831,201** | **83,425,355** |
| **Other comprehensive income net of taxes without reversal to the income statement** | | |
| 20. Equity instruments designated at fair value through OCI | 15,704,855 | 27,052,595 |
| 30. Financial liabilities designated at fair value through profit or loss (change in own credit rating) | | |
| 40. Hedging of equity instruments designated at fair value through OCI | (10,270,358) | |
| 50. Property, equipment and investment property | 10,670,724 | |
| 60. Intangible assets | | |
| 70. Defined benefit plans | 183,671 | (7,356) |
| 80. Non-current assets and groups of assets held for sale | | |
| 90. Share of valuation reserves valued at equity | | |
| **Other comprehensive income net of taxes with reversal to the income statement** | | |
| 100. Hedges of foreign investments | | |
| 110. Exchange rate gains (losses) | | |
| 120. Cash flow hedges | 160,932 | |
| 130. Hedging instruments (not designed elements) | | |
| 140. Financial assets (other than equities) measured at fair value through OCI | | |
| 150. Non-current assets and groups of assets held for sale | | |
| 160. Share of valuation reserves of investments valued at equity | | |
| **170. Other comprehensive income (expense), net of tax** | **16,449,824** | **27,045,239** |
| **180. Total Comprehensive income (captions 10+170)** | **130,281,024** | **110,470,594** |

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

(Amount in Euro thousands)

| | | | | Allocation of prior year profit | | Changes for the year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | |
| | Balance at 31.12.2016 | Change to opening balances | Balance at 1.1.2017 | Reserves | Dividends and other allocations | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinay dividend distribution | Change in equity instruments | Other changes | Comprehensive income 31.12.2017 | Equity at 31.12.2017 |
| Share Capital | 56,889 | | 56,889 | | | | | | | | | | 56,889 |
| Share premium | 2,274 | | 2,274 | | | | | | | | | | 2,274 |
| Reserves: | | | | | | | | | | | | | |
| a) income-related | 220,719 | | 220,719 | 241,731 | | | | | | | | | 462,450 |
| b) other IFRIC 13 | (2,778) | | (2,778) | | | | | | | | | | (2,778) |
| c) merger goodwill | 158,001 | | 158,001 | | | | | | | | | | 158,001 |
| d) other | 4,121 | | 4,121 | | | | | | | | | | 4,121 |
| Valuation reservers | 3,644 | | 3,644 | | | | | | | | (75) | 27,045 | 30,614 |
| Equity instruments | - | | - | | | | | | | | | | - |
| Treasury shares | - | | - | | | | | | | | | | - |
| Profit (Loss) of the year | 329,908 | | 329,908 | (241,731) | (88,177) | | | | | | | 83,425 | 83,425 |
| **Equity** | **772,778** | **-** | **617,555** | **-** | **(88,177)** | **-** | **-** | **-** | **-** | **-** | **(75)** | **110,470** | **794,997** |

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(Amount in Euro thousands)

| | | | | Allocation of prior year profit | | Changes for the year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Equity transactions | | | | | | |
| | Balance at 31.12.2017 | Change to opening balances | Balance at 1.1.2017 | Reserves | Dividends and other allocations | Changes in reserves | Issue of new shares | Purchase of treasury shares | Extraordinay dividend distribution | Change in equity instruments | Other changes | Comprehensive income 31.12.2018 | Equity at 31.12.2018 |
| Share Capital | 56,889 | | 56,889 | | | | 9,129 | | | | | | 66,018 |
| Share premium | 2,274 | | 2,274 | | | | 140,304 | | | | | | 142,578 |
| Reserves: | | | | | | | | | | | | | |
| a) income-related | 459,695 | 3,316 | 463,011 | 81,427 | | | | | | | - | | 544,438 |
| b) other | 162,100 | | 162,100 | - | | 6,350 | | | | | (10,148) | | 158,302 |
| Valuation reservers | 30,614 | 930 | 31,544 | | | | | | | | - | 16,450 | 47,994 |
| Equity instruments | - | | - | | | | | | | | | | - |
| Treasury shares | - | | - | | | | | | | | | | - |
| Profit (Loss) of the year | 83,425 | (1,998) | 81,427 | (81,427) | | | | | | | | 113,831 | 113,831 |
| **Equity** | **794,997** | **2,248** | **797,246** | **-** | **-** | **6,350** | **149,433** | **-** | **-** | **-** | **(10,148)** | **130,281** | **1,073,161** |

## STATEMENT OF CASH FLOWS (indirect method)

(Amount in Euro thousands)

| | Amount | |
|---|---|---|
| **A. OPERATING ACTIVITIES** | **2018** | **2017** |
| **1. Operations** | **199,339** | **289,125** |
| - profit or loss for the year (+/-) | 113,831 | 83,425 |
| - gains/losses on financial assets held for trading and financial assets/liabilities at fair value | 2,102 | 1,604 |
| - gains/losses on hedging activities (- / +) | - | -999 |
| - amortisation and net impairment losses for credit risk (+/-) | 2,041 | 1,506 |
| - amortisation and net impairment losses on property, equipment and investment property and intangible assets (+/-) | 52,039 | 35,959 |
| - net provisions for risks and charges and other costs/revenues (+/-) | 20,166 | 1,814 |
| - unpaid taxes, duties and tax assets (+/-) | 23,992 | -1,603 |
| - amortisation and net impairment losses of groups of assets held for sale net of the tax effect (+/-) | - | - |
| - other adjustments (+/-) | -14,831 | 167,419 |
| **2. Cash flows generated/used by financial assets** | **1,173,555** | **-229,259** |
| - financial assets measured at amortized cost | 1,202,258 | -180,421 |
| - other assets | -28,702 | -48,838 |
| **3. Cash flows generated/used by financial liabilities** | **-1,258,516** | **628,553** |
| - financial liabilities measured at amortized cost | -1,305,713 | 470,142 |
| - financial liabilities held for trading | 2,102 | |
| - other liabilities | 45,094 | 158,411 |
| **Net cash flows generated/used by operating activities** | **114,378** | **688,417** |
| **B. INVESTING ACTIVITIES** | | |
| **1. Cash flows generated from** | **23,343** | **-** |
| - disposal of property, equipment and investment property | 2,343 | - |
| - disposal of business units | 21,000 | - |
| **2. Cash flows used in** | **-137,708** | **-600,239** |
| - purchase of equity investments | -4,000 | |
| - purchase of property, equipment and investment property | -22,659 | -20,674 |
| - purchase of intangible assets | -87,639 | -26,873 |
| - purchase of business units | -23,410 | -552,692 |
| **Net cash flows generated/used in investing activities** | **-114,365** | **-600,239** |
| **C. FINANCING ACTIVITIES** | **-** | **-** |
| - dividend distribution and other | - | -88,178 |
| **Net cash flows generated/used in financing activities** | **-** | **-88,178** |
| **NET CASH FLOWS GENERATED/USED FOR THE YEAR** | **13** | **-** |

| **RECONCILIATION** | **31.12.2018** | **31.12.2017** |
|---|---|---|
| **Financial statements captions** | | |
| Opening cash and cash equivalents | 20 | 20 |
| Net cash flows genrated/used for the year | 13 | - |
| **Closing cash and cash equivalents** | **33** | **20** |

# 1.3

## NOTES TO THE FINANCIAL STATEMENTS

# NOTES TO THE FINANCIAL STATEMENTS

## Part A - Accounting policies

### A.1 - GENERAL PART

#### SECTION 1 - Statement of compliance

Pursuant to Regulation (EC) 1606 of 19 July 2002, the Company has prepared these financial statements as at and for the year ended 31 December 2018 in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission and adopted by the Italian legislature with Italian Legislative Decree 38/2005.

The company applied the IFRS enacted at 31 December 2018 and Bank of Italy's instructions of 22 December 2017 for the preparation of the Financial Statements of IFRS financial intermediaries other than banking intermediaries.

It did not make any departures from the IFRS.

#### SECTION 2 - Basis of presentation

The Financial Statements as at 31 December 2018 are made up of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Cash Flows Statement and the Explanatory Notes which include the criteria used for their preparation, accompanied by the relative comparative information. The Financial Statements also include the Directors' Report on operations, company's performance and the Company's financial and capital situation.

The Financial Statements as at 31 December 2018 are prepared using the Euro as its accounting currency and the amounts shown in the financial statements as well as in the Exploratory Notes are expressed in Euros.

The Financial Statements as at 31 December 2018 are prepared applying 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 company 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 Financial Statements and the Notes present, in addition to the amounts relative to the reference period, also corresponding data for the previous year figures as at 31 December. 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 company's financial position and results of operations.

The accounting standards adopted by the Financial statements as at 31 December 2018 have changed compared to those adopted for the Financial Statements as at 31 December 2017 with reference to the classification, recognition, measurement and cancellation of financial assets and liabilities, and the methods for the recognition of revenues.
These changes derive essentially from the compulsory application as from 1 January 2018 of the following financial information international standards:
- IFRS 9 "Financial instruments", issued by IASB on July 2014 and adopted by the European Commission with Regulation 2067/2016, which has partially replaced IAS 39 relative to their regulations for the classification and measurement of financial instruments, as well as the relative process of impairment;
- IFRS 15 "Revenue from Contracts with Customers", adopted by the European Commission with Regulation 1905/2016, which has annulled and replaced IAS 18 "Revenue" and IAS 11 "Construction Contracts".

In view of what indicated above, the Financial Statements as at 31 December 2018 provide detailed information on the Company's new accounting policies and an analysis of the main balance-sheet items.

The Company has decided to use the option provided by accounting standards of not recalculating comparative data. Consequently, the transition date to the new standard is 1 January 2018 and the impact at the date of transition was determined on a cumulative basis. Impacts for the purposes of IFRS 15 were determined with reference only to the contracts that had not been completed as the date of transition.

Reference is made to the specific section "First time adoption IFRS 9 and IFRS 15", where reconciliation statements are reported to illustrate in detail the reclassification made between the previous items of the official schedules and the new official schedules indicated by the "Instructions to IFRS intermediaries other than banking intermediaries", issued by the Bank of Italy, in addition to the impacts deriving from the first application of the new accounting standards.

The following table shows the new standards or amendments with relative approval regulations. Their application is compulsory as from 1 January 2019 (for companies whose reference period is the calendar year) or later.

| Date of approval | | Standard/Interpretation | Year of application |
|---|---|---|---|
| 31/10/2017 | IFRS 16 | Leases | 2019 |
| 22/03/2018 | Amendment to IFRS 9 | Financial Instruments: Prepayment features with Negative compensation | 2019 |
| 23/11/2018 | IFRS 23 | IFRIC 23 Uncertainty over Income Tax Treatments | 2019 |

The following table shows the latest new standards or amendments whose application is compulsory as from 1 January 2018.

| Date of approval | Documents |
|---|---|
| 07/02/2018 | Annual Improvements to IFRS Standards 2014-2016 Cycle |
| 26/02/2018 | Amendments to IAS 40: Transfers of Investment Property |
| 14/03/2018 | Amendment of IAS 40: Real estate investments |
| 28/03/2018 | IFRIC 22 Foreign Currency Transactions and Advance Consideration |

The new standards indicated above have no significant impact on the Financial Statements of Nexi Payments SpA.

The following table shows the new standards or amendments with relative approval regulations. Their application is compulsory as from 1 January 2019 (for companies whose reference period is the calendar year) or later.

| Date of approval | | Standard/Interpretation | Year of application |
|---|---|---|---|
| 31/10/2017 | IFRS 16 | Leases | 2019 |
| 22/03/2018 | Amendment to IFRS 9 | Financial Instruments: Prepayment features with Negative compensation | 2019 |
| 23/11/2018 | IFRS 23 | IFRIC 23 Uncertainty over Income Tax Treatments | 2019 |

With reference to IFRS 16, which was approved in 2016 and whose application is compulsory as from 1 January 2019, during 2018 a project for the transition to this standard was initiated which highlighted the following types of contract falling within the application scope of IFRS 16:
- Real estate leasing
- Company car leasing
- ICT equipment leasing and ICT outsourcing.

This new accounting standard, in fact, introduces for lessees a single accounting model for operative leases and financial leases which must also be applied to all leasing contracts. More specifically, the lessee must record:
- under "assets", the Right of use of the contract's asset which will generate depreciation and amortisation expenses in the income statement;
- under "liabilities, the Debt for the lease, representative of the obligation to pay leasing instalments. This liability will generate the recording in the income statement of interest expense according to the logic of amortised cost.

The opening value of the asset for the right of use includes, in addition to the value of the liability of the leasing, the direct transaction costs, the fees paid in advance, the cost for the removal and restoration of the asset and the leasing incentives received by the lessor.
Furthermore, IFRS 16 establishes specific rules to be followed in case of changes in the parameters of estimation used initially.

The Group decided, when first applying IFRS 16, not to proceed to the recalculation of the comparative data (so-called notified retrospective application) with the consequence that initial impacts will be recognised in the opening shareholders' equity as at 1 January 2019. Furthermore, for the purpose of measurement of the right of use, the Group has decided to opt for the following practical expedients:
- possibility to allocate the right of use value equivalent to that of the leasing liability;
- determine the value of the leasing liability, on the basis of the discount rate at the date of the first application of the standard;
- exclude initial direct costs in the measurement of the asset for the right of use.

In view of these options, no significant impacts on the Company's shareholders' equity are expected when first applying IFRS 16. These estimates could be subject to amendment because:
- the Group has not yet completed the tests on the new electronic system dedicated to the management of these contracts;
- accounting choices could be modified up to the date of publication of the first 2019 report.

The following table shows the standards for which amendments have been issued which have not yet been adopted by the European Union.

| IASB documents | IASB date publication |
|---|---|
| IFRS 17: Insurance contract | 18/05/2017 |
| Amendment to IAS 28: Long term Interests in Associates and Joint Venture | 12/10/2017 |
| Annual Improvements to IFRS: 2015-2017 Cycle | 12/12/2017 |
| Amendment to IAS 19: Plan Amendment, Curtailment of Settlement | 07/02/2018 |
| Amendments to References to the Conceptual Framework in IFRS Standards | 29/03/2018 |
| Amendment to IFRS 3 Business Combinations | 22/10/2018 |
| Amendments to IAS 1 and IAS 8: Definition of Material | 31/10/2018 |

As none of these has been approved by the European Commission, they have not had an impact on the preparation of the financial statements.

## Content of the financial statements

### Statement of financial position, income statement

The drafts of the statement of financial position and of the income statement include captions, subcaptions and further additional information. Revenue is shown without a sign while costs are shown with a minus sign in the income statement.

### Statement of comprehensive income

The statement of comprehensive income, starting with the profit (loss) for the year, details the income components recognised as a counter-entry in the valuation reserves, net of the related tax effect, in compliance with international accounting standards.

Comprehensive income is represented by providing separate evidence of income components that will not in future be fed into the income statement and those that may subsequently be reclassified into the profit (loss) for the year when specific conditions occur.

Negative amounts are preceded by a minus sign.

### Statement of changes in equity

The statement of changes in equity, which shows changes in equity during the reference period, is split between share capital, equity-related reserves, income-related reserves, valuation reserves and the profit (loss) for the year. The company 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 have 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.

## Content of the Explanatory Notes

The Explanatory Notes include the information required by Bank of Italy's instructions for the preparation of financial statements by IFRS intermediaries other than banking intermediaries and the additional information required by the IFRS.

## SECTION 3 - Events after the reporting period

No significant events occurred after the reporting period.

## SECTION 4 - Other aspects

KPMG SpA audits the financial statements.

# A.2 - KEY FINANCIAL STATEMENTS CAPTIONS AT 31 DECEMBER 2018

## Evaluation criteria

### Financial assets measured at fair value with impact on overall profitability

#### Classification criteria

At the closing date, this category only includes the capital instruments other than those held for trading for which the Company has applied the option of measuring these instruments at fair value with impact on the overall profitability.
In fact non-derivative financial assets held within the Held to Collect and Sale business model do not have a balance at the closing date because subject to sale/purchase on a daily basis in the context of a factoring contract.

According to the general regulation established by IFRS 9 on the reclassification of financial assets (with the exception of equity-linked instruments, for which reclassification is not allowed), reclassification to other categories of financial assets is not allowed unless the Company amends its own business model for such financial assets. In these cases, which should be very infrequent, financial assets can be reclassified from those measured at fair value, with impact on overall profitability, into one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value with impact on the income statement). The transfer value is represented by the fair value at the time of reclassification and the effects of the reclassification are applied on a forward basis from the date of reclassification. In case of reclassification of the category in question to that of amortised cost, the accumulated profit (loss) registered in the valuation reserve is adjusted to the fair value of the financial asset at the date of reclassification. On the other hand, in case of reclassification in the category of value with impact on the income statement, the accumulated profit (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the year.

#### Recognition

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

#### Measurement

Capital instruments are measured at fair value and the amounts recognised in a counter-entry in the shareholders' equity (Comprehensive income statement). Dividends are recognised in the profit (loss) for of the year, while impairment and profits and losses deriving from sales are not recognised in the income statement.
Fair value is determined on the basis of criteria already illustrated in section A4 - Information on fair value.

### 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.

In particular, sold financial assets are derecognised when the entity retains the contractual rights to receive the asset's financial flows, but subscribes the simultaneous obligation to pay such cash flows and only such cash flows, without significant delays in favour of third parties.

With reference to transferred receivables in the context of a factoring contract without recourse, which is then derecognised, the result of the transfer equal to the difference between the carrying value and sell price is accounted under caption "100 Profit/loss from transfer or repurchase of financial assets measured at fair value with impact on overall profitability" of the income statement.

## Financial assets measured at amortised cost

### Classification criteria

This category excludes non-derivate financial assets held in the Held to Collect business model whose contractual terms generate cash flows that are exclusively payments of capital and interests (Solely Payments of Principal and Interest, criterion hereinafter referred to as "SPPI").

According to the general regulations established by IFRS 9 on the reclassification of financial assets, reclassification to other categories of financial assets is not allowed unless the Company changes its own business model for the management of such financial assets. In these cases, which should be very infrequent, financial assets can be reclassified from those measured at fair value, with impact on overall profitability, into one of the other two categories established by IFRS 9 (Financial assets measured at fair value with impact on overall profitability or Financial assets measured at fair value with impact on the income statement). The transfer value is represented by the fair value at the time of reclassification and the effects of the reclassification are applied on a forward basis from the date of reclassification. Profits or losses resulting from the difference between the amortised cost of the financial asset and the relative value are recognised in the income statement in case of reclassification between Financial assets measured at fair value with impact on the income statement and Shareholders' equity, in the specific valuation reserve, in case of reclassification between Financial assets measured at fair value with impact on overall profitability.

### Recognition

Financial assets measured at amortised cost are initially recognised at the date of signature of the agreement, which is usually the date of issue, at the fair value of the financial instrument, which normally corresponds to the amount issued inclusive of direct transaction costs.

## Measurement

After initial recognition, the assets recognised under this item are measured at amortised cost using the effective interest method.

Financial assets measure at amortised cost are subject to impairment at every reporting date. In particular, the impairment rules described below are applied also to commitments for funding and to financial guarantee contracts issued.

For these financial instruments the impairment is determined on the basis of the concept of expected loss. The application of the impairment model requires a classification of financial instruments into three stages depending on whether there has been a significant increase in credit risk compared to the initial recognition. For each stage a different recognition level is applied. In particular:
- Stage 1: includes performing financial instruments that have not registered a significant increase in the risk of credit compared to the initial recognition or financial instruments that present a low risk of credit at the reference date. For these instruments, value adjustment is estimated on the loss of credit expected in the following 12 months;
- Stage 2: includes performing financial instrument that have shown a significant increase in credit risk compared to the initial recognition. For these instruments, impairment is measured on the basis of expected losses on the expected residual duration;
- Stage 3: includes impaired financial instruments. For these instruments, impairment is measured on the basis of expected losses on the expected residual duration. Impaired assets include financial assets classified as non-performing loans, unlikely to pay o or past due for more than 90 days in accordance with the regulations issued by the Bank of Italy, in line with IAS/IFRS and the EU Regulatory provisions.

In the estimates of the expected losses indicated above, the Company incorporates, in addition to all historical statistical information, all the information available at the reference date, including provisional information on the potential worsening of historical losses registered.

Impairment losses are recognised in net value adjustments in the income statement.

The value of impaired debt instruments is reset to the original value in previous years where the reason for the value impairment no longer applies, as long as this measurement is objectively linked to an event that occurred after the recognition of the value impairment. The reversal of impairments is recognised in the income statement and cannot exceed the amortised cost it would have had, had value impairment not have been recognised.

## Derecognition

Financial assets or parts of financial assets are derecognised when they expire or when contractual rights to financial flows have been transferred, essentially transferring all risks and benefits linked to them.
In particular, sold financial assets are derecognised when the entity retains the contractual rights to receive the asset's financial flows, but subscribes the simultaneous obligation to pay such cash flows and only such cash flows, without significant delays in favour of third parties.

## Hedging transactions

### Classification criteria

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

Hedging instruments try to mitigate potential recognisable losses on a specific financial instrument or group of financial instruments, attributable to a specific risk, compensating for it with recognisable gains on a different financial instrument or group of financial instruments.

The following types of hedging instruments recognised by IFRS 9 are used:
- fair value hedging instruments, with the objective of hedging the exposure to variations of fair value (attributable to different risk categories) of assets and liabilities recognised in the financial statements, or part of them; this type of hedge instrument is used to hedge exposure to change in fair value of a specific asset, attributable to exchange and price risk;
- cash flows hedging instruments, with the objective to hedge exposure to future cash flow variations attributable to particular risks associated to balance-sheet items. This type of hedging instrument is essentially used to neutralise the exchange risk arising from highly probable future transactions.

As established by IFRS 9, derivative instruments are designated as hedging instruments on condition that the relationship between the instrument hedged and the hedging instruments is formally documented and satisfies the IFRS 9 requirements in relation to hedge effectiveness.

### Recognition

Hedging derivative instruments are recognised at fair value at the transaction date.

### Measurement

Hedging derivatives are recognised at fair value. More specifically in the case of:
- Hedging at fair value: the outstanding hedging derivative is represented by a hedging instrument destined to hedge an equity instrument for which the Company has chosen to submit changes in fair value in the Statement of comprehensive income.
  Consequently, both the hedged instrument and the hedging instrument are measured at fair value with counter-entry in the Statement of comprehensive income.
- Cash flow hedging: hedging instruments are represented by US dollars deposits held with the objective of hedging the exchange risk relative to the anticipated purchase of tangible assets. Consequently, the exchange effect deriving from the increase in Euro value of the deposit, classified under Financial assets at amortised cost, is recognised in shareholders' equity (cash flow hedge reserve). When the future transaction takes place, these amounts are removed from the cash flow hedge reserve and included in the accounting value of the asset acquired.

### Derecognition

If the test of hedging effectiveness is not met, the objective of management of the underlying risk in relation to the hedging is amended. The hedging operation is discontinued and the derivative instrument is classified under trading activities.

Moreover, the hedging transaction is discontinued when:
- the derivative instrument expires;
- the hedging instrument is cancelled;
- hedged items are cancelled.

## Tangible assets (for business use or held for investment)

### Classification criteria

Tangible assets include land, owner-occupied properties, furniture and fittings, precious artistic assets, POS and ATM, electronic machinery and equipment of any type that is supposed to be used for more than one financial year.

Tangible assets held for use in production or for the provision of goods and services are classified as "assets held for business purposes" according to IAS 16. Properties held for the purpose of investment (to receive lease rentals or for the appreciation of the invested capital) are classified as "asset held for investment" according to IAS 40.

### 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.

Extraordinary maintenance expenses which result in any increase of future economic benefits are allocated to an increase in the value of assets if the criteria for capitalisation are met, while other ordinary maintenance costs are recognised in the income statement.

### Measurement

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

Properties held for investment, recognised in accordance with IAS 40, are valued at cost net of depreciation.

The depreciable value of property, equipment and machinery equals their cost as the residual value after depreciation is not deemed to be significant. Depreciation is charged systematically on a straight-line basis over the asset's 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:
- owner-occupied buildings: 33 years max;
- electronic office equipment: 5 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 company tests the assets for impairment at every reporting date if there are indications to demonstrate that assets' value might have been impaired. 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.

## Intangible assets

### Classification criteria

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.

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:
- the cost attributable to the intangible asset during its development can be measured reliably;
- there is the intention, the availability of financial resources and the technical ability of making the intangible asset available for use or sale;
- the future economic benefits to be generated by the asset can be demonstrated.

Furthermore, there are intangible assets linked to customers represented by the valorisation, on occasion of operations of aggregation, of contracts with customers and of stable relationships, again with customers.

### 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.

Software development capitalised costs only comprise the costs directly attributable to the development process.

Intangible fixed assets deriving from the allocation of goodwill linked to transactions operations of acquiring books, have a useful life estimated in an analytical way for each operation, equal to:

- Customer Contracts: on the basis of contractual terms;
- Customer relationship: around 20 years.

Their residual value is taken to be nil.

The company tests the assets for impairment at every reporting date if there are any indications that demonstrate that intangible assets might have suffered an impairment of value. 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 company 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.

The goodwill deriving from by business combinations is allocated to the cash generating units ("CGU") or groups of CGUs that it is expected will benefit from the combination synergies. The recoverable value of an asset or CGO is the greater of its value in use ("VIU") and its fair value less costs of disposal ("FVLCD"). Impairment is recognised if the accounting value of the CGU exceeds its recoverable value. Goodwill value impairments are recognised in the consolidated income statement and are not reversed in subsequent financial years.

## Equity investments

Equity investments in subsidiary and associates are recognised and measured at cost, equal to the fair value of the amount paid, except for subsequent write-downs for impairment.

There were no situations in which it was necessary to carry out special valuations or make significant assumptions in order to establish the existence of control on subsidiaries and of significant influence on associates.

## Non-current assets all groups of assets/liabilities held for sale

Non-current assets or groups of assets/liabilities which has been decided to dispose of and whose sale is deemed to be highly probable are classified under the assets item "Non-current assets and groups of assets for disposal" and the liabilities item "Liabilities associated to assets held for disposal".

These assets/liabilities are recognised at the lesser of the carrying value and their fair value less costs of disposal.

Revenues and charges (net of tax), attributable to groups of assets held for disposal or recognised as such during the financial year, are listed in a separate item in the income statement.

## Current and deferred taxes

The income tax provision is calculated on the basis of an estimate of the current and deferred tax expense and income.

Current and deferred taxes are recognised under the caption "Income taxes" of the income statement unless they relate to gains or losses which are recognised directly in shareholders' equity.

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 100.b) for deductible temporary differences and carry-forward tax losses that will reverse in subsequent periods when it is deemed probable that a taxable profit will be made in the same period, according to its business plans, against which it can offset the deferred tax asset.

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.

Assets and liabilities recognised for deferred taxes are remeasured regularly to reflect any changes in the tax laws or rates or any subjective situations in which the company may find itself.

## Financial liabilities measured at amortised cost

### Classification criteria

An issued financial instrument is classified as liability when, on the basis of the substance of the contractual agreement, it is deemed to carry a contractual obligation to pay money or other financial assets to another subject.

### Recognition

Liabilities are recognised at the date of signature of the contract, which normally coincides with the time of receipt of the collected amounts and the issue of the debt securities.

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.

## Financial liabilities held for trading

This caption includes the negative fair value of derivatives held for trading.

All trading liabilities are measured at fair value with recognition of the result of the measurement to the income statement.

Measurement and recognition criteria are similar to those described in reference to "Financial assets at fair value against the income statement".

## Employee severance indemnity

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.

As payment is certain but not the date of payment, they are assimilated to defined contribution plans and classified as post-employment benefits.

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. Earnings and actuarial losses are recognised to the comprehensive income statement while interest accrued or net liabilities are recognised to the income statement.

## Provisions for liabilities and charges

Provisions for risks and charges include accruals made for past events for which it is probable that an outflow of resources will be required when a reliable estimate can be made of the amount.
At each reporting date, the company checks the provisions and they are released in whole or in part to the income statement when it is no longer probable that an outflow of resources will be necessary.
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 are recognised in profit or loss.

## 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.

## Other information

### Income statement account

**Interest income and expense**
Interest income and expense are recognised to the income statement on all instruments measured at amortised cost, using the effective interest method, including omissions and direct transaction costs into the calculation.

**Commission income and other income for services**
Commission income other than that included in the amortised cost and other income for services rendered are recognized when the service obligation has been fulfilled by transferring the service to the customer.

In application of IFRS 15 the service is transferred to the customer and revenues can be recognized:
- at a point in time, when the entity satisfies a performance obligation transferring the promised good or service to the customer or
- over time, when the entity satisfies a performance obligation transferring the promised good or service to the customer, time by time. The good is transferred when, or in the period during which, the control is performed.

Specifically:
- membership dues are recognised in income statement in line with the credit cards' expiry date;
- fee and commission income from merchants is recognised on the basis of the settlement date of the cardholders' expenditure;
- up front revenues , connected with the start up of new customers, new products or related to further changes to contracts without important variances, are deferred for the duration of the contracts;
- recurring revenues (mainly POS and ATM maintenance and leasing, processing services), are recognized for all the duration of the contracts;
- in application of IFRS 15, the value of commissions is adjusted to take account of the fair value of prizes linked to the loyalty programme.

The fair value is based on the average unit value of the points compared to the market value of the prizes including VAT and shipping costs, in order to bring the fair value back at the value perceived by the customer. The unit fair value is applied to the number of points in circulation net of points that, based on the analyzes carried out, are expected will not be redeemed (based on redemption estimates).
Deferred commissions are recognized in the income statement based on the redemption of the points.

Commissions, measured at amortized cost to calculate the effective interest rate, are excluded, which are recognized as interest.

**Fees and commissions expenses**
Fees and commission expenses, other than those included in the amortised cost, are recognised when they have been incurred or when revenues are recognised.

**Dividends**
Dividends are recognised to the income statement when their distribution is approved.

**Other income and costs**
Other revenue is recognised when the service obligation has been met by transferring the service the customer.

Costs for the execution of the contract with the customer are recognised on a straight line in relation to the useful life of the underlying contracts.

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

The 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 instruments measured at fair value (including derivatives) unquoted on active markets;
- measurement of financial assets measured at amortised cost and commitments to disburse funds;
- measurement of intangible fixed asset;
- measurement in tangible fixed assets;
- quantification of accruals to provisions for risks and charges and liabilities for loyalty programmes;
- quantification of deferred taxed;
- measurement of financial instruments.

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 the income statement of the period of the change and, if the change affects future periods, also in future periods.
The current financial period is not characterised by significant changes to the accounting estimates already applied to the preparation of a financial statements as at 31 December 2017.

## A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

No transfers between financial asset portfolios took place with reference to the Financial statements closed as at 31 December 2018.

## A.4 - FAIR VALUE DISCLOSURE

The IAS/IFRS International accounting standards require financial products classified as "Financial assets measured at fair value with intact on overall profitability" and "Financial assets measured at fair value" to be measured at fair value.

The IFRS 13 accounting standard regulates the measurement of fair value and related disclosure.

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) at the measurement date.

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 measurement method designed for a financial instrument is consistently adopted over time and is changed only following significant relevant variations in market conditions or subjective to the issuer of the financial instrument.

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 medium-long-term fixed rate assets and liabilities: discounting of future cash flows at market rate and adjusted to include the credit risk;
- for floating-rate on demand assets with a short term, 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 liabilities and those with a short-term fixed rate, the recognised value is considered to be a good approximation of fair value for the reasons indicated above;
- for medium-long-term fixed rate liabilities: discounting of future cash flows at market rate; No account is taken of the variation of own credit spread, given its immateriality.

## Qualitative disclosure

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

Recurring valuations assets and liabilities mainly refer to Visa Inc. shares hold by the company and to derivatives instruments held in order to reduce the price and exchange rate risk arising from those assets.
For those instruments, for which there are no prices directly observable on active markets, the fair value has been determined as follows:
- Unquoted equity instrument: the fair value of Visa Inc Class C shares hold by the Company has been determined based on the market price of Visa Inc Class A shares;
- Derivatives OTC: these are measured on the basis of models that are in accordance with market practices (Black&-Scholes) and using information based on market data. Since these are derivatives under CSA agreement, the counterparty risk is mitigated by the daily collateral settlement with the counterparty.

### A.4.2 Measurement processes and sensitivity

Not applicable due to the absence of level 3 financial instruments.

### 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

None.

## Qualitative 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

(Amount in Euro)

| Assets/Liabilities measured at fair value | 31.12.2018 | | | 31.12.2017 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| 1. Financial assets measured at fair value through profit or loss | | | | | | |
| a) Financial assets held for trading | | | | | | |
| b) Financial assets designated at fair value | | | | | | |
| c) Financial assets mandatorily measured at fair value | | | | | | |
| 2. Financial assets measured at fair value through OCI | | 100,114,393 | | | 83,174,012 | |
| 3. Hedging derivatives | | | | | | |
| 4. Property, equipment and investment property | | | | | | |
| 5. Intangible assets | | | | | | |
| **Total** | | **100,114,393** | | | **83,174,012** | |
| 1. Financial liabilities held for trading | | 3,153,693 | | | 1,051,432 | |
| 2. Financial liabilities measured at fair value | | | | | | |
| 3. Hedging derivatives | | 16,556,888 | | | 5,520,019 | |
| **Total** | | **19,710,581** | | | **6,571,451** | |

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

There was no transfer between categories of financial assets and liabilities at level 1, level 2 or Level 3.

Increase in value of financial assets at fair value with impact on overall profitability, linked to Visa Inc shares, is counter-balanced by the increase in negative fair value of the derivative instrument hedging the price and exchange risk linked to Visa Inc shares.

#### A.4.5.2 Changes in assets measured at fair value on a recurring basis (level3)

None.

#### A.4.5.3 Changes in liabilities measured at fair value on a recurring basis (level3)

None.

### 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

(Amount in Euro)

| Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis | 31.12.2018 | | | | 31.12.2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | L1 | L2 | L3 | BV | L1 | L2 | L3 |
| 1. Financial assets measured at amortized cost | 1,392,997,371 | | 1,392,064,735 | 932,636 | 2,572,233,316 | | 2,572,233,316 | 385,391 |
| 2. Property, equipment and investment property held for investment purposes | 6,616,350 | | 7,670,000 | | 5,783,409 | | 6,790,000 | |
| 3. Non-current assets and groups of assets held for sale | | | | | | | | |
| **Total** | **1,399,613,722** | | **1,399,734,735** | **932,636** | **2,578,016,725** | | **2,579,023,316** | **385,391** |
| 1. Financial liabilities measured at amortized cost | 1,046,115,048 | | 1,046,115,048 | | 2,298,506,245 | | 2,298,506,245 | |
| 2. Liabilities held for sale | | | | | | | | |
| **Total** | **1,046,115,048** | | **1,046,115,048** | | **2,298,506,245** | | **2,298,506,245** | |

Notes:
VB=budget value
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

None. Nexi Payments does not engage in transactions of this type.

# Part B - Notes to the statement of financial position assets

(Amount in Euro)

## ASSETS

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

| Captions/Amounts | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| 1. Cash and revenue stamps | 11,774 | - |
| 2. Franking machines | 20,461 | 20,461 |
| **Total** | **32,235** | **20,461** |

The balance comprises postal accounts.

### SECTION 3 - Financial assets measured at fair value with impact on overall profitability - Caption 30

#### 3.1 FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY: CATEGORY COMPOSITION

| | Total 31.12.2018 | | | Total 31.12.2017 | | |
|---|---|---|---|---|---|---|
| Captions/Amounts | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. Debt instruments** | | - | | | | |
| 1.1 Structured instruments | | | | | | |
| 1.2 Other debt instruments | | | | | | |
| **2. Equity securities** | | **100,114,393** | | | **83,174,012** | |
| **3. Financing** | | - | | | | |
| **Total** | - | **100,114,393** | - | - | **83,174,012** | - |

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

### 3.2 FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY: COMPOSITION BY DEBTORS/ISSUERS

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **1. Debt instruments** | **-** | **-** |
| a) Public Administration | - | |
| b) Banks | - | |
| c) Other financial companies | - | |
| of which: insurance agencies | - | |
| d) Non-financial companies | - | |
| **2. Equity securities** | **100,114,393** | **83,174,012** |
| a) Public Administration | - | |
| b) Banks | 59,729 | |
| c) Other financial companies | 100,012,502 | 83,135,278 |
| of which: insurance agencies | - | |
| d) Non-financial companies | 42,162 | 38,734 |
| **3. Financing** | **-** | **-** |
| a) Public Administration | - | |
| b) Banks | - | |
| c) Other financial companies | - | |
| of which: insurance agencies | - | |
| d) Non-financial companies | - | |
| e) Families | - | |
| **Total** | **100,114,393** | **83,174,012** |

The caption "Non-financial corporations" relates to financial assets on which the Group does not exercise control, joint control or significant influence. In particular, the item is composed almost entirely by preferred Visa Inc shares assigned following the disposal of the equity investment in Visa Europe. With regard to this, in September 2017, a hedging instrument for the price and exchange risks deriving from the Visa shares in portfolio was put in place.

The increase is due to the revaluation of the Visa Inc shares.

# SECTION 4 - Financial assets measured at amortised cost - Caption 40

## 4.1 FINANCIAL ASSETS MEASURED AT AMORTISED COST: COMPOSITION BY RECEIVABLES WITH BANKS

| Breakdown | Total 31.12.2018 | | | | | | Total 31.12.2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance sheet value | | | Fair Value | | | Balance sheet value | | | Fair Value | | |
| | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 |
| **1. Deposits and current accounts** | **370,408,305** | | | | **370,408,305** | | **33,581,541** | | | | **33,581,541** | |
| **2. Financing** | **53,150,800** | | | | **53,150,800** | | | | | | | |
| 2.1 Repurchase | - | | | | - | | | | | | | |
| 2.2 Financial leasing | - | | | | - | | | | | | | |
| 2.3 Factoring | - | | | | - | | | | | | | |
| - with recourse | - | | | | - | | | | | | | |
| - without recourse | - | | | | - | | | | | | | |
| 2.4 Other financing | 53,150,800 | | | | 53,150,800 | | | | | | | |
| **3. Debt instruments** | **-** | | | | **-** | | | | | | | |
| 3.1 Structured instruments | - | | | | - | | | | | | | |
| 3.2 Other debts intstruments | - | | | | - | | | | | | | |
| **4. Other assets** | **4,643,484** | | | | **4,643,484** | | **22,117** | | | | **22,117** | |
| **Total** | **428,202,589** | | | | **428,202,589** | | **33,603,658** | | | | **33,603,658** | |

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

In 2018 the item "Deposits and current accounts" included the liquidity of prepaid cards in relation to the IMEL (Electronic Money Institute) activity carried out on these cards in the context of the Payment business unit conferred to Nexi Payments by DepoBank in the context of the Group's reorganisation. This liquidity, equal to Euro 45.9 million, was deposited in a restricted current account with DepoBank which can be exclusively used for prepay cards transaction.
The item "Other assets" referred to restricted accounts linked to the management of factoring operations on ordinary cards balances (Euro 53,151 thousand).

## 4.2 FINANCIAL ASSETS MEASURED AT AMORTISED COST: COMPOSITION OF RECEIVABLES WITH FINANCIAL COMPANIES

| | Total 31.12.2018 | | | | | | Total 31.12.2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance sheet value | | | Fair Value | | | Balance sheet value | | | Fair Value | | |
| Breakdown | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 | Primo e secondo stadio | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 |
| **1. Financing** | **314,601,047** | | | | **314,601,047** | | **173,233,569** | **-** | **-** | **-** | **173,233,569** | |
| 1.1 Repurchase | - | | | | - | | | | | | | |
| 1.2 Financial leasing | - | | | | | | | | | | | |
| 1.3 Factoring | - | | | | | | | | | | | |
| - with recourse | - | | | | | | | | | | | |
| - without recours | - | | | | | | | | | | | |
| 1.4 Other financing | 314,601,047 | | | | 314,601,047 | | 173,233,569 | | | | 173,233,569 | |
| **2. Debt instruments** | **-** | | | | | | | | | | | |
| 2.1 structured instruments | - | | | | | | | | | | | |
| 2.2 other debts intstruments | - | | | | | | | | | | | |
| **3. Other assets** | **-** | | | | **-** | | | | | | | |
| **Total** | **314,601,047** | | | | **314,601,047** | | **173,233,569** | | | | **173,233,569** | |

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

This item refers mainly to exposure to international networks. These positions relate to daily balance settlements on Visa-MasterCard networks of which Nexi Payments is a direct member and include the advance made by Nexi Payments to its own merchant customers on transactions still to be settled on the networks. All these positions are settled in the space of a few days (generally from 1 to 3 days). These end of year balances are also influenced by the number of festive days straggling the end of the financial year, days in which the settlement systems are closed, determining a greater accumulation of transactions and in consequence greater use of funding lines.

## 4.3 FINANCIAL ASSETS MEASURED AT AMORTISED COST: COMPOSITION OF RECEIVABLE FROM CUSTOMERS

| | Total 31.12.2018 | | | | | | Total 31.12.2017 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Balance sheet value | | | Fair Value | | | Balance sheet value | | | Fair Value | | |
| Breakdown | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 | First and second stage | Third stage | of which: impaired acquired or originated | L1 | L2 | L3 |
| **1. Financing** | **596,929,620** | **185,421** | | | **596,929,620** | **185,421** | **2,316,378,947** | **170,125** | | | **2,316,378,947** | **170,125** |
| 1.1 Financial leasing | - | | | | | | | | | | | |
| of which: without final purchase option | - | | | | | | | | | | | |
| 1.2 Factoring | - | | | | | | | | | | | |
| 1.3 Consumer loans | - | | | | | | | | | | | |
| 1.4. Credit cards | 596,929,620 | 185,421 | | | 596,929,620 | 185,421 | 2,316,378,947 | 170,125 | | | 2,316,378,947 | 170,125 |
| 1.5 Pledges | - | | | | | | | | | | | |
| 1.6 Loans granted in relation to payment services provided | - | | | | | | | | | | | |
| 1.7 Other financing | - | | | | | | | | | | | |
| of which: from execution of guarantees and commitments | - | | | | | | | | | | | |
| **2. Debt instruments** | **-** | | | | | | | | | | | |
| 2.1 structured instruments | - | | | | | | | | | | | |
| 2.2 other debts intstruments | - | | | | | | | | | | | |
| **3. Other assets** | **52,331,479** | **747,215** | | | **52,331,479** | **747,215** | **48,631,752** | **215,266** | | | **48,631,752** | **215,266** |
| **Total** | **649,261,099** | **932,636** | | **-** | **649,261,099** | **932,636** | **2,365,010,698** | **385,391** | | | **2,365,010,698** | **385,391** |

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

The item "Credit Cards" represents the balance at the end of the financial year relative to the amount cumulatively spent up to that date by cardholders during the last operating month and which is debited to the current accounts of these, through partner banks, generally on the 15th of the following month. The balance was significantly reduced in the financial year because, with the finalisation of the reorganisation and with the exit from the banking group, starting from 1 July 2018, Nexi Payments signed a factoring contract for the transfer of receivables deriving from its own extended credit cards issued in agreement with partner credit institutions, which has led to the derecognition of a part of relevant receivables originated by the company. For more information on the factoring operation please refer to section D of these Notes.

## 4.4 FINANCIAL ASSETS MEASURED AT AMORTISED COST: COMPOSITION BY DEBTORS/ISSUERS OF CREDIT TO CUSTOMERS

| | Total 31.12.2018 | | | Total 31.12.2017 | | |
|---|---|---|---|---|---|---|
| **Captions/Amounts** | **First and second stage** | **Third stage** | **of which: impaired acquired or originated** | **First and second stage** | **Third stage** | **of which: impaired acquired or originated** |
| **1. Debt instruments** | | | | | | |
| a) Public Administration | | | | | | |
| b) Other financial companies | | | | | | |
| of which insurance agencies | | | | | | |
| c) Non-financial companies | | | | | | |
| **2. Financing** | **596,929,620** | **185,421** | | **2,316,378,947** | **170,125** | |
| a) Public Administration | 1,909,032 | | | 2,419,866 | | |
| b) Other financial companies | | | | | | |
| of which insurance agencies | | | | | | |
| c) Non-financial companies | | | | | | |
| d) Families | 595,020,589 | 185,421 | | 2,313,959,081 | 170,125 | |
| **3. Other assets** | **52,331,479** | **747,215** | | **48,631,752** | **215,266** | |
| **Total** | **649,261,100** | **932,636** | **-** | **2,365,010,699** | **385,391** | **-** |

## 4.5 FINANCIAL ASSETS MEASURED AT AMORTISED COST: GROSS VALUE AND OVERALL VALUE ADJUSTMENTS

| | Gross value | | | | Total value adjustments | | | |
|---|---|---|---|---|---|---|---|---|
| | **First stage** | **of which: instruments with low credit risk** | **Second stage** | **Third stage** | **First stage** | **Second stage** | **Third stage** | **Total Partial Write-offs*** |
| Debt instruments | | | | | | | | |
| Financing | 597,956,668 | | | 1,366,070 | 1,027,048 | | 1,180,649 | |
| Other assets | 52,961,500 | | | 4,539,634 | 630,021 | | 3,792,419 | |
| **Total 31.12.2018** | **650,918,168** | | | **5,905,704** | **1,657,069** | | **4,973,068** | |
| **Total 31.12.2017** | **2,366,898,828** | | | **5,227,489** | **1,888,130** | | **4,842,099** | |
| of which: impaired financial assets acquired or originated | X | X | | | X | | | |

* Value to be shown for information purposes only.

## SECTION 7 - Equity investments - Caption 70

### 7.1 EQUITY INVESTMENTS: INFORMATION ON RELATIONSHIPS

| Breakdown | Registered office | Operational headquarter | Partecipation fee % | Availability votes % | Balance Sheet value | Fair value |
|---|---|---|---|---|---|---|
| A. Exclusively controlled companies | | | | | | |
| 1. | | | | | | |
| 2. | | | | | | |
| B. Jointly controlled companies | | | | | | |
| 1. WIN JOIN SOC. CONSORTILE A R.L. | Lecce | Lecce | 24.00 | 24.00 | 48,000 | |
| 2. RS RECORDS STORE SPA | Piacenza | Piacenza | 30.00 | 30.00 | 681,894 | |
| 3. BASSNET Srl | Monteriggioni | Monteriggioni | 49.68 | 49.68 | - | |
| 4. K.Red | Milano | Milano | 50.00 | 50.00 | - | |
| 5. Help Line SpA | Cividale del Friuli/ Milano | Cividale del Friuli /Milano | 1.10 | 1.10 | 10,000 | |
| C. Companies subject to significant influence | | | | | | |
| 1. | | | | | | |
| 2. | | | | | | |
| **Total** | | | | | | |

### 7.2 ANNUAL CHANGES IN EQUITY INVESTMENTS

| | Group holdings | Non-group holdings | Total |
|---|---|---|---|
| **A. Opening balance** | - | | |
| **B. Increases** | **4.739.894** | | |
| B.1 Purchases | 4.000.000 | | |
| B.2 Value gains | | | |
| B.3 Revaluation | | | |
| B.4 Other variances | 739.894 | | |
| **C. Decreases** | **4.000.000** | | |
| C.1 Purchases | 4.000.000 | | |
| C.2 Value gains | | | |
| C.3 Revaluation | | | |
| C.4 Other variances | | | |
| **D. Closing balance** | **739.894** | | |

The item "Acquisitions" refers to the acquisition of the equity investment in Sparkling 18 in April 2018.
The item "Other changes" includes equity investments in affiliated companies acquired through the merger with Bassilichi SpA on 31 December 2018.
Following the merger through incorporation of the affiliated company, which took place on 31 December 2018, whose effect is represented in the decreasing item "Other changes", the balance of the item at the date of closing of the financial year makes therefore exclusive reference to the equity investments in the above mentioned affiliated companies.

## SECTION 8 - Property, equipment and investment property - Caption 80

### 8.1 PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY HELD FOR BUSINESS USE: COMPOSITION OF ASSETS VALUED AT COST

| Assets/Amounts | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **1. Owned** | **103,598,760** | **77,404,927** |
| a) land | 15,862,899 | 13,209,157 |
| b) buildings | 31,555,261 | 19,836,834 |
| c) furniture | 1,068,686 | 928,827 |
| d) electronic system | 52,621,838 | 43,430,109 |
| e) other | 2,490,076 | |
| **2. Under finance lease** | **-** | |
| a) land | - | |
| b) buildings | - | |
| c) furniture | - | |
| d) electronic system | - | |
| e) other | - | |
| **Total** | **103,598,760** | **77,404,927** |
| of which: obtained through enforcement of the guarantees received | | |

There are no impairment indicators on tangible assets such as to carry out an impairment test.

### 8.2 PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY HELD FOR INVESTMENT: COMPOSITION OF ASSETS VALUED AT COST

| | Total 31.12.2018 | | | | Total 31.12.2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance Sheet value | Fair value | | | Balance Sheet value | Fair value | | |
| Assets/Amounts | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Owned** | **6,616,350** | | | | **5,783,409** | | | |
| a) land | 1,317,698 | | | | 743,698 | | | |
| b) buildings | 5,298,652 | | | | 5,039,711 | | | |
| **2. Under finance lease** | | | | | | | | |
| a) land | | | | | | | | |
| b) buildings | | | | | | | | |
| **Total** | **6,616,350** | | **7,670,000** | | **5,783,409** | | **6,790,000** | |
| of which: obtained through enforcement of the guarantees received | | | | | | | | |

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

This relates to the property in Milan, in Via Livraghi, and to the properties acquired in 2018 due to the effect of the merger with Bassilichi, whose fair value was determined on the basis of the assessment of an independent expert.

During the financial year, the property at Assago, Strada Provinciale 1, was disposed of, which gave rise to a capital gain of around Euro 153 thousand.

These investments were recognised on the basis of IAS 40 and include properties held (both owned and leased) to obtain income through their rental or to benefit from returns on capital invested through the effect of their value appreciation on the market.

Properties held for investment are valued at cost net of depreciation.

As at the date of the financial statements, there are no:
- restrictions or limitations to the sale of assets or receipt of rental revenue;
- contractual obligations or commitments for the purchase, construction, development, repair or extraordinary maintenance of these properties.

### 8.6 PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY HELD FOR BUSINESS USE: ANNUAL VARIATIONS

| | Land | Buildings | Furniture | Electronic system | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross opening balance** | **17,362,601** | **58,209,721** | **3,919,998** | **202,119,781** | **-** | **281,612,101** |
| A.1 Total net impairment losses | 4,153,444 | 38,372,887 | 2,991,171 | 158,689,671 | - | 204,207,174 |
| A.2 Net opening balance | 13,209,157 | 19,836,834 | 928,827 | 43,430,109 | - | 77,404,927 |
| **B. Increases** | **3,429,785** | **12,688,678** | **617,681** | **32,244,082** | **-** | **48,980,226** |
| B.1 Purchases | | | 454,742 | 22,204,340 | | 22,659,082 |
| B.2 Capitalized improvement costs | | | | | | - |
| B.3 Reversal of impairment losses | | | | | | - |
| B.4 Fair value gains recognized in: | - | - | - | - | - | - |
| a) equity | | | | | | - |
| b) profit or loss | | | | | | - |
| B.5 Exchange rate gains | | | | | | - |
| B.6 Transfers from investment property | | | - | - | - | - |
| B.7 Other increases | 3,429,785 | 12,688,678 | 162,939 | 10,039,742 | | 26,321,144 |
| - business combinations | 3,429,785 | 12,688,678 | 162,939 | 10,039,742 | | 26,321,144 |
| **C. Decreases** | **-** | **1,746,293** | **477,821** | **20,562,278** | **-** | **22,786,392** |
| C.1 Disposals | | - | 386,094 | 79,208 | | 465,302 |
| C.2 Depreciation | | 1,746,293 | 91,727 | 20,483,070 | | 22,321,090 |
| C.3 Impairment losses recognised in: | - | - | - | - | - | - |
| a) equity | | | | | | - |
| b) profit or loss | | | | | | - |
| C.4 Fair value losses recognized in: | - | - | - | - | - | - |
| a) equity | | | | | | - |
| b) profit or loss | | | | | | - |
| C.5 Exchange rate losses | | | | | | - |
| C.6 Transfers to: | - | - | - | - | - | - |
| a) investments property | | | - | - | - | - |
| b) disposal groups | | | | | | - |
| C.7 Other decreases | | | | | | |
| **D. Net closing balance** | **16,638,942** | **30,779,219** | **1,068,687** | **55,111,914** | **-** | **103,598,762** |
| D.1 Total net impairment losses | 4,153,444 | 40,119,180 | 3,082,898 | 179,172,741 | - | 226,528,264 |
| **D.2 Gross closing balance** | **20,792,386** | **70,898,399** | **4,151,585** | **234,284,655** | **-** | **330,127,025** |
| E. Evaluation at cost | | | | | | |

Purchases in the period relate mainly to the item "electronic equipment" and in particular the POS and ATM sector. "Other increments" related to tangible assets acquired by effect of the merger of Bassilichi, Triveneto and Sparkling 18, on 31 December 2018, as well as those deriving from the payments business unit.

## 8.7 PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY HELD FOR INVESTMENT: ANNUAL VARIATIONS

| | Total | |
|---|---|---|
| | **Land** | **Buildings** |
| **A. Opening balance** | **743,698** | **5,039,711** |
| **B. Increases** | **574,000** | **2,173,000** |
| B.1 Purchases | | |
| B.2 Capitalized improvement costs | | |
| B.3 Reversal of impairment losses | | |
| B.4 Fair value gains | | |
| B.5 Exchange rate gains | | |
| B.6 Transfers from investement property | | |
| B.7 Other increases | | |
| - business combination | 574,000 | 2,173,000 |
| **C. Decreases** | **-** | **1,914,059** |
| C.1 Disposals | | 1,696,347 |
| C.2 Depreciation | | 217,712 |
| C.3 Fair value losses | | |
| C.4 Impairment losses | | |
| C.5 Exchange rate losses | | |
| C.6 Transfers to: | - | - |
| a) investment property | | |
| b) non-current assets held for sale | | |
| C.7 Other decreases | | |
| **D. Closing balance** | **1,317,698** | **5,298,652** |
| E. Fair value evaluation | | |

The item "Sales" refers to the disposal of the property in Assago.

## SECTION 9 - Intangible assets - Caption 90

### 9.1 COMPOSITION OF CAPTION 110: "INTANGIBLE ASSETS"

| | Total 31.12.2018 | | Total 31.12.2017 | |
|---|---|---|---|---|
| **Captions/Measures** | **Assets measured at cost** | **Assets measured at fair value** | **Assets measured at cost** | **Assets measured at fair value** |
| **1. Goodwill** | **584,614,146** | | **438,904,706** | |
| **2. Other intangible assets:** | **251,095,158** | | **161,291,335** | |
| 2.1 Owned | 251,095,158 | | 161,291,335 | |
| - internally generated | - | | | |
| - other assets | 251,095,158 | | 161,291,335 | |
| 2.2 Under finance lease | | | | |
| **Total 2** | **251,095,158** | | **161,291,335** | |
| **3. Assets referred to finance lease:** | | | | |
| 3.1 For which purchase option has not been excercised | | | | |
| 3.2 Withdrawn after termination of lease | | | | |
| 3.3 Other assets | | | | |
| **Total 3** | **-** | | | |
| **4. Assets granted in operating lease** | | | | |
| **Total (1+2+3+4)** | **835,709,304** | | **600,196,041** | |

Goodwill at 31 December 2018 is composed as follows:
- Goodwill linked to operations of acquiring book acquisitions for Euro 461.5 million, which is composed as follows:
  - Euro 438.9 million referred to operations of acquisitions made in 2017 of book acquiring of Monte dei Paschi di Siena and of Deutsche Bank for which the Purchase Price Allocation (PPA) process was completed in June 2018 with the allocation of Euro 126.7 million to a customer relationship. As required by IFRS 3, the effects of the PPA were recognised with retroactive effect from the date of acquisition with the consequent restatement of the 2017 data presented for comparative purposes as described in Annex 2 to the Financial Statements;
  - Euro 22.7 million referred to the operation of acquisition completed in the second half of 2018 for the book acquiring of Banca Carige.
- Goodwill for Euro 123 million, linked to the operations of business combination under common control completed in 2018 in order to complete the Group's restructuring plan as described in Section D of the Notes. In particular, it is composed of Euro 119.7 million of goodwill for the payments business unit and of Euro 3 million for the goodwill relating to Sparkling.

For more information on these aggregation operations, please refer to section D of the Financial Statements.

### 9.2 PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY: ANNUAL VARIATIONS

| | Total Goodwill | Total Other intangible assets | Total 31.12.2018 |
|---|---|---|---|
| **A. Opening balance** | **438.904.706** | **161,291,335** | **600,196,041** |
| **B. Increases** | **145.709.441** | **119,303,916** | **265,013,357** |
| B.1 Purchases | - | 87,638,903 | 87,638,903 |
| B.2 Reversal of impairment losses | - | - | - |
| B.3 Fair value gains | - | - | - |
| - equity | - | - | - |
| - profit or loss | - | - | - |
| B.4 Other increases | 145.709.441 | 31,665,013 | 177,374,454 |
| - business combination | 145.709.441 | 31,665,098 | 177,374,539 |
| **C. Decreases** | **-** | **29,500,093** | **29,500,093** |
| C.1 Disposals | - | - | - |
| C.2 Depreciation | - | 26,333,687 | 26,333,687 |
| C.3 Impairment losses | - | - | - |
| - equity | - | - | - |
| - profit or loss | - | - | - |
| C.4 Fair value losses | - | - | - |
| - equity | - | - | - |
| - profit or loss | - | - | - |
| C.5 Other decreases | - | 3,166,406 | 3,166,406 |
| **D. Closing balance** | **584.614.146** | **251,095,158** | **835,709,305** |

Increases in goodwill reflect the operations of business combination completed in 2018 as described above.

The increases in "intangible assets: other variations" reflect:
- Euro 31.6 million of assets acquired by effect of the operations of business combination completed in 2018.
- Euro 87.6 million for investments, mainly in ICT, made by the company during the financial year.

## Intangible assets: impairment test

Nexi Payments has performed the impairment test on intangible assets with an indefinite useful life.

The impairment test was performed, consistently with the Consolidated financial statements of the parent company, Nexi SpA, at the level of the entire legal entity of Nexi Payments.

The allocation of goodwill recognised in the only CGU, Nexi Payments, was carried out in accordance with a process of integration of acquired assets (books acquiring, Sparkling company and goodwill for the Payments business unit). These assets no longer represent separate CGUs as they have effectively been incorporated into the Money CGU Nexi Payments.

It is also noted that the finite useful life assets have been subjected to the impairment test, as assets already included in the CGUs described above, linked to customer relationships deriving from Purchase Price Allocation processes carried out with reference to the acquisition of the MPS and DB business units.

In summary, the assets subject to impairment test, as explained, all allocated to the Money CGU Nexi Payments, report the following accounting values:

| Type of activity | Name | Accounting value |
|---|---|---|
| Goodwill | CGU Monetic Nexi Payments | 584,614 |
| Intangible assets | CGU Monetic Nexi Payments | 113,995 |
| **Total** | | **698,609** |

The recoverable value of a CGU is the greater of:
- Fair value less costs of disposal;
- Value in Use.

The estimate of Value in Use has been calculated by applying the cash flows discounted in the unlevered version (Discounted Cash Flow Method or "DCF") which was developed starting from the 2019-2023 Business Plan, approved by the Board of Director of the Parent Company, from which that of Nexi Payments has been extracted.

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

| Capital costs | |
|---|---|
| Risk free rate 31.12.2018 | 2.7% |
| Equity risk premium | 5.7% |
| Beta median | 0.98% |
| Ke | 8.3% |
| Kd after tax | 1.9% |
| **WACC** | **7.1%** |
| **Grown rate (g rate)** | **1.5%** |

They have been determined as follows:
- Risk free: gross yield of Italian BTP10Y at 31 December 2018 (Source: Info provider);
- Beta: the observations in consideration referred to a company's sample and relate to a period of 5 years with a monthly frequency;
- 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 Fair Value determination was carried out applying the trading multiples method, with particular reference to the EV/EBITDA and EV/EBIT multiple of a panel of comparable companies.

The checks carried out through the impairment test described above have highlighted the total recoverability of the book value.

Sensitivity analysis was carried out for variations of the WACC and of the growth rate equal to + or - 0.50%. These analyses have confirmed that there are no impairment situations in any of the scenarios considered.

## SECTION 10 - Tax assets and tax liabilities - Caption 100 of assets and Caption 60 of liabilities

With reference to the 2018 financial year, Nexi Payment is not part of any tax consolidation while, up to the 2017 financial year, it was included in the tax consolidation of the then parent company Depobank SpA.

### 10.1 "TAX ASSETS: CURRENT AND DEFERRED": COMPOSITION

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **Current Tax Assets** | **6,912,517** | **18,115,162** |
| - IRES: advanced payments | | |
| - IRES: of the year | | |
| IRES Balance | | |
| IRAP Balance | 6,912,517 | 18,115,162 |
| **Total** | **6,912,517** | **18,115,162** |

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **Deferred Tax assets:** | **30,208,406** | **21,695,048** |
| Deferred tax assets recognised in profit or loss | 29,137,014 | 21,390,167 |
| Deferred tax assets recognised in equity | 1,071,392 | 304,881 |
| **Total** | **30,208,406** | **21,695,048** |

### 10.2 "TAX LIABILITIES: CURRENT AND DEFERRED": COMPOSITION

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **Current tax liabilities:** | **21,804,537** | |
| - IRES: of the year | 41,101,136 | |
| - additional IRES for the year | 5,993,916 | |
| IRES BALANCE | -25,290,515 | |
| IRAP Balance | | |
| **Total** | **21,804,537** | **-** |

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **Deferred Tax Liabilities:** | **26,436,926** | **14,990,183** |
| Deferred tax liabilities recognised in profit or loss | 22,997,679 | 12,723,041 |
| Deferred tax liabilities recognised in equity | 3,439,247 | 2,267,142 |
| **Total** | **26,436,926** | **14,990,183** |

Deferred tax assets are composed as follows:
- taxes recognised with counter-entry to in the shareholders' equity mainly refer to deferred taxes relating to the valuation of fair value of the current hedging derivative instrument;
- taxes recognised with counter-entry in the income statement mainly refer to adjustments of the value of receivables, to temporary differences relating to recognised goodwill, as well as to the effects of the FTA of IFRS 15 as described in annex 1 to the financial statements.

Deferred tax liabilities are composed as follows:
- taxes recognised with counter-entry in the shareholders' equity mainly refer to deferred taxes relating to the valuation of fair value of the Visa shareholding in portfolio;
- taxes recognised with counter-entry in the income statement mainly refer to adjustments on the value of receivables, to temporary differences in recognised goodwill, as well as to the effects of the FTA of IFRS 15.

## 10.3 CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN THE INCOME STATEMENT)

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **1. Opening balance** | **21,390,168** | **20,055,095** |
| **2. Increases** | | |
| 2.1 Deferred tax assets recognized in the year | | |
| a) related to previous years | | |
| b) due to changes in accounting policies | | |
| c) reversal of impairment losses | | |
| d) other | 9,477,380 | 4,031,439 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | |
| - business combination | 982,102 | |
| **3. Decreases** | | |
| 3.1 Deferred tax assets derecognized in the year | | |
| a) reversals | 2,712,635 | 2,696,366 |
| b) impairment due to non-recoverability | | |
| c) due to changes in accounting policies | | |
| d) other | | |
| 3.2 Decreases in tax rates | | |
| 3.3 Other decreases | | |
| a) conversion into tax assets as per Law n. 214/2011 | | |
| b) other | | |
| **4. Closing balance** | **29,137,015** | **21,390,168** |

## 10.4 CHANGES IN DEFERRED TAX LIABILITIES (RECOGNISED IN THE INCOME STATEMENT)

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **1. Opening balance** | **12,723,040** | **3,431,809** |
| **2. Increases** | | |
| 2.1 Deferred tax liabilities recognized in the year | | |
| a) related to previous years | | |
| b) due to changes in accounting policies | | |
| c) other | 13,116,185 | 10,391,184 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | |
| - business combination | | |
| **3. Decreases** | | |
| 3.1 Deferred tax liabilities derecognized in the year | | |
| a) reversal | 2,841,546 | 112,653 |
| b) due to changes in accounting policies | | |
| c) other | | |
| 3.2 Decrease in tax rates | | |
| 3.3 Other decreases | | 987,300 |
| **4. Closing balance** | **22,997,679** | **12,723,040** |

### 10.5 CHANGES IN DEFERRED TAX ASSETS (RECOGNISED IN EQUITY)

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **1. Opening balance** | **304,881** | **304,881** |
| **2. Increases** | | |
| 2.1 Deferred tax assets recognized in the year | | |
| a) related to previous years | | |
| b) due to changes in accounting policies | | |
| c) other | 766,511 | |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | |
| - business combination | | |
| **3. Decreases** | | |
| 3.1 Deferred tax assets derecognized in the year | | |
| a) reversal | | |
| 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 | | |
| **4. Closing balance** | **1,071,392** | **304,881** |

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

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **1. Opening balance** | **2,267,142** | **248,118** |
| **2. Increases** | | |
| 2.1 Deferred tax liabilities recognized in the year | | |
| a) related to previous years | | |
| b) due to changes in accounting policies | | |
| c) other | 1,172,105 | 2,019,024 |
| 2.2 New taxes or increases in tax rates | | |
| 2.3 Other increases | | |
| - business combination | | |
| **3. Decreases** | | |
| 3.1 Deferred tax assets derecognized in the year | | |
| a) reversal | | |
| b) due to changes in accounting policies | | |
| c) other | | |
| 3.2 Decrease in tax rates | | |
| 3.3 Other decreases | | |
| **4. Closing balance** | **3,439,247** | **2,267,142** |

## SECTION 11 - Non-current assets and groups of assets held for sale and associated liabilities - Caption 110 of assets and Caption 70 of liabilities

### 11.1 COMPOSITION OF CAPTION 130 "NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE"

| Captions/Amounts | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **A. Assets held for sale** | | - |
| A.1 Holdings | 7,117,526 | |
| **Total (A)** | **7,117,526** | **-** |
| **B. Associated liabilities to assets held for sale** | | |
| B.1 Other liabilities | 6,050,000 | |
| **Total (B)** | **6,050,000** | **-** |

## SECTION 12 - Other assets - Caption 120

### 12.1 "OTHER ASSETS": COMPOSITION

| Captions/Amounts | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| 1. Tax and revenue stamps | 51,196,796 | 50,412,151 |
| 2. Guarantee deposits | 7,083,832 | 3,357,701 |
| 3. Deferred costs | 40,230,563 | 11,847,683 |
| 4. Sundry services | 184,415,414 | 103,258,428 |
| 5. Other assets | 98,035,213 | 82,030,536 |
| **Total** | **380,961,818** | **250,906,498** |

# LIABILITIES

## SECTION 1 - Financial liabilities measured at amortised cost - Caption 10

### 1.1 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST: COMPOSITION OF PAYABLES

| | Total 31.12.2018 | | | Total 31.12.2017 | | |
|---|---|---|---|---|---|---|
| Captions | Due to banks | Due to financial institutions | Due to customers | Due to banks | Due to financial institutions | Due to customers |
| **1. Financing** | **-** | | | **2,052,426,490** | | |
| 1.1 Repurchase agreements | | | | | | |
| 1.2 Other financing | - | | | 2,052,426,490 | | |
| **2. Other liabilities** | **701,493,142** | **301,954,885** | **42,667,022** | **210,906,516** | | **35,173,239** |
| **Total** | **701,493,142** | **301,954,885** | **42,667,022** | **2,263,333,006** | | **35,173,239** |
| **Fair value - level 1** | | | | | | |
| **Fair value - level 2** | | | | | | |
| **Fair value - level 3** | | | | | | |
| **Total Fair value** | | | | | | |

The reduction of payables with banks is linked to the factoring operation described in Part D which has entailed the closure of the previous credit line with DepoBank, replaced by a factoring contract that has entailed the derecognition of payables for the component without recourse. The balance also includes, in addition to the funding for around Euro300 million linked to the factoring operation, the balance of the other lines of credit in place, mainly relating to revolving receivables not included in the factoring contract.

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

### 2.1 FINANCIAL LIABILITIES HELD FOR TRADING: COMPOSITION

| Type of operations/ Amounts | Total 31.12.2018 | | | | | Total 31.12.2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Fair Value | | | | | Fair Value | | | |
| | VN | L1 | L2 | L3 | Fair value* | VN | L1 | L2 | L3 | Fair value* |
| **A. Cash liabilities** | | | | | | | | | | |
| 1. Debt | | | | | | | | | | |
| 2. Debt instruments | | | | | | | | | | |
| 2.1 Bonds | | | | | | | | | | |
| 2.1.1 Structured | | | | | x | | | | | x |
| 2.1.2 Other | | | | | x | | | | | x |
| 2.2 Other securities | | | | | | | | | | |
| 2.2.1 Structured | | | | | x | | | | | x |
| 2.2.2 Other | | | | | x | | | | | x |
| **Total (A)** | | | | | | | | | | |
| **B. Derivatives** | **1,151,257** | **3,153,693** | | | | **1,151,257** | **1,051,432** | | | |
| 1. Financial derivatives | 1,151,257 | 3,153,693 | | | | 1,151,257 | 1,051,432 | | | |
| 1.1 Trading | x | | | | x | x | | | | x |
| 1.2 Associated with fair value option | x | | | | x | x | | | | x |
| 1.3 Other | x | | | | x | x | | | | x |
| 2. Credit derivatives | | | | | | | | | | |
| 2.1 Trading | x | | | | x | x | | | | x |
| 2.2 Associated with fair value option | x | | | | x | x | | | | x |
| 2.3 Other | x | | | | x | x | | | | x |
| **Total (B)** | **x** | **3,153,693** | | | **x** | **x** | **1,051,432** | | | **x** |
| **Total (A+B)** | **x** | **3,153,693** | | | **x** | **x** | **1,051,432** | | | **x** |

Notes:
L1 = Level 1
L2 = Level 2
L3 = Level 3
VN = Nominal Value/Notional Value
FV* = Fair value calculated excluding any changes in value due to variances in the creditworthiness of the issuer with respect to the issue date.

The item includes the portion of the existing derivative that was not included in the coverage report of the Visa Inc shares in the portfolio.

## 2.4 FINANCIAL LIABILITIES HELD FOR TRADING: DERIVATIVE FINANCIAL INSTRUMENTS

| | Total 31.12.2018 | | | | Total 31.12.2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Over the counter | | | | Over the counter | | | |
| | | Without center counterparts | | | | Without center counterparts | | |
| **Underlying liabilities / Derivative types** | Center counterparts | With compensation agreement | Without compensation agreement | Organized markets | Center counterparts | With compensation agreement | Without compensation agreement | Organized markets |
| **1. Debt securities and interest rates** | | | | | | | | |
| - Notional value | | | | | | | | |
| - Fair value | | | | | | | | |
| **2. Equity securities and equity indices** | | **3,153,693** | | | | **1,051,432** | | |
| - Notional value | | 3,153,693 | | | | 1,051,432 | | |
| - Fair value | | | | | | | | |
| **3. Currencies and gold** | | | | | | | | |
| - Notional value | | | | | | | | |
| - Fair value | | | | | | | | |
| **4. Credits** | | | | | | | | |
| - Notional value | | | | | | | | |
| - Fair value | | | | | | | | |
| **5. Goods** | | | | | | | | |
| - Notional value | | | | | | | | |
| - Fair value | | | | | | | | |
| **6. Others** | | | | | | | | |
| - Notional value | | | | | | | | |
| - Fair value | | | | | | | | |
| **Total** | | **3,153,693** | | | | **1,051,432** | | |

## SECTION 4 - Hedging derivatives - Caption 40

### 4.1 HEDGING DERIVATIVES: COMPOSITION BY TYPE OF HEDGE AND HIERARCHICAL LEVELS

| | VN (31.12.2018) | Fair Value (31.12.2018) | | | VN (31.12.2017) | Fair Value (31.12.2017) | | |
|---|---|---|---|---|---|---|---|---|
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **A. Financial derivatives** | **16,556,888** | | **-** | | **6,044,097** | | **5,520,019** | |
| 1. Fair value | 16,556,888 | | - | | 6,044,097 | | 5,520,019 | |
| 2. Cash flows | - | | | | | | | |
| 3. Foreign investments | - | | | | | | | |
| **B. Credit derivatives** | **-** | | | | | | | |
| 1. Fair value | - | | | | | | | |
| 2. Cash flows | | | | | | | | |
| **Total** | **16,556,888** | | | | **6,044,097** | | **5,520,019** | |

Notes:
VN = Notional Value
L1 = Level 1
L2 = Level 2
L3 = Level 3

As already described in reference to item "Financial assets measured at fair value with impact on overall profitability", a position of no. 72,003 Visa C Series Shares is present at a conversion factor variable as a function of the charges deriving from potential liabilities of the former Visa Europe. Exchange rate risk and price risk have been hedged with a zero cost collar with strike in EUR and underlying Visa Shares A Series. As at 31 December 2018, 84% of the derivative was classified as hedging derivative based on the conversion factor of the Visa Shares C Series.

### 4.2 HEDGING DERIVATIVES: COMPOSITION BY HEDGED PORTFOLIOS AND TYPES OF HEDGE

| | Fair Value | | | | | | | Cash Flow | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Specific | | | | | | | | | |
| Operations/Hedging type | Debt securities and interest rates | Equity securities and equity indices | Currencies and gold | Credits | Goods | Other | Generic | Specific | Generic | Foreign investments |
| 1. Financial assets measured at fair value through OCI | **16,556,888** | **-** | | | **X** | **X** | **X** | | **X** | **X** |
| 2. Financial assets measured at amortized cost | | **X** | | | **X** | **X** | **X** | | **X** | **X** |
| 3. Portfolio | X | X | X | X | X | X | | X | | X |
| 4. Other transactions | | | | | | | X | | X | |
| **Total assets** | **16,556,888** | **-** | | **-** | | | | | | |
| 1. Financial liabilities | | X | | | | | X | | X | X |
| 2. Portfolio | X | X | X | X | X | X | | X | | X |
| **Total liabilities** | | | | | | | | | | |
| 1. Forecast transactions | X | X | X | X | X | X | X | | X | X |
| 2. Financial assets and liabilities portfolio | X | X | X | | X | X | | X | | |

## SECTION 6 - Tax liabilities - Caption 60

See section 10 of assets.

## SECTION 7 - Liabilities associated with assets held for sale - Caption 70

See section 11 of assets.

## SECTION 8 - Other liabilities - Caption 80

### 8.1 OTHER LIABILITIES: COMPOSITION

| Captions | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| 1. Sundry creditors | | |
| 1.1 Disputes | 3,805,327 | 3,419,812 |
| 1.2 Suppliers | 192,651,587 | 135,433,769 |
| 1.3 Merchants | 5,877,339 | 6,886,027 |
| 1.4 Employees for accrued competences | 43,558,104 | 27,021,476 |
| 1.5 Employees' accrued holidays | 717,618 | 113,411 |
| 1.6 Social security institutions | 3,292,343 | 1,593,159 |
| 1.7 Tax authorities | 13,672,117 | 1,437,826 |
| 1.8 Deferred membership fees | 6,099,403 | 5,793,091 |
| 1.9 Deferred loyalty commissions | 69,055,726 | 53,624,944 |
| 1.10 Other liabilities | 281,391,326 | 262,093,723 |
| **Total** | **620,120,889** | **497,417,238** |

## SECTION 9 - Post-employment benefits - Caption 90

### 9.1 POST-EMPLOYMENT BENEFITS: ANNUAL VARIATIONS

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **A. Opening balance** | **6,003,504** | **6,495,740** |
| **B. Increases** | **5,744,862** | **633,167** |
| B.1 Accruals of the year | 90,110 | 92,566 |
| B.2 Other increase variances | | |
| - business combinations | 5,654,752 | 540,601 |
| **C. Decreases** | **709,771** | **1,125,403** |
| C.1 Payments | 467,995 | 1,090,856 |
| C.2 Other decrease variances | 241,776 | 34,547 |
| - business combination | | |
| **D. Closing balances** | **11,038,595** | **6,003,504** |

### 9.2 OTHER DISCLOSURES

As required by IAS 19, the main actuarial assumptions used in the actuarial valuation are set out below:

| Main demographic and actuarial assumptions used to measure post-employment benefits as at 31 December 2018 | |
|---|---|
| Probability of death of pensioners by seniority or old age | Rates related to Italians broken down by age and gender, detected by the RG48 mortality tables, published by the State General Accounting Office. |
| Probability of elimination of pensioners due to total and permanent disability | Rates inferred from invalidity tables currently used by the reinsurance practice, broken down by age and gender. |
| Annual rate of advances | 3.03% |
| Annual turnover | 0.84% |
| Probability of retirement | Based on the satisfaction of the first retirement requirement for the mandatory general insurance. |
| Inflation rate | 1.50% |
| Annual discount rate | 1.57% deducted, consistently with par. 83 of IAS 19, from the Iboxx Corporate AA index with a 10+ duration, recorded at the valuation date. To this end, the performance with a duration comparable to the duration of the collective of workers subject to assessment was chosen. |

## Sensitivity analysis

As required by IAS 19, the company 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.

(Amount in Euro thousands)

| | | Change in post-employment benefits (amount) | Change in post-employment benefits (percentage) |
|---|---|---|---|
| Change in actuarial assumptions: | | | |
| - Discount rate: | | | |
| | -0.50% | 473 | 5.61% |
| | 0.50% | (440) | -5.21% |
| - Turnover rate: | | | |
| | -0.50% | 20 | 0.23% |
| | 0.50% | (19) | -0.22% |

## SECTION 10 - Provisions for risks and charges - Caption 100

### 10.1 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

| Captions/Amounts | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| 1. Funds for credit risk relating to commitments and financial guarantees issued | - | - |
| 2. Funds on other commitments and other guarantees issued | - | |
| 3. Company retirement funds | - | |
| 4. Other provisions for risks and charges | 40,572,103 | 13,042,160 |
| 4.1 legal and tax disputes | 4,244,541 | |
| 4.2 personnel costs | 1,214,400 | 370,500 |
| 4.3 other | 35,113,162 | 12,671,660 |
| **Total** | **40,572,103** | **13,042,160** |

“Provision for risks and charges” for legal and fiscal disputes for Euro 4,2 mln refers to allocations for legal disputes for which the risk is considered probable.

“Other provisions” equal to Euro 35,1 mln mainly refer to:
- Fund to cover contractual commitments assumed during the acquisition of Bassilichi investments for Euro 16 mln;
- Fund to cover expenses for Bassilichi Group “no-core” invenstmens disposal for Euro 8,9 mln;
- Fund to cover risks connected with outstanding transactions referred to ordinary activity for about Euro 8,4 mln;
- Fund to cover fraudolent transactions for Euro 1,2 mln;
- Fund referred to labor law claims for Euro 0,6 mln.

### 10.2 PROVISIONS FOR RISKS AND CHARGES: ANNUAL VARIATIONS

| | Funds on other commitments and other guarantees issued | Company retirement funds | Other provisions for risks and charges | Total |
|---|---|---|---|---|
| **A. Opening balance** | | | **13,042,160** | |
| **B. Increases** | | | **30,544,214** | |
| B.1 Accruals of the year | | | 20,704,464 | |
| B.2 Discounting | | | | |
| B.3 Changes due to discount rate variance | | | | |
| B.4 Other increases | | | | |
| - business combinations | | | 9,839,750 | |
| **C. Decreases** | | | **3,023,276** | |
| C.1 Use for the year | | | 2,475,580 | |
| C.2 Changes due to discount rate variance | | | | |
| C.3 Other decreases | | | 547,696 | |
| **D. Closing balance** | | | **40,563,097** | |

Item B.4 mainly refers to merger operations at the end of the year.

## SECTION 11 - Equity - Captions 110, 120, 130, 140, 150, 160 and 170

### 11.1 CAPITAL: COMPOSITION - CAPTION 110

| Types | Amount |
|---|---|
| **1. Share capital** | |
| 1.1 Ordinary shares | 66,018,005 |
| 1.2 Other shares | |

The fully paid-up share capital at 31.12.2017 consists of 110,030,008 ordinary shares with a unit nominal amount of Euro0.60.

### 11.4 SHARE PREMIUM: COMPOSITION - CAPTION 140

| Captions | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| Share premium reserve | 142,577,684 | 2,273,684 |
| Total | 142,577,684 | 2,273,684 |

## 11.5 OTHER DISCLOSURES

### Reserves: composition and changes - Caption 150

| | Legal | Other - Extraordinary reserve | Other | |
|---|---|---|---|---|
| **Possible use (*)** | **B** | **A, B, C** | **A, B, C** | **Total** |
| **A. Opening balance** | **11,377,760** | **448,317,003** | **162,099,538** | **621,794,301** |
| **B. Increases** | | **83,425,355** | **12,728,011** | **96,153,366** |
| B.1 Profit allocations | | 83,425,355 | 12,728,011 | 96,153,366 |
| B.2 Other increases | | | | |
| **C. Decreases** | | **-** | **15,208,390** | 15,208,390 |
| C.1 Utilization | | | | |
| - loss coverage | | | | |
| - dividends distribution | | | | |
| - conversion into share capital | | | | |
| C.2 Other decreases | | | 15,208,390 | 15,208,390 |
| **D. Closing balances** | **11,377,760** | **531,742,358** | **159,619,159** | **702,739,276** |

(*) A: capital increase; B: loss coverage; C: dividends distribution

### Valuation reserves: composition and changes - Caption 160

| | Equity instruments at fair value through OCI | Hedging of capital instruments designated at fair value through OCI | Coverage of financial flows | Special revaluation laws | Actuarial effect post-employ-ment benefits | Total |
|---|---|---|---|---|---|---|
| **A. Opening balance** | **30,231,300** | **-** | **-** | **1,013,875** | **-631,034** | **30,614,140** |
| **B. Increases** | **21,771,273** | **-** | **160,932** | **10,670,724** | **224,632** | **32,827,561** |
| B.1 Positive variances of fair value | 15,704,855 | | 160,932 | | 153,707 | 16,019,494 |
| B.2 Other increases | 6,066,418 | | | 10,670,724 | 70,925 | 16,808,067 |
| **C. Decreases** | **-** | **15,407,012** | **-** | **-** | **40,961** | **15,447,973** |
| C.1 Negative variances of fair value | | 10,270,358 | | | | 10,270,358 |
| C.2 Other decreases | | 5,136,654 | | | 40,961 | 5,177,615 |
| **D. Closing balance** | **52,002,573** | **-15,407,012** | **160,932** | **11,684,599** | **-447,363** | **47,993,728** |

The item "other changes" refers to: the first application of IFRS 9 and IFRS 15 described in the annex, the effect of mergers at the end of the year as well as the effects on the valuation reserves resulting from the merger.

# Part C - Notes to the Income Statement

(Amount in Euro)

## SECTION 1 - Interest - Captions 10 and 20

### 1.1 INTEREST AND SIMILAR INCOME: COMPOSITION

| Captions/Technical forms | Debt Instruments | Financing | Other | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|---|---|---|
| **1. Financial assets measured at fair value through profit or loss:** | | | | | |
| 1.1 Financial assets held for trading | | | | | |
| 1.2 Financial assets measured at fair value | | | | | |
| 1.3 Other financial assets mandatorily measured at fair value | | | | | |
| **2. Financial assets measured at fair value through OCI** | | | **X** | | |
| **3. Financial assets measured at amortized cost:** | | **19,873,338** | | **19,873,338** | **21,481,021** |
| 3.1 Loans to banks | | - | X | 0 | 998 |
| 3.2 Loans to financial institutions | | - | X | - | |
| 3.3 Loans to customers | | 19,873,338 | X | 19,873,338 | 21,480,023 |
| **4. Hedging derivatives** | **X** | **X** | **-** | **-** | |
| **5. Other assets** | **X** | **X** | **70,842** | **70,842** | **87,680** |
| **6. Financial liabilities** | **X** | **X** | **X** | | |
| **Total** | | | | **19,944,181** | **21,568,701** |
| of which interest income on impaired financial assets | | | | | |

Interests with customers refer mainly to operations through revolving credit cards.

### 1.3 INTEREST AND SIMILAR EXPENSE: COMPOSITION

| Captions/Technical forms | Financing | Securities | Other | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|---|---|---|
| 1. Financial liabilities measured at amortized cost: | 29,499,524 | | - | 29,499,524 | 33,986,544 |
| 1.1 Due to banks | 29,004,956 | | - | 29,004,956 | 33,986,544 |
| 1.2 Due to financial institutions | 494,568 | | - | 494,568 | |
| 1.3 Due to customers | - | | - | - | |
| 1.4 Securities issued | - | | - | - | |
| 2. Financial liabilities held for trading | - | | - | - | |
| 3. Financial liabilities measured at fair value | - | | - | - | |
| 4. Other liabilities | - | | 172,785 | 172,785 | 2,011 |
| 5. Hedging derivatives | - | | 43,945 | 43,945 | |
| 6. Financial activities | - | | - | - | |
| **Total** | **29,499,524** | **-** | **216,730** | **29,716,254** | **33,988,555** |

The decrease in negative interest with banks is linked to the change in the funding models (which, until 30 June 2018 referred mainly to ICBPI-DepoBank), linked to the reorganisations, already commented on, with reference to asset balances. This decrease is therefore counterbalanced by new charges for factoring with recourse and the disposal of financial assets measured at fair value with impact on overall profitability.

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

### 2.1 FEE AND COMMISSION INCOME: COMPOSITION

| Detail | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| a. Finance leases | - | |
| b. Factoring | - | |
| c. Consumer credit | 972,716,595 | 854,575,015 |
| - fees and commissions on processed transactions | 790,688,519 | 687,483,641 |
| - fees and commissions from cardholders: | 182,023,518 | 167,082,911 |
| - currency commissions | 10,903,611 | 8,236,209 |
| - membership fees | 94,633,198 | 87,081,034 |
| - commissions on fuel purchase | 684,579 | 555,915 |
| - deferral of loyalty revenues | 4,083,893 | 310,675 |
| - other commissions | 71,718,237 | 70,899,077 |
| - other commissions | 4,558 | 8,463 |
| d. Guarantees issued | - | - |
| e. Services: | - | - |
| - fund management on behalf of third parties | - | - |
| - currency trading | - | - |
| - product distribution | - | - |
| - other | - | - |
| f. Collection and payment services | - | - |
| g. Servicing in securitisations | - | - |
| h. Other fee and commission income (servicing): | 86,129,722 | 96,876,106 |
| - commission income from merchants | 34,252,095 | 34,236,950 |
| - interchange income fees | - | - |
| - interchange income fees on return accounts | - | - |
| - interchange income fee on cash advance | - | - |
| - interchange income fees by acquiring banks | - | - |
| - revenues for authorizations | - | - |
| - commissions income on retrievals | - | - |
| - recognition received on credit card recovery | - | - |
| - commissions for currency conversion | - | - |
| - other income | 51,877,628 | 62,639,155 |
| **Total** | **1,058,846,317** | **951,451,121** |

The increase reflects the full effect of the contribution of business units acquired in 2017, in addition to the increase in revenue generated by existing business units.

### 2.2 FEES AND COMMISSIONS EXPENSES: COMPOSITION

| Detail/Sectors | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| a. Guarantees received | - | |
| b. Distribution of third party services | - | |
| c. Collection and payment services | - | |
| d. Other commissions: | 603,947,275 | 566,208,211 |
| - commissions to correspondents | 412,746,903 | 366,232,170 |
| - commissions to banks | 188,649,816 | 199,972,474 |
| - other commissions | 2,550,556 | 3,567 |
| **Total** | **603,947,275** | **566,208,211** |

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

| | Total 31.12.2018 | | Total 31.12.2017 | |
|---|---|---|---|---|
| Captions/Income | Dividends | Similar Income | Dividends | Similar Income |
| A. Financial assets held for trading | - | | | |
| B. Financial assets necessarily measured at fair value | - | | | |
| C. Financial assets measured at fair value through OCI | 426,305 | | | 248,473 |
| D. Equity investments | - | | | |
| **Total** | 426,305 | | | 248,473 |

## SECTION 4 - Net trading income - Caption 80

### 4.1 - NET TRADING INCOME: COMPOSITION

| Operations/Earning Components | Gains (A) | Trading income (B) | Losses (C) | Trading losses (D) | Net trading income [( A+B)-(C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | | | | | |
| 1.1 Debt instruments | | | | | |
| 1.2 Equity instruments | | | | | |
| 1.3 OICR units | | | | | |
| 1.4 Financing | | | | | |
| 1.5 Other | | | | | |
| **2. Financial liabilities held for trading** | | | | | |
| 2.1 Debt instruments | | | | | |
| 2.2 Liabilities | | | | | |
| 2.3 Other | | | | | |
| **3. Other financial assets and liabilities: net exchange rate gains** | **X** | **X** | **X** | **X** | **-164,319** |
| **4. Derivatives** | | | | | **-2,102,261** |
| 4.1 Financial derivatives | | | 2,102,261 | | -2,102,261 |
| 4.2 Credit derivatives | - | | | | |
| of which: natural hedges related to the fair value option | | | | | |
| **Total** | **X** | **X** | **X** | **X** | **-2,266,579** |

This item mainly includes the variation of fair value in the derivative instrument heading the price risk of Visa shares in the portfolio for the portion classified as held for trading.

## SECTION 6 - Net profit (loss) on sale or repurchase - Caption 100

### 6.1 PROFIT (LOSS) ON SALE, ASSIGNMENT, TRANSFER/REPURCHASE: COMPOSITION

| | Total 31.12.2018 | | | Total 31.12.2017 | | |
|---|---|---|---|---|---|---|
| **Captions/Earning Components** | **Gain** | **Loss** | **Result** | **Gain** | **Loss** | **Result** |
| **A. Financial assets** | **-** | **5,625,533** | **-5,625,533** | | | |
| 1. Financial assets measured at amortized cost | - | | | | | |
| 1.1 Loans to banks | | | | | | |
| 1.2 Loans to customers | - | | | | | |
| 2. Financial assets measured at fair value through OCI | | 5,625,533 | -5,625,533 | | | |
| 2.1 Debt instruments | | | | | | |
| 2.2 Financing | | 5,625,533 | -5,625,533 | | | |
| **Total assets (A)** | **-** | **5,625,533** | **-5,625,533** | | | |
| **B. Financial liabilities measured at amortized cost** | **-** | **-** | | | | |
| 1. Due to banks | | | | | | |
| 2. Due to customers | | - | | | | |
| 3. Securities issued | | | | | | |
| **Total liabilities (B)** | **-** | **-** | | | | |

The balance at 31 December 2018 mainly refers to the charges deriving from the disposal with recourse by Nexi Payments, in the context of the factoring contract described in section D, of the relevant part of portfolio receivables resulting from the issue of credit cards.

## SECTION 8 - Amortisation and net impairment losses for credit risks - Caption 130

### 8.1 NET ADJUSTMENT TO CREDIT RISK RELATIVE TO FINANCIAL ASSETS MEASURED AT AMORTISED COST: COMPOSITION

| | Value adjustment (1) | | | Write-back (2) | | | |
|---|---|---|---|---|---|---|---|
| | | Third stage | | | | | |
| **Operations/Earning Components** | **Firsts and second stage** | **Write-off** | **Other** | **Firsts and second stage** | **Third stage** | **Total 31.12.2018** | **Total 31.12.2017** |
| **1. Loans and receivables with banks** | **-** | | | | | | |
| Impaired receivables acquired or originated | - | | | | | | |
| - leasing | | | | | | | |
| - factoring | | | | | | | |
| - other | | | | | | | 54,114 |
| Other | | | | | | | |
| - leasing | | | | | | | |
| - factoring | | | | | | | |
| - other | | | | | | | |
| **2. Loans and receivables with financial institutions** | **-** | | | | | | |
| Impaired receivables acquired or originated | | | | | | | |
| - leasing | | | | | | | |
| - factoring | | | | | | | |
| - other | | | | | | | |
| Other | | | | | | | |
| - leasing | | | | | | | |
| - factoring | | | | | | | |
| - other | | | | | | | |
| **3. Loans and receivables with customers** | **11,446** | | **2,374,046** | **-242,507** | **-102,227** | **2,040,758** | |
| Impaired receivables acquired or originated | | | | | | | |
| - leasing | | | | | | | |
| - factoring | | | | | | | |
| - consumer credit | | | | | | | |
| - other | | | | | | | |
| Other | 11,446 | | 2,374,046 | -242,507 | -102,227 | 2,040,758 | |
| - leasing | | | | | | | |
| - factoring | | | | | | | |
| - consumer credit | | | | | | | |
| - loans on pledges | | | | | | | |
| - other | 11,446 | | 2,374,046 | -242,507 | -102,227 | 2,040,758 | 451,633 |
| **Total** | **11,446** | | **2,374,046** | **-242,507** | **-102,227** | **2,040,758** | **505,747** |

# SECTION 10 - Administrative expenses - Caption 160

## 10.1 PERSONNEL EXPENSES: COMPOSITION

| Type of expense/Amount | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| 1. Employees | 82,904,981 | 69,920,090 |
| a) wages and salaries | 54,797,424 | 33,289,267 |
| b) social security charges | 14,137,663 | 8,910,053 |
| c) post-employment benefits | 378,632 | 148,127 |
| d) pension costs | - | |
| e) accrual for post-employment benefits | 65,958 | 138,482 |
| f) accrual for pension and similar provisions:: | - | |
| - defined contribution plans | - | |
| - defined benefit plans | - | |
| g) payments to external supplementary pension funds: | 4,281,921 | 2,690,888 |
| - defined contribution plans | 4,281,921 | 2,690,888 |
| - defined benefit plans | - | |
| h) other employee benefits | 9,243,383 | 24,743,273 |
| 2. Other personnel | - | |
| 3. Directors and statutory auditors | 875,178 | 785,226 |
| 4. Retired personnel | - | |
| 5. Cost recoveries for detached employees to other companies | -2,792,177 | -3,000,516 |
| 6. Cost reimbursements for detached third party employees to the company | 3,985,784 | 2,253,942 |
| **Total** | **84,973,766** | **69,958,742** |

The item also includes extraordinary costs of Euro 7.81 million mainly linked to the company's reorganisation.

## 10.2 AVERAGE NUMBER OF EMPLOYEES BY CATEGORY

| Category | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **1) Employees** | | |
| a) Managers | 54 | 24 |
| b) Junior Managers | 313 | 203 |
| c) Other employees | 342 | 259 |
| **2) Others** | | |
| **Total** | **709** | **486** |

### 10.3 OTHER ADMINISTRATIVE EXPENSES: BREAKDOWN

| Type of expenses | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| 1. Third party services | 239,129,815 | 198,807,346 |
| 2. Rent and building management fees | 2,788,052 | 308,749 |
| 3. Insurance | 978,791 | 1,119,797 |
| 4. Rentals | 3,944,637 | 2,633,677 |
| 5. Maintenance | 16,049,133 | 16,541,017 |
| 6. Shipping costs | 18,609,377 | 20,537,924 |
| 7. Telegraph and telephone costs | 4,405,219 | 4,814,430 |
| 8. Cards and accessories | 642,935 | 6,215,037 |
| 9. Stationery and printed matter | 3,569,841 | 398,842 |
| 10. Taxes and duties | 59,618,395 | 73,065,742 |
| 11. Legal, notary and consultancy fees | 25,001,953 | 22,806,944 |
| 12. Commissions and agents expenses | 62,916 | 53,107 |
| 13. Advertising | 6,432,780 | 2,442,938 |
| 14. Promotional material and competition prizes | 10,640,030 | 7,711,699 |
| 15. Other commercial costs | 311,778 | 1,561,685 |
| 16. Other general expenses | 4,103,734 | 2,165,592 |
| **Total** | **396,289,388** | **361,184,525** |

The item also includes extraordinary costs of Euro 47.5 million mainly linked to the company's reorganisation.

| Caption "10. Tax and duties" includes: | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| Stamp duty | 56,368,468 | 55,196,488 |
| Taxes | 1,808,925 | 17,356,532 |
| Taxes and fees for competitions and prize operations | 1,414,177 | 427,177 |
| Government tax on mobile phones | - 1,867 | 965 |
| Waste disposal fee | 23,025 | 116,200 |
| Non-deductible VAT | - | -42,314 |
| Penalties | 5,667 | 10,694 |
| **Total** | **59,618,395** | **73,065,742** |

## SECTION 11 - Provisions for risks and charges - Caption 170

### 11.3 PROVISIONS FOR RISKS AND CHARGES: COMPOSITION

| Type of expenses | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| 1. Accruals to provisions Fruendo | 16,047,000 | |
| 2. Provisions for risks | 2,783,609 | 1,436,064 |
| 3. Net provision for risks on trade receivables | 224,759 | 10,264 |
| 4. Provision for legal disputes | | |
| 5. Provision for solidarity and incentive funds | | |
| 6. Provision for the outflow bank groups fund | | |
| 7. Provision for personal expenses fund | 1,110,406 | 367,942 |
| **Total** | **20,165,774** | **1,814,271** |

The 2018 provisions also include nonrecurrent components including Euro16 million for future contractual commitments.

## SECTION 12 - Net impairment losses on property, equipment and investment property - Caption 180

### 12.1 - NET IMPAIRMENT LOSSES ON PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY: COMPOSITION

| Assets/earning components | Amortisation (a) | Impairment losses (b) | Reversal of impariment losses (c) | Net Result (a+b-c) |
|---|---|---|---|---|
| **A. Property and equipment** | | | | |
| A.1 Owned | 22,538,802 | | | 22,538,802 |
| - For functional use | 22,321,089 | | | 22,321,089 |
| - For investment | 217,713 | | | 217,713 |
| - Inventory | X | | | - |
| A.2 Under finance lease | - | | | - |
| - For functional use | - | | | - |
| - For investment | - | | | - |
| A.3 Under operating lease | - | | | - |
| **Total** | **22,538,802** | | | **22,538,802** |

## SECTION 13 - Amortisation and net impairment losses on intangible assets - Caption 190

### 13.1 AMORTISATION AND NET IMPAIRMENT LOSSES ON INTENGIBLE ASSETS: COMPOSITION

| Assets/earning components | Amortisation (a) | Impairment losses (b) | Reversal of impariment losses (c) | Net Result (a+b-c) |
|---|---|---|---|---|
| **1. Intangible assets other than goodwill** | **29,500,093** | | | **29,500,093** |
| 1.1 owned | 29,500,093 | | | 29,500,093 |
| 1.2 under finance lease | - | | | - |
| **2. Assets under finance lease** | **-** | | | **-** |
| **3. Assets under operating lease** | **-** | | | **-** |
| **Total** | **29,500,093** | | | **29,500,093** |

## SECTION 14 - Other operating income - Caption 200

### 14.1 OTHER MANAGEMENT CHARGES: COMPOSITION

| Captions | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **1. Costs** | | |
| 1.1 Losses on irregular transactions due to fraudulent use of credit cards | 3,450,665 | 3,558,194 |
| 1.2 Other costs | 19,765,286 | 1,572,195 |
| 1.3 Amounts recharged to banks for POS management | 15,173,682 | 14,369,300 |
| **Total** | **38,389,633** | **19,499,689** |

The item includes extraordinary charges of Euro 7.5 million linked to the reorganisation.

### 14.2 OTHER MANAGEMENT INCOME: COMPOSITION

| Captions | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **1. Income** | | |
| 1.1 Income from foreign correspondents | 2,173,280 | 1,659,235 |
| 1.2 Revenue for Club IoSi | 6,893,408 | 7,254,407 |
| 1.3 Compensation for reckless custody | 17,000 | 48,450 |
| 1.4 Revenue for services | 204,372,935 | 152,605,457 |
| 1.5 Revenue for intercompany services | 1,805,975 | 946,626 |
| 1.6 Other income | 21,075,527 | 7,003,592 |
| 1.7 Expense reimbursement for issue of account statement | 20,224,363 | 18,499,694 |
| 1.8 Expense reimbursement for stamp on account statement | 54,366,527 | 52,425,691 |
| **Total** | **310,929,016** | **240,443,152** |

The item includes extraordinary income of Euro 12 million, mainly linked to the recalculation of the price relative to books acquiring in 2017.

## SECTION 18 - Profits (losses) from disposal of investments - Caption 250

### 18.1 - PROFITS (LOSSES) FROM DISPOSAL OF INVESTMENTS: COMPOSITION

| Captions | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **A. Property** | **-** | |
| - Gains on sales | - | |
| - Losses on sales | | |
| **B. Other assets** | **21,181,401** | |
| - Gains on sales | 21,442,872 | |
| - Losses on sales | 261,471 | |
| **Total** | **21,181,401** | **-** |

The item profits from disposals refers mainly to the capital gain deriving from the disposal of the "Banche Venete" (Euro 21 million) branch and the capital gain from the disposal of the property in Assago (Euro 0.15 million).

## SECTION 19 - Current income taxes - Caption 270

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| 1. Current taxes ( -) | 59,855,065 | 30,887,055 |
| 2. Change in current taxes from previous period (+/-) | | -267,616 |
| 3.Current taxes decrease (+) | | |
| 3. *bis* Decrease in current taxes for the year due to tax assets as per Law n. 214/2011 | | |
| 4. Deferred tax assets variances (+/-) | -2,096,999 | -1,335,072 |
| 5. Deferred tax liabilities variances (+/-) | 4,284,097 | 10,278,532 |
| 6. Tax expense for the year (-) (-1+/-2+3bis+/-4+/-5) | 62,042,163 | 39,562,899 |

| IRES | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| Theoretical tax rate | 27.50% | 27.50% |
| Non-deductible costs | 2.1% | 1.0% |
| Deductible costs and other decreases | -1.8% | -2.3% |
| Effective tax rate | 27.8% | 26.2% |

| IRAP | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| Theoretical tax rate | 5.57% | 5.57% |
| Non-deductible costs | 3.6% | 2.9% |
| Revenues - Not relevant costs | -1.7% | -2.5% |
| Effective tax rate | 7.5% | 6.0% |

# Part D - Other disclosures

(Amount in Euro)

## SECTION 1 - Specific references to operations carried out

## C. CONSUMER CREDIT

### C.1 ANALYSIS BY TECHNICAL FORM

| | Total 31.12.2018 | | | Total 31.12.2017 | | |
|---|---|---|---|---|---|---|
| | Gross value | Impairment losses | Net value | Gross value | Impairment losses | Net value |
| **1. Unimpaired assets** | | | | | | |
| Personal loans | 5,790,465 | | 5,790,465 | 6,415,520 | | 6,415,520 |
| - special purpose loans | 219,012,291 | 694,219 | 218,318,071 | 212,281,791 | 838,747 | 211,443,044 |
| - salary-backed loans | | | | | | |
| **2. Impaired assets** | | | | | | |
| Personal loans | | | | | | |
| - non-performing exposures | | | | | | |
| - probable default | | | | | | |
| - impaired past due exposures | | | | | | |
| Special purpose loans | | | | | | |
| - non-performing exposures | | | | | | |
| - probable default | | | | | | |
| - impaired past due exposures | | | | | | |
| Salary-backed loans | | | | | | |
| - non-performing exposures | | | | | | |
| - probable default | | | | | | |
| - impaired past due exposures | | | | | | |
| **Total** | **224,802,755** | **694,219** | **224,108,536** | **212,281,791** | **838,747** | **211,443,044** |

### C.2 CLASSIFICATION BY PAST DUE DATE BRACKET AND QUALITY

| | Unimpaired financing | | Impaired financing | |
|---|---|---|---|---|
| Time ranges | Total 31.12.2018 | Total 31.12.2017 | Total 31.12.2018 | Total 31.12.2017 |
| - up to 3 months | 68,604,871 | 68,919,197 | | |
| - from 3 months to 1 year | 121,434,015 | 119,605,669 | | |
| - from 1 to 5 years | 28,279,186 | 29,633,699 | | |
| - after 5 years | | | | |
| - open terms | | | | |
| **Total** | **218,318,072** | **218,158,564** | | |

# D. GUARANTEES AND COMMITMENTS

## D.12 OVERALL VALUE OF ADJUSTMENTS/PROVISIONS

| Categories | Amount |
|---|---|
| **A. Value adjustments / initial total provisions** | **838,747** |
| **B. Increases** | |
| B.1 Value adjustments from impaired financial assets acquired or originated | |
| B.2 Other value adjustments / provisions | |
| B.4 Contractual changes without cancellation | |
| B.5 Other increases | |
| **C. Decreases** | **-144,528** |
| C.1 Valuation value gains | |
| C.2 Value recoveries | -144,528 |
| C.3 Gain for sale | |
| C.4 Write-off | |
| C.5 Contractual changes without cancellation | |
| C.6 Other decreases | |
| **D. Value adjustments / final total provisions** | **-** |
| **Total** | **694,219** |

# E. PAYMENT SERVICES AND ISSUE OF E-MONEY

## QUANTITATIVE DISCLOUSURES

## E.8 OPERATING VOLUMES, NUMBER OF AND REVENUE FROM PAYMENT TRANSACTIONS

| | 31.12.2018 | | | | 31.12.2017 | | | |
|---|---|---|---|---|---|---|---|---|
| Operation category | Transactions amount | Transactions number | Fees and commissions income | Recovered expenses | Transactions amount | Transactions number | Fees and commissions income | Recovered expenses |
| - Credit Cards | 31,545,709,819 | 415,578,360 | 182,023,518 | 74,590,890 | 30,129,031,881 | 372,729,902 | 167,091,374 | 70,925,385 |
| - Debit Cards | 685,809,904 | 8,079,020 | 722,508 | | 90,142,636 | 1,178,676 | | |
| - Bank transfers | | | | | | | | |
| - ordered by customers | | | | | | | | |
| - received by customers | | | | | | | | |
| - Money Transfer transactions: | | | | | | | | |
| - incoming | | | | | | | | |
| - outcoming | | | | | | | | |
| - Charges to accounts of customer payments | | | | | | | | |
| - Crediting the accounts with customer payments | | | | | | | | |
| - Collections by payment against notice (MAV) | | | | | | | | |

### E.9 FRAUDULENT USE

| | 31.12.2018 | | | | 31.12.2017 | | | |
|---|---|---|---|---|---|---|---|---|
| Operation category | Transactions amount | Transactions number | Intermediary costs | Insurance reimbursements | Transactions amount | Transactions number | Intermediary costs | Insurance reimbursements |
| - Credit Cards | 21,303,000 | 228,141 | 4,300,000 | - | 26,453,195 | 195,110 | 4,852,186 | - |
| - Debit Cards | | | | | | | | |
| - E-money | | | | | | | | |

### E.10 CREDIT CARDS REVOKED FOR INSOLVENCY

| | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Risk category | Amount | Number of cards | Amount | Number of cards |
| - with risk in charge of intermediary | 458,324 | 728 | 460,811 | 748 |
| - with risk in charge of third parties | | | | |

## QUALITATIVE DISCLOSURE

Following the changes to company structures of the former ICBPI Group, some of the activities carried out within ICBPI have remained with Nexi Payments because they are relevant to the payment business in which Nexi Payments is national leader.

Therefore payment services are composed of:
- Clearing, atm, corporate banking and linked telematics and back-office services for Banks;
- Payment services with cards and issue of E-money.

The company uses the 3D Secure model (Verified by Visa and MasterCard SecurCode) for all its cardholders.
This model is applied when the merchant uses the same system and requires an additional password for e-commerce transactions.

The policy also provides that the merchants use similar protocols.

The company mainly distributes credit and prepaid cards through the banking channel, via the branches of its bank members. It also directly distributes credit and prepaid cards upon request, either through its site or its commercial partners.

Acceptance of payment instruments is guaranteed by the merchant members via the banks or directly through their special sales network. The main merchant categories are supermarket chains, transport, hotels, telecommunications and fuel.

Nexi Payments is active in the credit card sector as both an issuer (financial institution that issues credit cards) and an acquirer (financial institution that authorises merchants to accept transactions paid for by payment cards and/or offers cash advance services)

.
It is the licensee of the Visa and Mastercard circuits both as an issuer and an acquirer.

In order to carry out its activities, the company has a customised organisational structure which guarantees maintenance and development of its distribution and acceptance network and also manages all the related operating and financial activities by carrying out specific processes which are updated regularly to improve their efficiency and effectiveness.

## SECTION 3 - Risk and related hedging policies

### 3.1 CREDIT RISK

## QUALITATIVE DISCLOSURE

### 1. 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, or that generates a related unexpected variation in the market value of the credit position.

Nexi Payments' Credit Risk depends on the operating methods the financial intermediate uses in the market; in the card management activity, the business model adopted by the Company anticipates that the credit risk is mainly transferred to partner banks through subscription of the bank agreement.

The following, therefore, are subject to monitoring:

1. Banking issuing: the risk of cardholder default is borne by the partner banks for the period from the transaction date until the date the transaction is charged to the cardholder's account.
2. Direct issuing: the credit risk is borne directly by Nexi Payments with respect to cardholders. The credit risk derives from the failure to make payments due on the contractually-agreed date.
3. Acquiring: Nexi Payments credits the merchant through the bank indicated by the merchant. The credit normally takes place today after the transaction date. The Company receives the funds from the circuits (Visa/MasterCard) for transactions carried out by the holders of credit cards issued by other banks usually two to three business days after the transaction date. Therefore, it is exposed to credit risk vis-à-vis the payment circuits in this period of time.

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 five days 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.

Activities provided as part of the Issuing and Acquiring of payment cards services to banks with Visa and MasterCard licences do not generate credit risks, nor do the Issuing and Acquiring activities for national debit cards (Bancomat and Pagobancomat) or services to manage the ATM or POS network.

Settlement with Banks is implemented through a service model which focuses operations on a current account with DEPObank which uses the "Transfers between banks " procedure for the management of charges to Nexi Payments' partner banks with which it holds reciprocal relationships.

The direct 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 checks). This service operates within the Operations Department.

Item Financial assets measured at fair value with impact on Nexi Payments' overall profitability, includes a position of no. 72,003 Visa C Series Shares (with impact on the credit risk), convertible to Visa A Series Shares at a conversion factor variable as a function of the charges deriving from potential liabilities of the former Visa Europe.

Exchange rate risk and price risk have been hedged with a zero-cost collar with strike in EUR and underlying Visa Shares A Series.

As at December 31 2018, 84% of this derivative is classified as hedging derivative (hedging derivatives portfolio) based on the conversion factor of the Visa Shares C Series. This classification affects credit risk.

16% of this derivative is classified as Trading and affects market risk.

## 2. Credit risk management policies

Credit risk is monitored constantly, checking that the exposures are within the budget limits set 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. It prepares monthly and quarterly reports on compliance with the specific limits approved by the board of directors and implements suitable escalation measures when these limits are exceeded. These measures are described in the "Nexi Payments SpA risk quantification limits" document, prepared annually 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' 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 Nexi Payments' board of directors.

The company 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;
- daily checks of the use of cash advances in excess of the maximum contractual limits.

Specific processes exist to recover the different types of receivable:
- out-of-court collection, including phone collection and/or home visits;
- legal proceedings for certain amounts and/or specific reasons.

The credit risk analysis model for directly issued cards uses the historical trends of recorded losses and estimated losses (non-performing positions adjusted by the recovery percentage). Its result is VaR. The analysis considers the historical trends within an adequate time range.

The results of the historical trends analysis are then used to calculate the annual expected and unexpected loss. The values corresponding to the confidence interval between 75% and 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 credit 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.

Like in previous years, no significant critical situations were identified with respect to this risk and the defined limits.

Impairment losses are calculated on the basis of an aggregated assessment by standard credit categories and the loss percentages are estimated considering historical figures.

## QUANTITATIVE DISCLOUSURES

### 1. BREAKDOWN OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (BOOK VALUE)

| Portfolios/Quality | Non-performing exposures | Probable default | Impaired past due exposures | Unimpaired past due exposures | Other unimpaired exposures | Total |
|---|---|---|---|---|---|---|
| 1. Financial assets measured at amortized cost | | 932,636 | | | 1,392,064,735 | 1,392,997,371 |
| 2. Financial assets measured at fair value through OCI | | | | | 100,114,393 | 100,114,393 |
| 3. Financial assets designated at fair value | | | | | | - |
| 4. Other financial assets mandatorily valued at fair value | | | | | | - |
| 5. Financial assets available for sale | | | | | 7,117,526 | 7,117,526 |
| **Total 31.12.2018** | **-** | **932,636** | **-** | **-** | **1,499,296,654** | **1,500,229,290** |
| **Total 31.12.2017** | **-** | **385,391** | **-** | **-** | **2,655,021,937** | **2,655,407,328** |

## 2. BREAKDOWN OF FINANCIAL ASSETS BY PORTFOLIO AND CREDIT QUALITY (GROSS AND NET VALUE)

| | Impaired | | | | Not Impaired | | | |
|---|---|---|---|---|---|---|---|---|
| Portfolios/Quality | Gross Exposure | Total value adjustments | Net exposure | Total Write-off * | Gross Exposure | Total value adjustments | Net exposure | Total (net exposure) |
| 1. Financial assets at amortized cost | 5,905,704 | 4,973,068 | 932,636 | | 1,393,721,805 | 1,657,069 | 1,392,064,736 | 1,392,997,372 |
| 2. Financial assets measured at fair value through OCI | | | | | 100,114,393 | - | 100,114,393 | 100,114,393 |
| 3. Financial assets designated at fair value | | | | | | | | |
| 4. Other financial assets mandatorily valued at fair value | | | | | | | | |
| 5. Financial assets available for sale | | | | | 7,117,526 | - | 7,117,525,65 | 7,117,525,65 |
| **Total 31.12.2018** | **5,905,704** | **4,973,068** | **932,636** | **-** | **1,500,953,723** | **1,657,069** | **1,499,296,655** | **1,500,229,291** |
| **Total 31.12.2017** | **5,227,489** | **4,842,099** | **385,391** | | **2,656,910,067** | **1,888,130** | **2,655,021,937** | **2,655,407,328** |

| | Activities of evident low credit quality | | Other |
|---|---|---|---|
| Portfolios/Quality | Cumulative losses | Net exposure | Net exposure |
| 1. Financial assets held for sale | | | |
| 2. Hedging derivatives | | | |
| **Total 31.12.2018** | **-** | **-** | **-** |
| **Total 31.12.2017** | **-** | **-** | **-** |

## 3. BREAKDOWN OF FINANCIAL ASSETS BY ARREARS BANDS (BOOK VALUE)

| | First stage | | | Second stage | | | Third stage | | |
|---|---|---|---|---|---|---|---|---|---|
| Portfolios/Quality | From 1 day to 30 days | From over 30 days up to 90 days | Over 90 days | From 1 day to 30 days | From over 30 days up to 90 days | Over 90 days | From 1 day to 30 days | From over 30 days up to 90 days | Over 90 days |
| 1. Financial assets measured at amortized cost | 1,198,451,517 | 44,159,820 | 149,453,398 | | | | 185,421 | 187,191 | 560,024 |
| 2. Financial assets measured at fair value through OCI | 100,114,393 | | | | | | | | |
| **Total 31.12.2018** | **1,298,565,910** | **44,159,820** | **149,453,398** | **-** | **-** | **-** | **185,421** | **187,191** | **560,024** |
| **Total 31.12.2017** | **2,437,163,372** | **68,619,197** | **149,239,368** | | | | **170,125** | **131,899** | **83,367** |

## 6. Credit exposures to customers, to banks and to/from financial companies

### 6.1 CREDIT EXPOSURES AND OFF-BALANCE-SHEET EXPOSURES TO BANKS AND FINANCIAL COMPANIES: GROSS AND NET VALUE

| Exposure categories/amounts | Gross exposure: Impaired | Gross exposure: Not impaired | Total value adjustments and total provisions | Net exposure | Total partial write-offs* |
|---|---|---|---|---|---|
| **A. Cash credit exposure** | | | | | |
| a) Non-performing exposure | | X | | | |
| - of which: exposures subject to grant | | X | | | |
| b) Probable defaults | | X | | | |
| - of which: exposures subject to grant | | X | | | |
| c) Impaired past due exposure | | X | | | |
| - of which: exposures subject to grant | | X | | | |
| d) Unimpaired past due exposures | X | | | | |
| - of which: exposures subject to grant | X | | | | |
| e) Other unimpaired exposure | X | 742,803,636 | | | |
| - of which: exposures subject to grant | X | | | | |
| **Total A** | **-** | **742,803,636** | **-** | **742,803,636** | |
| **B. Off-statement credit exposure** | | | | | |
| a) Impaired | | X | | | |
| b) Unimpaired | X | | | | |
| **Total B** | **-** | **-** | **-** | **-** | |
| **Total (A+B)** | **-** | **742,803,636** | **-** | **742,803,636** | |

* Value to be displayed for information purposes.

## 6.4 CREDIT EXPOSURES AND OFF-BALANCE-SHEET EXPOSURES TO CUSTOMERS: GROSS AND NET VALUE

| Exposure categories/amounts | Gross exposure | | Total value adjustments and total provisions | Net exposure | Total partial write-offs* |
|---|---|---|---|---|---|
| | Impaired | Not impaired | | | |
| **A. Cash credit exposure** | | | | | |
| a) Non-performing exposure | 2,182,951 | X | 2,182,951 | - | |
| - of which: exposures subject to grant | | X | | | |
| b) Probable defaults | 3,722,753 | X | 2,790,117 | 932,636 | |
| - of which: exposures subject to grant | | X | | | |
| c) Impaired past due exposure | | X | | | |
| - of which: exposures subject to grant | | X | | | |
| d) Unimpaired past due exposures | X | | | | |
| - of which: exposures subject to grant | X | | | | |
| e) Other unimpaired exposure | X | 650,918,167 | 1,657,069 | 649,261,099 | |
| - of which: exposures subject to grant | X | | | | |
| **Total A** | **5,905,704** | **650,918,167** | **6,630,136** | **650,193,735** | **-** |
| **B. Off-statement credit exposure** | | | | | |
| a) Impaired | | X | | | |
| b) Unimpaired | X | | | | |
| **Total B** | **-** | **-** | **-** | **-** | **-** |
| **Total (A+B)** | **5,905,704** | **650,918,167** | **6,630,136** | **650,193,735** | **-** |

* Value to be displayed for information purposes.

Changes in impairment losses by risk category are presented below, showing that the reduction in total impairment losses is due to the smaller percentage of non-performing loans compared to the total portfolio.

### 6.5 CREDIT EXPOSURES ON A CASH BASIS TO CUSTOMERS: GROSS IMPAIRED POSITIONS

| Description/Category | Non-performing exposures | Probable default | Impaired past due exposures |
|---|---|---|---|
| **A. Gross exposure opening balance** | **2,217,179** | **3,010,311** | **-** |
| - of which: not canceled sold exposures | | | |
| **B. Increases** | **654,007** | **1,907,719** | |
| B.1 From not impaired exposures | 604,620 | | |
| B.2 From impaired financial assets acquired or impaired exposure | | | |
| B.3 Transfers from other categories of impaired exposures | | | |
| B.4 Contractual variances without cancellation | | | |
| B.5 Other increases | 49,388 | 1,907,719 | |
| **C. Decreases** | **688,236** | **1,195,276** | |
| C.1 To not impaired exposures | | | |
| C.2 Write-off | | | |
| C.3 Receipts | 282,413 | | |
| C.4 Profit from disposals | | | |
| C.5 Loss from disposals | 299,459 | 1,195,276 | |
| C.6 Transfers to other categories of impaired exposures | | | |
| C.7 Contractual variances without cancellation | | | |
| C.8 Other decreases | 106,364 | | |
| **D. Gross exposure closing balance** | **2,182,951** | **3,722,753** | |
| - of which: not canceled sold exposures | | | |

### 6.6 DETERIORATED CREDIT EXPOSURES ON A CASH BASIS TO CUSTOMERS: CHANGES IN IMPAIRMENT LOSSES

| Description/Category | Non-performing exposure | | Probable default | | Impaired past due exposures | |
|---|---|---|---|---|---|---|
| | Total | of which: exposures subject to grant | Total | of which: exposures subject to grant | Total | of which: exposures subject to grant |
| **A. Gross exposure opening balance** | **2,217,179** | | **2,624,920** | | | |
| - of which: not canceled sold exposures | | | | | | |
| **B. Increases** | **911,346** | | **1,360,473** | | | |
| B.1 From impaired financial assets acquired or originated | | X | | X | | X |
| B.2 Other variances | | | | | | |
| B.3 losses from disposals | | | | | | |
| B.4 Transfers from other categories of impaired exposure | | | | | | |
| B.5 Contractual variances without cancellation | | X | | X | | X |
| B.6 Other increases | 911,346 | | 1,360,473 | | | |
| **C. Decreases** | **945,574** | | **1,195,276** | | | |
| C.1 Valuation value gains | | | | | | |
| C.2 Recovery receipts | | | | | | |
| C.3 Profit from disposals | | | | | | |
| C.4 Write-off | | | | | | |
| C.5 Transfers to other categories of impaired exposures | | | | | | |
| C.7 Contractual variances without cancellation | | X | | X | | X |
| C.8 Other decreases | 945,574 | | 1,195,276 | | | |
| **D. Gross exposure closing balance** | **2,182,951** | | **2,790,117** | | | |
| - of which: not canceled sold exposures | | | | | | |

### 3.2 MARKET RISK

#### 3.2.1 INTEREST RATE RISK

## QUALITATIVE DISCLOSURE

### 1. General issues

Given the nature of Nexi Payments' business, the exposures are mostly due within one year with minimum exposure to risk, except for those exposures related to revolving cards, which have an average residual maturity of 10 months. The mismatching between the issuing and acquiring businesses solely refers to the settlement date and not the value date, which is the same for both amounts credited and debited.

It follows that the company's exposure to this type of risk is substantially immaterial.

## QUANTITATIVE DISCLOUSURES

### 1. BREAKDOWN BY RESIDUAL MATURITY (REPRICING DATE) OF FINANCIAL ASSETS AND LIABILITIES

| Captions/residual term | On demand | Up to 3 months | From 3 to 6 months | From 6 months to 1 yeaar | From 1 to 5 years | From 5 to 10 years | Over 10 years | open term |
|---|---|---|---|---|---|---|---|---|
| **1. Assets** | | | | | | | | |
| 1.1 Debt instruments | | | | | | | | |
| 1.2 Loans and receivables | 388,191,184 | 68,679,253 | 97,149,511 | 67,863,940 | 28,309,847 | | | |
| 1.3 Other assets | | | | | | | | 100,114,393 |
| **2. Liabilities** | | | | | | | | |
| 2.1 Liabilities | 1,003,448,026 | 42,667,022 | | | | | | |
| 2.2 Debt instruments | | | | | | | | |
| 2.3 Other liabilities | | | | | | | | |
| **3. Financial derivatives** | | | | | | | | |
| **Option** | | | | | | | | |
| 3.1 Long positions | | | | | | | | |
| 3.2 Short positions | | | | | 19,710,581 | | | |
| **Other derivatives** | | | | | | | | |
| 3.3 Long positions | | | | | | | | |
| 3.4 Short positions | | | | | | | | |

### 3.2.2 PRICE RISK

## QUALITATIVE DISCLOSURE

### 1. General issues

Given the nature of Nexi Payments' business, the exposures are mostly due within one year with minimum exposure to risk, except for those exposures related to revolving cards, which have an average residual maturity of 10 months. The mismatching between the issuing and acquiring businesses solely refers to the settlement date and not the value date, which is the same for both amounts credited and debited.

It follows that the company's exposure to this type of risk is substantially immaterial.

### 3.2.3 CURRENCY RISK

## QUALITATIVE DISCLOSURE

### 1. General issues

Nexi Payments does not have substantially foreign exchange risk, since payments and receipts, respectively for transactions to be liquidated or collected on the Mastercard and Visa circuits, are made in Euro.

## QUANTITATIVE DISCLOUSURES

### 1. BREAKDOWN OF ASSETS, LIABILITIES AND DERIVATIVES BY CURRENCY

| | Currency | | | | | |
|---|---|---|---|---|---|---|
| Captions | US Dollar | Pound Sterling | Yen | Canadian Dollar | Swiss Franc | Other currencies |
| **1. Financial assets** | **100,292,780** | **115,587** | **24,783** | **25,821** | **42,820** | **181,272** |
| 1.1 Debt instruments | | | | | | |
| 1.2 Equity instruments | 99,968,287 | | | | | |
| 1.3 Loans and receivables | 324,493 | 115,587 | 24,783 | 25,821 | 42,820 | 181,272 |
| 1.4 Other financial assets | | | | | | |
| **2. Other assets** | | | | | | |
| **3. Financial liabilities** | **21,132** | **11,187** | **-** | **3,394** | **4,201** | **4,248** |
| 3.1 Liabilities | 21,132 | 11,187 | - | 3,394 | 4,201 | 4,248 |
| 3.2 Debt instruments | | | | | | |
| 3.3 Other financial liabilities | | | | | | |
| **4. Other liabilities** | | | | | | |
| **5. Derivatives** | **19,710,581** | | | | | |
| 5.1 Long positions | | | | | | |
| 5.2 Short positions | 19,710,581 | | | | | |
| **Total assets** | **100,292,780** | **115,587** | **24,783,07** | **25,821** | **42,820** | **181,272** |
| **Total liabilities** | **19,731,713** | **11,187** | **-** | **3,394** | **4,201** | **4,248** |
| **Difference (+/-)** | **80,561,067** | **104,400** | **24,783** | **22,427** | **38,619** | **177,024** |

## 3.3 OPERATING RISK

## QUALITATIVE DISCLOSURE

### 1. General aspects, management and measurement of liquidity 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. Operating risk also includes legal risk (including behavioural risk) for events and losses.

Operational risks include a wide range of risks that can adversely affect the services offered by the company, such as internal or external fraud, employment relationships and occupational safety, business practices, damage to property, business discontinuity, system breakdowns and errors in carrying out and managing procedures.

The company manages this risk using tailored insurance policies and specific monitoring tools for e-money operational risks.

Nexi Payments has adopted an operational risk policy that includes specific provisions and methods for the management of Operating and Reputational Risks as specified by Bank of Italy.

The main operational risk to which the company is exposed to is the fraudulent use of payment cards for transactions not accepted by the cardholder (who may not necessarily be a Nexi Payments cardholder) due to the compromising of their card and its data (theft, loss, forgery, identity fraud, failure to receive, etc.) involving the company as either the issuer or acquirer.

The company's first and second levels monitor the risk of issuing and acquiring fraud closely using the indicators set out in the "Fraud and credit risk quantitative limits" document.

No critical situations were identified compared to the defined limits and the indicators' performance was more than satisfactory.

## QUANTITATIVE DISCLOUSURES

The following table shows losses caused by operational risks related to use of the company's cards (fraud risk):

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Losses for fraudulent use of credit cards | 3,450,665 | 3,558,194 |
| Total income | 437,661,162 | 372,466,584 |
| **% of incidence** | **0.79%** | **0.96%** |

## 3.4 LIQUIDITY RISK

## QUALITATIVE DISCLOSURE

### 1. General aspects, management and measurement of liquidity risk

Liquidity risk is the risk that the company is unable to meet its payment commitments due to its inability to raise funds on the market (funding liquidity risk). This risk also includes the risk of meeting its commitments at non-market costs, i.e., incurring high costs to obtain funding or (and sometimes simultaneously) incurring losses when disinvesting assets.

The Nexi Payments business needs cash flow (especially for the issuing activity), more specifically for the management of credit cards due to the temporary mismatch between credits to merchants and the reimbursement of expenses incurred by cardholders.

This need is met by factoring contracts and credit lines extended to Nexi Payments by a pool of banks.

The risk of liquidity is monitored by the Finance function and the Risk Management function, via indicators that, on the basis of the financial statements, allow to check the adequacy of the liquidity level to ensure the smooth running of business both in the short and in the medium/long-term; the availability of Committed and Uncommitted credit lines to guarantee financial flexibility and respond to unforeseen situations also taking into account any indications shared by rating agencies, where applicable.

## QUALITATIVE DISCLOSURE

### 1. GENERAL ASPECTS, MANAGEMENT AND MEASUREMENT OF LIQUIDITY RISK

| Captions/Time classes | on demand | From 1 to 7 days | From 7 to 15 days | From 15 days to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 months to 1 year | From 1 to 5 years | over 5 years | Open term |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| A.1 Government bond | | | | | | | | | | |
| A.2 Other debt instruments | | | | | | | | | | |
| A.3 Financing | 370,408,305 | | 53,150,800 | | | | | | | |
| A.4 Other assets | | | | | | | | | | |
| **Liabilities** | | | | | | | | | | |
| B.1 Payables to: | | | | | | | | | | |
| - Banks | | 701,493,142 | | | | | | | | |
| - Financial companies | | 301,954,885 | | | | | | | | |
| - Customers | | | | | 42,667,022 | | | | | |
| B.2 Debt instruments | | | | | | | | | | |
| B.3 Other liabilities | | | | | | | | | | |
| **Off-statement transactions** | | | | | | | | | | |
| C.1 Financial derivatives with exchange of principal | | | | | | | | | | |
| - long positions | | | | | | | | | | |
| - short position | | | | | | | | | | |
| C.2 Financial derivatives without exchange of principal | | | | | | | | | | |
| - long positions | | | | | | | | | | |
| - short position | | | | | | | | | | |
| C.3 Financing to be received | | | | | | | | | | |
| - long positions | | | | | | | | | | |
| - short position | | | | | | | | | | |
| C.4 Irrevocable commitments to disburse funds | | | | | | | | | | |
| - long positions | | | | | | | | | | |
| - short position | | | | | | | | | | |
| C.5 Financial guarantees issued | | | | | | | | | | |
| C.6 Financial guarantees received | | | | | | | | | | |

# SECTION 4 - Equity

## 4.1 EQUITY

### 4.1.1 Qualitative disclosure

Nexi Payments' equity policy is based on full compliance with the supervisory regulation requirements, which identify equity as the main tool against unexpected losses arising from the various risks. Therefore, equity availability is an indispensable tool supporting the company's development plans.

In accordance with internal procedures, the relevant departments regularly monitor the company's use of capital and its compliance with capital requirements. These figures are reported with different frequencies to senior management and the board of directors, which are the bodies responsible for deciding, in line with their delegated powers, the methods that the company should use to pursue its capital management objectives. Similarly, when new activities with potential impacts on the use of capital are carried out, Nexi Payments forecasts the related effects on equity and their suitability.

### 4.1.2 Quantitative disclosure

#### 4.1.2.1 EQUITY: COMPOSITION

| Captions/Amount | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| 1. Share capital | 66,018,005 | 56,888,798 |
| 2. Share premium | 142,577,684 | 2,273,684 |
| 3. Reserves | | |
| - income-related | | |
| a) legal | 11,377,760 | 11,377,760 |
| b) statutory | 531,742,358 | 448,317,003 |
| c) treasury shares | | |
| d) other | | |
| - other | 159,619,159 | 162,099,538 |
| 4. (Treasury shares) | | |
| 5. Valuation reserves | | |
| - Equity securities designated at fair value through OCI | 52,002,573 | 30,231,300 |
| - Coverage of capital securities designated at fair value through OCI | -15,407,012 | |
| - Financial assets (other than equity securities) measured at fair value through OCI | | |
| - Property, equipment and investment property | 10,670,724 | |
| - Intangible assets | | |
| - Hedges of foreign investments | | |
| - Cash flow hedges | 160,932 | |
| - Exchange rate gains (losses) | | |
| - Non-current assets held for sale | | |
| - Financial liabilities designated at fair value thorough profit or loss (creditworthiness variances) | | |
| - Special revaluation laws | 1,013,875 | 1,013,875 |
| - Net actuarial profit/loss on defined benefit pension plans | -447,363 | -631,034 |
| - Share of valuation reserves of equity-accounted investees | | |
| 6. Equity instruments | | |
| 7. Profit (Loss) for the year | 113,831,200 | 83,425,355 |
| **Total** | **1,073,159,895** | **794,996,280** |

### 4.1.2.2 FAIR VALUE RESERVES FROM FINANCIAL ASSETS HELD FOR TRADING: COMPOSITION

| | Total 31.12.2018 | | Total 31.12.2017 | |
|---|---|---|---|---|
| **Captions/Amount** | **Positive reserve** | **Negative reserve** | **Positive reserve** | **Negative reserve** |
| 1. Debt instruments | | | | |
| 2. Equity instruments | 52,002,573 | | 30,231,300 | |
| 3. OICR units | | | | |
| 4. Financing | | | | |
| **Total** | **52,002,573** | **-** | **30,231,300** | **-** |

### 4.1.2.3 FAIR VALUE RESERVES FROM FINANCIAL ASSETS HELD FOR TRADING: ANNUAL CHANGES

| | Debt instruments | Equity instruments | Financing |
|---|---|---|---|
| **1. Opening balance** | **-** | **30,231,300** | **-** |
| **2. Increases** | | **21,771,273** | |
| 2.1 Fair value gains | | 15,704,855 | |
| 2.2 Value adjustments for credit risk | | | |
| 2.3 Negative reserves to be realized transferred to income statement | | | |
| 2.4 Transfers to other equity components (equity securities) | | | |
| 2.5 Other increases | | 6,066,418 | |
| **3. Decreases** | | **-** | |
| 3.1 Fair value losses | | - | |
| 3.2 Write-backs for credit risk | | | |
| 3.3 Positive reserves to be realized transferred to income statement | | | |
| 3.4 Transfers to other equity components (equity securities) | | | |
| 3.5 Other decreases | | | |
| **4. Closing balance** | | **52,002,573** | **-** |

## 4.2 OWN FUNDS AND CAPITAL ADEQUACY RATIOS

### 4.2.1 Own funds

In accordance with the provisions of the Supervisory Instructions, the composition and consistency of the Regulatory Capital differ from those in equity. The main reasons for these differences are briefly recalled:

- unlike net assets, regulatory capital does not include the portion of profit to be distributed as dividends;
- the deduction of other intangible assets takes place;
- net capital gains on equity securities available for sale, accounted for under item 160 "Valuation reserves", can be included in the supplementary capital for an amount limited to 50% of the countervalue.

#### 4.2.1.1 Qualitative disclosure

1. Core capital

This item consists of:
- Positive elements: equity excluding the valuation reserve and the share of profits to be distributed in the form of dividends;
- Negative elements: other intangible assets.

2. Additional capital

The elements of the supplementary capital refer to the valuation reserves computable according to the prudential filter regulations and the additional 50% of the elements to be deducted.

3. Tier 3 capital

The Company has no financial instruments eligible for Tier 3 capital.

#### 4.2.1.2 QUANTITATIVE DISCLOSURE

| | Total 31.12.2018 | Total 31.12.2017 |
|---|---|---|
| **A. Tier 1 Capital before application of prudential filters** | **123,152,426** | **160,569,579** |
| B. Tier 1 Prudential filters: | | |
| B.1 Positive IAS/IFRS prudential filters (+) | | |
| B.2 Negative IAS/IFRS prudential filters (-) | | |
| C. Tier 1 Capital including application of pudentail filters (A+B) | 123,152,426 | 160,569,579 |
| D. Elements to be deducted from Tier 1 capital | 42,379,373 | 32,732,684 |
| **E. Total TIER 1 Capital (C-D)** | **80,773,053** | **127,836,895** |
| **F. Tier 2 Capital before application of prudential filters** | **48,280,160** | **31,245,175** |
| G. Tier 2 prudential filters | -18,297,781 | -15,115,650 |
| G.1 Positive IAS/IFRS prudential filters (+) | | |
| G.2 Negative IAS/IFRS prudential filters (-) | 18,297,781 | 15,115,650 |
| **H. Tier 2 Capital including application of pudentail filters (F+G)** | **29,982,379** | **16,129,525** |
| **I. Elements to be deducted from Tier 2 capital** | **42,379,373** | **32,732,684** |
| **L. Total TIER 2 Capital (H-1)** | **-12,396,994** | **-16,603,159** |
| **M. Elements to be deducted from Tier 1 and Tier 2 capital** | | |
| **N. Regulatory capital (E+L-M)** | **68,376,060** | **111,233,736** |

### 4.2.2 Capital adequacy

#### 4.2.2.1 Qualitative disclosure

The company must ensure that its funds and related capital ratios are consistent with its risk profile and with Bank of Italy's supervisory requirements for payment institutes.

Its competent offices regularly check capital absorption and compliance with the related capital requirements.

The analysis relates also to the progress of the company's financial situation and the policies for allocation of the profit for the year are designed to ensure adequate capitalisation in line with the company's development objectives.

### 4.2.2.2 INFORMAZIONI DI NATURA QUANTITATIVA

| | Unweighted amounts | | Weighted amounts/requirements | |
|---|---|---|---|---|
| **Categories/Amounts** | **Total 31.12.2018** | **Total 31.12.2017** | **Total 31.12.2018** | **Total 31.12.2017** |
| A. EXPOSURES | | | | |
| A.1 Credit and counterparty risk | 1,392,997,371 | 2,643,222,066 | 580,453,446 | 544,531,559 |
| B. REGULATORY CAPITAL REQUIREMENTS | | | | |
| B.1 Credit and counterparty risk | | | 30,979,245 | 18,941,832 |
| B.2 Requirement for the provision of payment services | | | 21,233,244 | 51,613,726 |
| B.3 Requirement for the issuing of e-money | | | 936,887 | |
| B.4 Specific prudential requirements | | | | |
| B.5 Total prudential requirements | | | | |
| C. EXPOSURE AND CAPITAL RATIO | | | | |
| C.1 Risk-weighted assets | | | 895,117,713 | 860,228,759 |
| C.2 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) | | | 9.02% | 14.86% |
| C.4 Regulatory capital/Risk weighted asset (Total capital ratio) | | | 7.64% | 12.93% |

Following its inclusion in the register of electronic payment institutes, the company complies with the reference prudence regulations.

Payment institutes are required to comply with the following capital requirements:
- for payment services rendered: two alternative calculation methods can be used to calculate the capital requirement that the payment institute must hold against the risks related to the payment services rendered. Nexi Payments usually uses method B (see the following paragraph for more information);
- for credit risk: payment institutes that grant financing calculate a capital requirement equal to 6% of the financing granted; this excludes financing related to the payment transactions for credit cards with monthly payments;
- total (regulatory capital) equal to at least the sum of the capital requirement for payment services rendered and the capital requirement for credit risk;
- Capital requirement for the issue of electronic money.

## CAPITAL REQUIRMENT FOR PAYMENT SERVICES RENDERED

To determine the capital that the Electronic Money Institute must hold against risks related to payment services rendered, Nexi Payments usually uses method B (Bank of Italy measure of 20 June 2012, Chapter V, Section II, paragraph 1.3).

Method B

The capital requirement shall be at least equal to the sum of the payment volumes (PV) as per letters to e) below, where PV is equal to one twelfth of the total amount of the payment transactions performed by the Electronic Money Institute in the previous year, multiplied by the k graduation factor indicated below:
a) 4% of the PV up to Euro5 million;
b) 2.5% of the PV between Euro5 and Euro10 million;
c) 1% of the PV between Euro10 and Euro100 million;
d) 0.5% of the PV between Euro100 and Euro250 million;
e) 0.25% of the PV above Euro250 million.

The k graduation factor is equal to:
a) 0.5 when the institute only renders the payment services as per article 1.1.b).6 of Decree no. 11 of 27 January 2010;
b) 0.8 when the institute renders the payment services as per article 1.1.b).7 of Decree no. 11 of 27 January 2010;
c) 1.0 when the institute renders one or more of the payment services as per points 1 to 5 of article 1.1.b) of Decree no. 11 of 27 January 2010.

Given the payment services rendered by the company, the applicable k graduation factor for Nexi Payments is equal to:
- 1.0 (as the company provides one or more of the payment services as per points 1 to 5 of the Annex to Directive 2007/64/EC on payment services in the internal market).

## SECTION 5 - Statement of comprehensive income

| | Captions | Total 2018 | Total 2017 |
|---|---|---|---|
| **10.** | **Profit (loss) of the year** | **113,831,201** | **83,425,355** |
| | Other income components without reversal to the income statement | | |
| 20. | Equity securities designated at fair value through OCI | | |
| | a) fair value variances | 16,876,961 | 27,052,595 |
| | b) transfers to other equity components | | |
| 30. | Financial liabilities designated at fair value through profit or loss (credit variances): | | |
| | a) fair value variances | | |
| | b) transfers to other equity components | | |
| 40. | Coverage of equity securities designated at fair value with impact on other income components: | | |
| | a) fair value variances (hedged instrument) | -11,036,869 | |
| | b) fair value variances (hedging instrument) | | |
| 50. | Property, equipment and investment property | 10,670,724 | |
| 60. | Intangible assets | | |
| 70. | Defined benefit plans | 268,876 | -7,356 |
| 80. | Non-current assets and groups of assets held for sale | | |
| 90. | Share of valuation reserves valued at equity | | |
| 100. | Income taxes related to high income components without income statement reversal | -551,842 | |
| | **Other income components with the income statement reversal** | | |
| 110. | Hedges of foreign investments: | | |
| | a) fair value variances | | |
| | b) income statement reversal | | |
| | c) Other variances | | |
| 120. | Exchange rate variances: | | |
| | a) fair value variances | | |
| | b) income statement reversal | | |
| | c) Other variances | | |
| 130. | Cash flow hedges: | | |
| | a) fair value variances | 221,975 | |
| | b) income statement reversal | | |
| | c) Other variances | | |
| | of which: Net positions result | | |
| 140. | Hedging instruments (non-designated elements): | | |
| | a) fair value variances | | |
| | b) income statement reversal | | |
| | c) Other variances | | |
| 150. | Financial assets (other than equity securities) measured at fair value through OCI: | | |
| | a) fair value variances | | |
| | b) income statement reversal | | |
| | - impairment variances | | |
| | - gain/loss on sales | | |
| | c) other variances | | |

| Captions | Total 2018 | Total 2017 |
|---|---|---|
| 160. Non-current assets held for sale: | | |
| a) fair value variances | | |
| b) income statement reversal | | |
| c) Other variances | | |
| 170. Share of valuation reserves of equity-accounted investees: | | |
| a) fair value variances | | |
| b) income statement reversal | | |
| - impairment variances | | |
| - gain/loss on sales | | |
| c) other variances | | |
| 180. Income tax related to other income components with the income statement reversal | | |
| **190. Total other comprehensive income** | **16,449,825** | **27,045,239** |
| **200. Comprehensive income (Voce 10+190)** | **130,281,026** | **110,470,594** |

## SECTION 6 - Transactions with related parties

### 6.1 FEES OF KEY MANAGEMENT PERSONNEL

Fees due to the statutory auditors and to the directors and managers for the year amount to Euro 162,880, Euro 567,992 and Euro 4,780,342, respectively.

### 6.2 LOANS AND GUARANTEES GIVEN TO/ON BEHALF OF DIRECTORS AND STATUTORY AUDITORS

None.

### 6.3 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 Payment identified the following related parties:

a) the parent company, Nexi SpA;
b) parties that controls Nexi SpA, directly or indirectly, also through subsidiaries, trustees or through a third party, even jointly or possesses an interest in Nexi SpA which enables it to exercise significant influence;
c) entities that are controlled or jointly controlled by the above indicated parties;
d) entities that are controlled or jointly controlled or under the significant influence of Nexi SpA;
e) Key Managers of Nexi Payment or its direct or indirect parent companies and entities in which they exercise control, joint control or significant influence;
f) is a close relative of a natural person included in letters b) or e) above;
g) is a collective or individual Italian or foreign supplementary pension fund established for the employees of Nexi Payment or of any other entity related.

The effects of transactions carried out with the related parties identified above are summarised in the following table.

| Financial Statement Item | Total Financial Statement | Parent Company | Other group companies | Other related parties | Directors, managers and members of supervisory bodies |
|---|---|---|---|---|---|
| 40. Financial assets measured at amortized cost | 1,392,997,371 | | | 241,942,591 | |
| 120. Other assets | 380,961,818 | 223,776 | 11,976,452 | 14,961,821 | |
| 10. Financial liabilities measured at amortized cost | 1,046,115,048 | | | 41,176,024 | |
| 80. Other liabilities | 620,120,889 | | 9,549,694 | 1,710,513 | |
| 20. Interest and other expenses | -29,716,254 | | | -11,686,836 | |
| 50. Fee and commission expense | -603,947,274 | | | -3,078,499 | |
| 160a. Administrative expenses - personnel | -84,973,766 | 73,776 | -1,490,241 | 87,256 | -5,111,215 |
| 160b. Administrative expenses - others | -396,289,388 | | -53,137,319 | -2,474,415 | |
| 200. Other operating income | -29,500,093 | 150,000 | 1,997,626 | 10,514,113 | |
| 250. Profit (Loss) on disposal of investments | 21,181,401 | | 2,178 | | |

Such transactions are usually governed by specific agreements that, while aiming at optimising synergies, economies of scale and purpose and to use centres of excellence, make reference to objective parameters that are Constant over time, characterised by transparency and substantial fairness. Transfer pricing is defined and formalised based on parameters that account for the actual use of the service by each end user.

The following is highlighted in particular with reference to the relationship with DepoBank (Nexi Payments' parent company until 1 July 2018):
- in the first half of 2018, there existed a line of funding, regulated by normal market condition, which remained operative until 1 July 2018, when, following the reorganisation of the Mercury Group, this line was closed and replaced by new lines of funding issued, as factoring contracts, by third-party financial institutes. It follows that the interests highlighted above make reference to operations in the first half of the year;
- consequently to the Group's reorganisation, as of 1 July 2018, some service contracts were agreed. In particular:
  - Given that DepoBank's ICT department was almost totally transferred to Nexi Payments, an outsourcing contract for IT services was agreed. The payment is commensurate to the actual use of internal and external resources;
  - an agreement was signed for the provision of commercial services that defines the conditions and methods on the basis of which Nexi Payments offers its customers DepoBank's products and services through its own marketing network; payment, set on the outcome of a market benchmark check, is proportional to the volume of annual business gained by DepoBank due to the effect of Nexi Payments' marketing activities.

## SECTION 7 - Other transactions

### COMPANY COMBINATION OPERATIONS

#### Transaction carried out in the year

**Acquisition of Sparkling 18**
In April 2018, Nexi Payments acquired an interest in Sparkling 18 of 89.84% of equity.

As the transaction meets the definition of a business combination, it has been accounted for in accordance with IFRS 3 in the Consolidated financial statements of the end parent company, Mercury UK: Business Combinations. The goodwill arising from this business combination at Consolidated Financial Statements level is of around 3 million. Due to the effect of the merger through incorporation of the company Sparkling 18 into Nexi Payments, as described below, this goodwill was also recognised in Nexi Payments' own financial statements.

**Acquisition of Carige's business branches**
On 30/9/2018 Nexi Payments completed the acquisition of Carige's acquiring branch. 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 transaction meets the definition of a business combination, it has have 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 financial statements, and the assessment of goodwill as the difference between the fair value of net assets and the price paid. This Purchase Price allocation process has to be performed within one year from the date of acquisition.
On 31 December 2018, the purchase price allocation process had not yet been completed. It will be completed by the third quarter of 2019;

The goodwill arising from these business combinations amounts to Euro 22.7 million and is composed as follows:

| **Carige acquiring book** | **Provisional fair value** |
|---|---|
| **Cash consideration paid** | **23,422** |
| **Contingent consideration** | |
| Intangible assets | - |
| Tax assets | - |
| Other assets | 716 |
| Due to banks | - |
| Financial liabilities | - |
| Other liabilities | -5 |
| **Identifiable net assets** | **710** |
| **Goodwill on acquisition** | **22,711** |
| Cash consideration paid | 23,422 |
| Cash acquired | 0 |
| Net cash consideration | 23,422 |

## Operations "under common control" linked to the Group's reorganisation

During the first half of 2018, the process of reorganisation of the Mercury Group, authorised by Bank of Italy with provisions dated 11 April 2018 and initiated in the second quarter of 2018, significantly change the Group's structure.

In particular, the process of reorganisation aimed on the one hand to the separation of the banking business from the payment business was completed, as far as Nexi Payments is concerned, through the following extraordinary operations:

- The transfer on 1 July 2018 of the "Payments" business branch by DepoBank (former Company's parent company); as a result of this operation, the company increased its equity and premium by around 145 million against which DepoBank transferred the assets and liabilities relating to the payment business mainly with regard to the management of money linked to prepaid cards and assets relating to digital payments.
- The demerger of the interest held by DepoBank in companies operating in the payment business (Nexi Payments, Oasi, Help Line, Bassilichi and Consorzio Triveneto) in Nexi SpA This operation, which has had no accounting impact the company, has determined that Nexi SpA became the parent company on 1 July 2019.

The project of reorganisation was completed with reference to Nexi Payments, the following merger operations were completed on 31 December 2018:

- Merger by incorporation of the subsidiary "Sparkling" with the subsequent cancellation of the subsidiary's shares and of the interest previously held by Nexi Payments.
- Merger by incorporation of the companies Bassilichi and Triveneto, subsidiaries of the common parent company, Nexi SpA, at the date of the merger.

The operation of transfer of the "Payments" business branch and the merger operations described above under the definition of "operations under common control" and consequently any differences between the cancellation and consolidation must be accounted on the basis of the value continuity principle with respect to the Consolidated financial statements of DepoBank SpA.

Consequently the operations above have had the following impact on Nexi Payments' financial statements:
- the transfer operation of the business branch has entailed the recognition of goodwill for Euro 119.7 million, equivalent to the value recognised in the Consolidated financial statements of DepoBank SpA and included in the business branch subject to transfer:
- The merger operation of the Sparkling subsidiary has entailed the allocation of the difference between the cancellation of the merged company's shares and goodwill for a value of around Euro 3 million.
- The merger by incorporation of Bassilichi and Consorzio Triveneto has entailed an increase in share capital of Euro 4.4 million.

Merger operations described above were completed without backdating of the accounting and tax effects. Consequently Nexi Payments' 2018 economic result has not been affected by the economic results of the merged companies, while it reflects the economic results of the "Payment" business branch from the date of transfer (1 July 2018).

## Other information

As requested by IFRS 3, we report below, for the above described extraordinary operations, pro-forma figures of revenue and costs as if the transactions had been made at the start of 2018.

| | 2018 Profit and Loss | Carige January-September 2018 | Sparkling January-December 2018 | Bassilichi January-December 2018 | Triveneto January-December 2018 | Business unit 2018 half year | 2018 Pro forma Profit and Loss |
|---|---|---|---|---|---|---|---|
| **Net operating revenue** | **654,753** | **1,857** | **1,624** | **110,170** | **30,259** | **20,192** | **818,855** |
| Operating cost | -366,285 | -623 | -1,331 | -107,051 | -17,853 | -26,738 | -519,880 |
| Operating margin | 154,692 | 1,234 | 293 | 3,120 | 12,406 | -6,546 | 165,199 |
| Pre-tax profit | 175,873 | 1,234 | -418 | -24,188 | -505 | -12,247 | 139,748 |
| **Net profit** | **113,831** | **826** | **-418** | **-31,262** | **-3,319** | **-8,197** | **71,461** |

## Goodwill reconciliation in the measurement period

During the first half of 2018, the Purchase Price Allocation (PPA) was completed with reference to the purchase, in 2017, of the acquiring book of Deutsche Bank AG Cards and of Banca Monte dei Paschi di Siena SpA Acquiring Services ("MPS and DB acquiring businesses").

The effects of the PPA on the item "Goodwill" are separately reported below for the two books acquired:

| MPS acquiring book | Provisional fair value | PPA Allocation | Final fair value |
|---|---|---|---|
| **Cash paid** | **534,784** | **-** | **534,784** |
| **Potential cash to be paid** | **-** | **-** | **-** |
| Intangible assets | - | 111,436 | 111,436 |
| Other assets | 16,137 | - | 16,137 |
| Due to banks | -4,946 | - | -4,946 |
| **Net assets** | **11,191** | **111,436** | **122,627** |
| **Goodwill on acquisition** | **523,592** | **-111,436** | **412,157** |

| DB acquiring book | Provisional fair value | Adjustment | Final fair value |
|---|---|---|---|
| **Cash paid** | **29,100** | **-** | **29,100** |
| **Potential cash to be paid** | **12,000** | **-** | **12,000** |
| Intangible assets | - | 15,252 | 15,252 |
| Other assets | 2,480 | - | 2,480 |
| Other liabilities | -3,380 | - | -3,380 |
| **Net assets** | **-900** | **15,252** | **14,352** |
| **Goodwill on acquisition** | **42,000** | **-15,252** | **26,748** |

## FACTORING

Following the completion of the reorganisation, the company has had to redefine its own funding management model also in consequence of the linked closure of the funding line historically provided by Depobank. Therefore, in the context of the new funding strategy, on 26 June 2018 and starting from 1 July 2018, Nexi Payments signed a factoring contract for the daily transfer of receivables deriving from the majority (around 92% in terms of working capital) of its own extended credit cards issued in agreement with partner credit institutes.

The contract anticipates three credit lines:
- One credit line for the daily definitive transfer with recourse of receivables arising from the use of cards and guaranteed by a list of predefined banks and identified by the Factor on the basis, among other things, of the risk profile associated to each bank; this credit line entails the derecognition of receivables with reference to which the entity has integrally transferred to the factor all risks and benefits. The difference between the carrying value and sell prize is accounted under item "100b) Profit/loss from transfer or repurchase of financial assets measured at fair value with impact on overall profitability" of the income statement.
- One credit line for the advance with recourse of receivables arising from the use of cards and guaranteed by banks other than those referred to above. As this credit line does not entails the derecognition of underlying receivables, the operation entails the recognition in the financial statements of a payable balance recognised at amortised cost.
- a receivables advance line (so-called bridge), to be used exclusively in case of any temporary variance between the time of the transaction charged on cards issued by the Group and the time when the relative receivable from the cardholder is transferred to the factor.

The operation above has a revolving character and includes the transfer, in pursuant to the factoring law (52/91 as amended and supplemented), of all current and future credit balances arising in relation to the use of credit cards balances issued in compliance to the existing agreements with partner banks selected by the Factor. Consequently, with reference to credits falling under the first credit line, the factoring operation has in effect entailed a change in the business model from "Held to collect" to "Held to collect and sale". Taking into account that receivables are transferred on a daily basis, and that consequently the balances relating to the line with recourse are derecognised from the balance-sheet, this change of business model has not had any impact on the assessment criteria of receivable balances. With reference to the financial statements closing date, transferred receivables, which have been derecognised, amount to Euro 1,712 million, payables to the factor for the line with recourse amount to Euro 192.5 million and payables to the factor for adjustments Euro 109 million.

### First Time Adoption of IFRS 9 and IFRS 15

With reference to the introduction of the new international accounting standards, IFRS 9 and IFRS 15, Nexi Payments, in line with the Group, has decided to apply these standards without recalculating comparative information. Consequently, the date of transition to the new standards is 1 January 2018, we reference to which the cumulative effects on net equity deriving from the application of the new accounting standards has been determined. With particular reference to IFRS 15, the impacts have been determined with reference only to the contracts that were not been completed as the date of first implementation (1 January 2018).

In particular, for the classification and measurement of debt financial instruments, the analysis highlighted the following:
- Classification and measurement of debt instruments: these instruments, all classified for the purposes of IAS 39 in the receivables portfolio, have been allocated to the "Held to collect" business model. Furthermore, given that existing instruments generate cash flows that are not exclusively payment of capital and interest on working capital (SPPI criterion), they have been classified in the portfolio of Instruments measured at amortised cost in accordance with the valuation criterion with respect to IAS 39.
- Classification and measurement of capital instruments: for these instruments, all classified the purposes of IAS 39 in the portfolio of instruments held for sale, the Company has used the option provided by IFRS9 which requires the valuation at fair value with counter-entry in the statement of comprehensive income, with exclusive recognition of dividends in the income statement. With respect to the provision of IAS 39, the purposes of IFRS 9 any value impairment and profits of losses deriving from disposal are not recognised in the income statement. These changes have no impact at first application.
- Hedging relationships: taking into account that the only operation of this type relates to the Visa shares hedging relationship, started in September 2017, it has been decided to opt for the application of IFR 9, instead of maintaining IAS 39. Since these hedging relationships is qualified for hedge accounting in accordance with IAS 39 and also for IFRS 9, it 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. We reference to the situation on 1 January 2018, it has not been necessary to implement any rebalancing as the hedge ratio calculated in application of IAS 39 is the same as that calculated in application of IFR 9. Therefore, the transition to IFRS 9 will not have any impact on Nexi Payments' shareholders' equity but only on the reclassification of the "Hedging Result" from Retained Earnings to Valuation Reserve, as a result of the fair value valuation of the object hedged against equity.

We reference to IFRS 15, the following impacts are highlighted:
- Revenues charged up front and costs to fulfil contracts with customers which, in compliance with IAS 18, had been recognised directly in the income statement. In compliance with IFRS 15, these revenues and costs must be apportioned throughout the useful life of contracts with relative customers.
- 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.

The summary of the estimates up to date relating to the impacts on the Net Equity of Nexi Payments as at 31 December 2017 due to the application of the accounting standards applicable from 1 January 2018 are reported below.

(Euro/million)

| | As Reported at 31 December 2017 | Estimated Adjustments due to adoption of IFRS 9 | Estimated Adjustments due of IFRS 15 | Estimated Adjusted Opening at 1 January 2018 |
|---|---|---|---|---|
| Valuation Reserves | 30.6 | 0.9 | 0.0 | 31.5 |
| Retained Earnings | 621.8 | -0.9 | 4.2 | 625.1 |
| **Shareholders Equity Nexi Payments** | **795.0** | **0.0** | **4.2** | **799.2** |

The summary of the impacts of IFRS 9 and of IFRS 15 on the opening balance at 1 January 2018 is reported below:

| IAS 39 | IFRS 9 | Assets | 31.12.2017 | Balance Sheet Reclass | IFRS 9 Adjustments | IFRS 15 Adjustments | 01.01.2018 | Notes |
|---|---|---|---|---|---|---|---|---|
| **10.** | **10.** | **Cash and cash equivalents** | **20** | | | | **20** | |
| **20.** | | **Financial assets held for trading** | **-** | | | | **-** | |
| **30.** | | **Finacial assets measured at fair value** | **-** | | | | **-** | |
| **40.** | | **Available-for-sale financial assets** | **83,174** | **-83,174** | | | **-** | |
| | **30.** | **Financial assets measured at fair value through OCI** | **-** | **83,174** | | | **83,174** | **(1)** |
| **50.** | | **Held-to-maturity investments** | **-** | **-** | | | **-** | |
| **60.** | | **Loans and receivables** | **2,572,233** | **-2,572,233** | | | **-** | |
| | **40.** | **Financial asset measured at amortised cost** | **-** | **2,572,233** | | | **2,572,233** | **(2)** |
| | 40.a) | a) loans and receivables with banks | - | 33,604 | | | 33,604 | |
| | 40.b) | b) loans and receivables with financial companies | - | 173,234 | | | 173,234 | |
| | 40.c) | c) loans and receivables with customers | - | 2,365,396 | | | 2,365,396 | |
| **70.** | **50.** | **Hedging Derivatives** | **-** | | | | **-** | |
| **80.** | **60.** | **Financial assets adjustment subject to generic hedging (+/-)** | **-** | | | | **-** | |
| **90.** | **70.** | **Equity investments** | **-** | | | | **-** | |
| **100.** | **80.** | **Property, equipment and investment property** | **83,188** | | | | **83,188** | |
| **110.** | **90.** | **Intangible assets** | **603,182** | | | | **603,182** | |
| **120.** | **100.** | **Tax assets** | **39,810** | | **-** | **3,893** | **43,703** | **(3)** |
| 120.a) | 100.a) | a) current | 18,115 | | | - | 18,115 | |
| 120.b) | 100.b) | b) deferred | 21,695 | | | 3,893 | 25,588 | |
| | | - of which as per Law n. 214/2011 | 11,358 | | | - | 11,358 | |
| **130.** | **110.** | **Non-current assets and groups of assetsheld for sale** | **-** | | | **-** | **-** | |
| **140.** | **120.** | **Other assets** | **250,906** | | | **18,115** | **269,021** | **(4)** |
| | | **TOTAL ASSETS** | **3,632,514** | **-** | **-** | **22,007** | **3,654,522** | |

**Notes:**

(1) The item is entirely composed of the item classified according to IAS 39 "financial assets available for sale".

(2) The item is the result of the reclassification of IAS 39 "Receivables" according to the new item IFRS 9 "Financial assets valued at amortized cost".

(3) The item has increased due to the recognition of deferred taxes (prepaid taxes) calculated on the FTA relating to deferred income of one-time project revenues.

(4) The item has increased due to the recognition of prepaid expenses coming from:

- Costs to fulfill contracts with customers relating to one-off projects for Euro 8,585 thousand;
- Other costs to fulfill the contract for Euro 9,529 thousand.

| IAS 39 | IFRS 9 | Liabilities | 31.12.2017 | Balance Sheet Reclass | IFRS 9 Adjustments | IFRS 15 Adjustments | 01.01.2018 | Notes |
|---|---|---|---|---|---|---|---|---|
| **10.** | **10.** | **Debts** | **2,298,506** | **-2,298,506** | | | **-** | |
| | **10.** | **Financial liabilities measured at amortised cost** | **-** | **2,298,506** | | | **2,298,506** | |
| | 10.a) | a) Debts | - | 2,298,506 | | | 2,298,506 | |
| | 10.b) | b) Outstanding securities | - | | | | - | |
| **20.** | | **Outstanding securities** | **-** | | | | **-** | |
| **30.** | **20.** | **Financial liabilities held for trading** | **1,051** | | | | **1,051** | |
| **40.** | **30.** | **Financial liabilities valued at fair value** | **-** | | | | **-** | |
| **50.** | **40.** | **Hedging derivatives** | **5,520** | | | | **5,520** | |
| **60.** | **50.** | **Financial liabilities adjustment subject to generic hedging (+/-)** | **-** | | | | **-** | |
| **70.** | **60.** | **Tax liabilities** | **15,977** | **-** | **-** | **5,991** | **21,968** | **(5)** |
| 70a) | 60.a) | a) current | - | | | - | - | |
| 70b) | 60.b) | b) deferred | 15,977 | | | 5,991 | 21,968 | |
| **80.** | **70.** | **Liabilities associated with assets held for sale** | **-** | | | **-** | **-** | |
| **90.** | **80.** | **Other liabilities** | **497,417** | | | **11,771** | **509,188** | **(6)** |
| **100.** | **90.** | **Post-employment benefits** | **6,004** | | | | **6,004** | |
| **110.** | **100.** | **Provisions for risks and charges** | **13,042** | **-** | **-** | **-** | **13,042** | |
| 110.a) | 100.b) | a) pension and similar obligations | - | | | | - | |
| 110.b) | 100.c) | b) other provisions | 13,042 | | | | 13,042 | |
| **120.** | **110.** | **Share capital** | **56,889** | | | | **56,889** | |
| **130.** | **120.** | **Treasury shares (-)** | **-** | | | | **-** | |
| **140.** | **130.** | **Equity instruments** | **-** | | | | **-** | |
| **150.** | **140.** | **Share premium** | **2,274** | | | | **2,274** | |
| **160.** | **150.** | **Reserves** | **621,794** | | **-930** | **4,246** | **625,110** | **(7) (8)** |
| **170.** | **160.** | **Valuation reserves** | **30,614** | | **930** | | **31,544** | **(8)** |
| **180.** | **170.** | **Profit/loss for the period (+/-)** | **83,425** | | | | **83,425** | |
| | | **TOTAL LIABILITIES AND EQUITY** | **3,632,514** | **-** | **-** | **22,007** | **3,654,522** | |

**Notes:**

(5) The caption has increased due to the accounting of the deferred taxation liability related to the prepaid expensed related to:
- Cost to fulfil a contract with customers related to project amounting to Euro 2,839 thousand;
- Other cost to fulfil a contract with customers amounting to Euro 3,151 thousand.

(6) The caption has increased due to the accrued income on upfront fee on project.

(7) Reserves has increased of 3,316 thousand due to the net impacts arising from:
- IFRS 15 accrued income and accrued expensed related to project that has demined a net reduction, after the tax impact, amounting to Euro 2,132 thousand;
- IFRS 15 accrued expensed related to other cost to fulfil a contract that has determined an increase, net of tax impact, amounting to Euro 6,378 thousand.

(8) IFRS 9 reclassification of the caption "Fair value adjustments in hedge accounting" from Income Reserve to Valuation reserve, due to the IFRS 9 rules for the treatment of hedging transaction on financial measured at fair value through OCI.

## Restatement of the 2017 financial statements

During the first half of 2018, the Purchase Price Allocation linked to the operations of business combinations implemented in the first half of 2017 were completed. For more information on these operations, and on the Purchase Price Allocation process, please refer to "Other disclosures" in the Explanatory Notes.

As required by IFRS 3, the company adjusted provisional figures as if accounting of the company combinations had been completed at the time of acquisition and has therefore proceeded to amend the comparative information for the 2017 financial year.

The effects of this restatement on the 2017 financial statements is reported below.

### BALANCE SHEET

(Amount in Euro)

| Assets | | 31.12.2017 Restated | Adjustment | 31.12.2017 Original |
|---|---|---|---|---|
| **10.** | **Cash and cash equivalents** | **20,461** | | **20,461** |
| **30.** | **Financial assets measured at fair value through OCI** | **83,174,012** | | **83,174,012** |
| **40.** | **Financial assets measured at amortized cost** | **2,572,233,316** | | **2,572,233,316** |
| | *a) loans to banks* | 33,603,658 | | 33,603,658 |
| | *b) loans to financial companies* | 173,233,569 | | 173,233,569 |
| | *c) loans to customers* | 2,365,396,089 | | 2,365,396,089 |
| **70.** | **Equity investments** | **-** | | **-** |
| **80.** | **Property, equipment and investment property** | **83,188,336** | | **83,188,336** |
| **90.** | **Intangible assets:** | **600,196,041** | **-2,985,484** | **603,181,525** |
| | of which: | - | | |
| | a) goodwill | 438,904,706 | -126,687,422 | 565,592,128 |
| **100.** | **Tax assets** | **39,810,210** | **-** | **39,810,210** |
| | *a) current* | 18,115,162 | | 18,115,162 |
| | *b) deferred* | 21,695,048 | | 21,695,048 |
| **120.** | **Other assets** | **250,906,498** | | **250,906,498** |
| | **TOTAL ASSETS** | **3,629,528,874** | **-2,985,484** | **3,632,514,358** |

| | Liabilities and equity | 31.12.2017 Restated | Adjustment | 31.12.2017 Original |
|---|---|---|---|---|
| **10.** | **Financial liabilities measured at amortized cost** | **2,298,506,245** | | **2,298,506,245** |
| | *a) debts* | 2,298,506,245 | | 2,298,506,245 |
| | *b) securities issued* | - | | - |
| **20.** | **Financial liabilities held for trading** | **1,051,432** | | **1,051,432** |
| **40.** | **Hedging Derivatives** | **5,520,019** | | **5,520,019** |
| **60.** | **Tax liabilities** | **14,990,182** | **-987,300** | **15,977,482** |
| | *a) current* | - | | - |
| | *b) deferred* | 14,990,182 | -987,300 | 15,977,482 |
| **70.** | **Liabilities associated with assets held for sale** | **-** | | **-** |
| **80.** | **Other liabilities** | **497,417,238** | | **497,417,238** |
| **90.** | **Post-employement benefits** | **6,003,504** | | **6,003,504** |
| **100.** | **Provisions for risks and charges:** | **13,042,160** | | **13,042,160** |
| | *a) commitments and guarantees given* | - | | - |
| | *b) pension and similar obligations* | - | | - |
| | *c) other provisions* | 13,042,160 | | 13,042,160 |
| **110.** | **Share capital** | **56,888,798** | | **56,888,798** |
| **140.** | **Share premium** | **2,273,684** | | **2,273,684** |
| **150.** | **Reserves** | **621,794,301** | | **621,794,301** |
| **160.** | **Valuation reserves** | **30,614,140** | | **30,614,140** |
| **170.** | **Profit (Loss) of the year** | **81,427,171** | **-1,998,184** | **83,425,355** |
| | **TOTAL LIABILITIES AND EQUITY** | **3,629,528,874** | **-2,985,484** | **3,632,514,358** |

## INCOME STATEMENT

(Amount in Euro)

| | 31.12.2017 Restated | Adjustment | 31.12.2017 Original |
|---|---|---|---|
| 10. Interest and similar income | 21,568,701 | | 21,568,701 |
| of which: interest income calculated using the effective interest rate method | - | | - |
| 20. Interest and similar expense | - 33,988,555 | | - 33,988,555 |
| 30. NET INTEREST EXPENSE | - 12,419,854 | - | - 12,419,854 |
| 40. Fee and commission income | 951,451,121 | | 951,451,121 |
| 50. Fee and commission expense | - 566,208,211 | | - 566,208,211 |
| **60. NET FEE AND COMMISSION INCOME** | **385,242,910** | **-** | **385,242,910** |
| 70. Dividends and similar income | 248,473 | | 248,473 |
| 80. Net trading income | - 1,604,100 | | - 1,604,100 |
| 90. Net value in hedge accounting | 999,156 | | 999,156 |
| 100. Profit/loss on disposal or repurchase of: | - | | - |
| a) Financial assets measured at amortized cost | - | | - |
| b) Financial assets measured at fair value through OCI | - | | - |
| c) Financial liabilities | - | | - |
| 110. Net Financial result of other financial assets liabilities measured at fair value through profit or loss | - | | - |
| a) financial assets measured at fair value | - | | - |
| b) other financial assets mandatorily measured at fair value | - | | - |
| **120. OPERATING MARGIN** | **372,466,585** | **-** | **372,466,585** |
| 130. Amortisation and net impairment losses for credit risks associated with | - 1,505,702 | | - 1,505,702 |
| a) Financial assets measured at amortized cost | - 1,505,702 | | - 1,505,702 |
| b) Financial assets measured at fair value through OCI | - | | - |
| 140. Profit / loss from contractual changes without derecognition | - | | - |
| **150. NET RESULT OF FINANCIAL MANAGEMENT** | **370,960,883** | **-** | **370,960,883** |
| 160. Administrative expenses: | - 431,143,267 | | - 431,143,267 |
| a) personnel expense | - 69,958,742 | | - 69,958,742 |
| b) other administrative expenses | - 361,184,525 | | - 361,184,525 |
| 170. Net provisions for risks and charges: | - 1,814,271 | | - 1,814,271 |
| a) commitments and guarantees given | - | | - |
| b) other net provisions | - 1,814,271 | | - 1,814,271 |
| 180. Amortisation and net impairment losses on property, equipment and investment property | - 21,667,414 | | - 21,667,414 |
| 190. Amortisation and net impairment losses on intangible assets | - 17,276,624 | - 2,985,484 | - 14,291,140 |
| 200. Other operating costs / income | 220,943,463 | | 220,943,463 |
| **210. OPERATING COSTS** | **- 250,958,113** | **- 2,985,484** | **- 247,972,629** |

| | 31.12.2017 Restated | Adjustment | 31.12.2017 Original |
|---|---|---|---|
| 220. Profit / loss on investments | - | | - |
| 230. Valuation differences on property, equipment and investment property and intangible assets measured at fair value | - | | - |
| **240. Goodwill impairment** | **-** | | **-** |
| 250. Profit (Loss) on disposal of investments | - | | - |
| **260. PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS** | **120,002,770** | **- 2,985,484** | **122,988,254** |
| 270. Income Taxes | - 38,575,599 | 987,300 | - 39,562,899 |
| **280. PROFIT (LOSS) AFTER TAX FROM CONTINUING OPERATIONS** | **81,427,171** | **- 1,998,184** | **83,425,355** |
| 290. Profit (Loss) after tax from discontinued operations | - | - | - |
| **300. PROFIT (LOSS) OF THE YEAR** | **81,427,171** | **- 1,998,184** | **83,425,355** |

## Parent company's financial statements

The following table summarises the parent's most recently approved financial statements.

### BALANCE SHEET

(Amount in Euro)

| | | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| | **ASSETS** | | |
| 60. | Loans and receivables with banks | 134,383,990 | 8,402,773 |
| 70. | Loans and receivables with customers | 66,608,051 | 118,121 |
| 100. | Equity investments | 1,005,716,802 | 1,112,716,802 |
| 140. | Tax assets | 28,180,352 | 323,625 |
| | **Total assets** | **1,234,889,195** | **1,121,561,321** |

| | | | |
|---|---|---|---|
| | **LIABILITIES** | | |
| 10. | Debts to banks | - | 41,012,641 |
| 80. | Financial liabilities | 24,817,613 | 2,446,414 |
| 100. | Other liabilities | 31,512,880 | 31,980,753 |
| 170. | Reserves | 6,449,042 | - |
| 180. | Share premium | 989,672,471 | 989,672,471 |
| 190. | Share capital | 50,000,000 | 50,000,000 |
| 220. | Profit/loss for the period (+/-) | 132,437,189 | 6,449,042 |
| | **Total liabilities and equity** | **1,234,889,195** | **1,121,561,321** |

### INCOME STATEMENT

(Amount in Euro)

| | | 2017 | 2016 |
|---|---|---|---|
| 10. | Interest and similar income | 281,293 | - |
| 20. | Interest and similar expense | -359,397 | -45,919 |
| 30. | NET INTEREST EXPENSE | -78,104 | -45,919 |
| 70. | Dividends and similar income | 136,988,000 | 10,000,000 |
| 120. | OPERATING MARGIN | 136,929,896 | 9,954,081 |
| 140. | NET RESULT OF FINANCIAL MANAGEMENT | 136,999,896 | 9,954,081 |
| 180. | Administrative expenses: | | |
| | *b) others* | *-4,790,045* | *-1,632,788* |
| | | 4,790,045 | -1,632,788 |
| 220. | Other operating costs / income | - | -2,001,783 |
| 230. | OPERATING COSTS | -4,790,045 | -3,634,571 |
| 280. | PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS | 132,119,851 | 6,319,510 |
| 290. | Income Taxes | 317,338 | 129,532 |
| **320.** | **Profit (loss) of the year** | **132,437,189** | **6,449,042** |

# 1.4

## BOARD OF STATUTORY AUDITORS REPORT

# Report of the Board of Statutory Auditors of Nexi Payment SpA on the 2018 Financial Statements to the Shareholders' Meeting pursuant to Art. 2429 of the Italian Civil Code

## 1. INTRODUCTION

**To the sole Shareholder**

We, the undersigned Statutory Auditors, have noted that during the financial year the Board of Statutory Auditors has carried out monitoring activities taking into consideration the overall set of regulations governing the tasks and functions assigned to them. It is specified that the Board of Statutory Auditors also carries out the functions of Supervisory Body pursuant to Italian Legislative Decree 231 of 2001. For further clarity, the evolution of the composition of the Board of Statutory Auditors which occurred during 2018 is reported below. Until 18 April 2018, the Board was composed of:

| | |
|---|---|
| Chairman | Alessandro Grange |
| Standing Statutory Auditors | Lorenzo Banfi |
| | Paolo Lazzati |

On 19 April 2018, the Shareholders' Meeting appointed the new Board of Statutory Auditors, having the mandate of the previous control body expired, and therefore at the date of drawing up this report, it is composed of:

| | |
|---|---|
| Chairman | Piero Alonzo |
| Standing Statutory Auditors | Alberto Balestreri |
| | Marco Giuseppe Zanobio |
| Substitute Statutory Auditors | Fabio Oneglia |
| | Andrea Vagliè |

Having said this, the Financial Statements as at 31 December 2018, accompanied by the Explanatory Notes and by the Report on Operations, was approved by the Board of Directors on 12 February 2019 and, at the same time, transmitted to the Board of Statutory Auditors.

It should also be noted that from 2 July 2019, the Company has been subject to the management and coordination, as referred to in Art. 2497 et seq. of the Italian Civil Code, by the parent company, Nexi SpA.

### 1.1 Regulations

The Board of Statutory Auditors has carried out the task assigned to them in compliance with the provisions of Art. 2403 of the Italian Civil Code. In carrying out supervisory tasks, it has also operated in compliance with the provisions applicable to the company as an Electronic Money Institution in accordance to the regulations of the Consolidated Act in the banking and credit field (in particular Art. 114 bis et seq.) as well as in relation to secondary regulations issued by the Bank of Italy. Lastly, the Board has operated in compliance with the Rules of Conduct of the Board of Statutory Auditors – Principles of Conduct of the Board of Statutory Auditors of Unlisted Companies issued in September 2015 by the National Council of Chartered Accountants and Accounting Experts.

### 1.2 Procedures for the performance of activities by the Board of Statutory Auditors

The exercise of the functions assigned to the Board of Statutory Auditors and, therefore, its own supervisory activity has taken place through:

- Participating in meetings of the corporate bodies and, in particular, of the Board of Directors and the Shareholders' Meeting;
- Meeting and obtaining information from subjects occupying top positions within the Company;
- Meeting regularly with managers of the main corporate functions, including Audit, Risk Management, and Compliance & AML;
- Exchanging information with the auditing company, also in accordance with the provisions of the regulations;
- Corporate functions obtaining regular reports both with reference to activities carried out and in relation to the outcomes of individual checks carried out;
- Information and activities carried out in its capacity of Supervisory Body pursuant to Italian Legislative Decree 231/2001.

## 2. GENERAL SUPERVISORY ACTIVITIES

### 2.1 Compliance with the law and the Articles of Association

The Board of Statutory Auditors is not aware of any operations carried out by the Company that are against the law, outside of the corporate objective or against the Articles of Association or the resolutions of the Shareholders' Meeting and of the Board of Directors. The Board observes that on 26 July 2018 the Board of Directors approved the Company's General Rules which establishes the rules of operation, and the roles and responsibilities of the organisational units making up the organisational chart. Furthermore, on 9 November 2018, the Board of Directors approved the General Rules of the Nexi Group relating to activities of direction and coordination carried out by the parent company, Nexi SpA.

## 2.2 Participation to meetings of corporate bodies, meetings of the Board of Statutory Auditors and meetings with various departments, exchange with the auditing company

The Board of Statutory Auditors has carried out its own activity of supervision also through the participation to the meetings of the Board of Directors and the Shareholders' Meetings during the year.
In particular, the Board has:
- Participated in all of the 13 meetings of the Board of Directors held following appointment, acquiring information disclosed therein also by the delegated bodies in accordance with the provisions of Art. 2381, paragraph 5 of the Italian Civil Code regarding the performance of operations and their anticipated outlook;
- Observed the four shareholders' meetings held during the year following its appointment;
- Held, during the year, starting from appointment, nine meetings of the Board of Statutory Auditors, carrying out supervisory activities on such occasions also with the support of the internal control functions;
- Obtained further information and carried out in-depth checks on occasion of the six meetings and activities carried out as Supervisory Body pursuant to Italian Legislative Decree 231 of 2001.

## 2.3 Supervisory Authorities

The Board of Statutory Auditors has paid the necessary attention to the regulations issued in the period by Supervisory Authorities, as well as to any communications and requests for information from the same Authorities and has noted the regular and prompt dispatch to the Bank of Italy of the communications requested by them.

## 2.4 Claims and complaints

The Board of Statutory Auditors did not, also in its role of Supervisory Body, report anything to the relevant Authorities. During 2018, the Board of Statutory Auditors did not directly receive claims or complaints from customers and has checked, through meeting with the responsible structures, the process of management of claims and complaints sent to the corporate bodies and the offices.

## 2.5 Notes on the operations with greater economic, financial and capital Impact carried out by the company and their compliance with the law and to the Articles of Association

The Board of Statutory Auditors has noted the main operations from time to time put forward to the Board of Directors and to the Shareholders' Meeting and has no objections to raise. The operations with the greatest impact are reported in the paragraph "Group's Evolution" of the Management Report.

### 2.6 Indication of the existence of any typical and/or unusual operations with related parties and adequacy of the information received

The Board of Statutory Auditors has not observed the existence of atypical and/or unusual operations during the year and has acquired information on any operations with related parties both through the information produced in the Financial Statements and the information from time to time made available by corporate bodies and functions and/or in relation to issues raised in the Board of Directors' meetings. In any case, the Board of Directors has identified and illustrated the operations put in place with related parties that, in observance of the IAS 24 standard, are reported in the Management Report and in the Explanatory Notes, to which reference is made, and that appear to have been put in place in compliance with current legislation.

### 2.7 Observation on the compliance with principles of fair administration

The Board has gained knowledge and monitored, within the areas of its competence, the respect of the fundamental criteria of healthy and prudent management of the Company, has observed the reasonable informed actions undertaken by the Board of Directors and the adequacy of the decision-making process and has verified, on the basis of the information received, compliance with the law and with the Articles of Association of the decisions taken, ensuring that the same were not imprudent or risky.

## 3. EXCHANGE OF INFORMATION AND SUPERVISION IN THE RELATIONSHIP WITH THE AUDITING COMPANY

### 3.1 Observation and proposals in reference to remarks and recalls of information in the report of the auditing company

During the year, the Board of Statutory Auditors has met with the auditing company in order to exchange appropriate information relating to the outcomes of verifications conducted by the same. The auditing company has reported in relation to the auditing work and the absence of situations of uncertainties or any limitations in the checks carried out. Lastly, the Board has viewed the report made by the auditing company with reference to the financial statements as at 31.12 2018 and, in regard to this, notes the absence of any remarks and recalls of information.

### 3.2 Assignment of further tasks to the Auditing company

The Board of Statutory Auditors acknowledges receipt of the report sent by the auditing company confirming that no further tasks have been assigned to it.

### 3.3 Observation on any relevant issues arising during meetings held with the auditors

The Board of Statutory Auditors has regularly met with the auditing company, receiving by the same information with regard to the outcomes of verifications carried out during the year without noting any critical issues. The Board has primarily focused its attention on the issues of adequacy of the administrative, accounting and control systems, without receiving any notifications of irregularities.

## 4. OPINIONS, CLAIMS AND OFFICIAL COMPLAINTS

### 4.1 Opinions issued in accordance with the law during the financial year

On 11 May 2018, the Board of Statutory Auditors issued its opinion on the adequacy of the increase in share capital, which took place in the context of the more comprehensive general reorganisation of the Nexi Group, excluding option rights for € 4,740,000 as share capital and € 140,304,000 as premium, through the issue of 7,900,000 new ordinary shares with a nominal value of € 0.60 each, in addition to the premium of € 17.76 per share, paid up through assignment in nature, by the parent Nexi SpA, of the non-banking business unit.

### 4.2 Submission of official complaints pursuant to Art. 2408 of the Italian Civil Code, initiatives undertaken and related outcomes

During the 2018 financial year, no official complaints pursuant to Art. 2408 of the Italian Civil Code were received by the Board of Statutory auditors.

## 5. SUPERVISORY ACTIVITIES IN RELATION TO THE ADEQUACY OF THE ORGANISATIONAL STRUCTURE, INTERNAL CONTROL AND ADMINISTRATIVE AND ACCOUNTING SYSTEMS

### 5.1 Observation on the adequacy of the organisational structure

The Board has monitored the adequacy of the organisational structure, also with reference to the tasks attributed within the structure and the existence of corporate internal procedures and regulations as well as checks put in place for activities believed to be more sensitive for the company. In its function of Supervisory Body, and in the context of the activity to monitor the adequacy of the Organisational, Management and Control Model pursuant to Italian Legislative Decree 231 of 2001, the Board has noted that Model 231 was updated on 12 February 2019 and that policies, Ethical Code and Conduct Code were also updated.

### 5.2 Observation on the adequacy of the internal control system

The Board acknowledges the review of the organisational structure from time to time implemented by the Company during the 2018, also in the light of the general restructuring of the Nexi Group. With regard to the activities carried out by the Audit function, the Board of Statutory Auditors has received and noted the audit reports produced, as well as the annual and multiannual programmes of planned interventions in coordination with the activities planned by the Compliance and Risk management functions in order to avoid overlaps in the structures involved in checks. The Board of Statutory Auditors has requested the strengthening in the number of staff members in the Audit and Compliance departments, as well as the appointment of a manager in the Risk Management department, which took place on 5 February 2019.

### 5.3 Observation on the adequacy of the administrative/accounting system and on its reliability in correctly representing management performance

The Board has no observations, within its own competence, relating to the reliability of the administrative/accounting system in correctly capturing and representing management performance. It has carried out such assessments also by obtaining information from corporate department managers as well as the periodical exchange of information with the auditing company also, and in particular, with reference to the outcomes of the checks by this carried out on the adequacy of the administrative/accounting system, which has not revealed any critical issues or points for attention.

## 6. OTHER SUPERVISORY ACTIVITIES

The Board of Statutory Auditors highlights that, on 26 July 2018, the Company received the inspection report from the Bank of Italy relating to the compliance with regulations in terms of transparency of operations and of banking and financial services and the fairness of relationships between intermediaries and customers. The inspection report of the Supervisory Authority concludes with a judgement of prevalent compliance with regard to organisational and corporate structures, with an appeal, however, for improvements requested in relation to internal regulations, operating procedures and control systems. For this purpose, the Board has drawn up a document, sent on 12 September 2018 to the Chief Executive Officer and to the managers of the internal control functions, in which it analysed the content of the report, highlighted the areas for attention deemed to be important for the inspection team. In particular, the Board has individually highlighted a series of questions, also useful for the purpose of fully addressing the recall points expressed by the Supervisory Authority. The Board has then monitored the activities put in place by the Company and by the various relevant company functions aimed at monitoring the progress of the corrective actions initiated following the inspection observation by the Bank of Italy.

## 7. CONCLUSIVE ASSESSMENT OF THE SUPERVISORY ACTIVITIES CARRIED OUT AS WELL AS OF ANY OMISSION, REPREHENSIBLE FACTS OR IRREGULARITIES OBSERVED IN THE PERFORMANCE OF THE SAME

On the basis of the supervisory activities carried out by the Board of Statutory Auditors, and as better referred to in this report, the Board acknowledges – also on the basis of project activities currently underway – the substantial adequacy of the Company with regard to its organisational structure and administrative and accounting systems. We reference to the internal control system, the Board of Statutory Auditors notes the initial actions put in motion by the Company aimed at strengthening the internal control functions. In the context of the supervisory activity carried out by the Board of Statutory Auditors, no omissions, reprehensible facts or irregularities and relevant critical issues were observed.

## 8. OBSERVATIONS AND PROPOSALS WITH REGARD TO THE FINANCIAL STATEMENTS AND THEIR APPROVAL

It is to be noted that, pursuant to Art. 13 and 14 of Italian Legislative Decree no. 39/2010 (formerly 2409-bis et seq. of Italian Civil Code), it is the competence of the statutory auditor to check the accurate keeping of accounting records, the results of this and their correspondence with financial statements. Nevertheless, the Board of Statutory Auditors has not excluded targeted checks on some balance sheet items to ensure that, in the broadest and general provisions of paragraphs III and IV of section 6-bis, chapter, heading and book V of the Italian Civil code, as well as in consideration of the provisions, with the necessary integrations, also of Art. 2429 of the Italian Civil Code, its ability to express its own autonomous assessment with regard that the accuracy of the financial statements is not impaired. The examination of the financial statements by the Board of Statutory Auditors was carried out according to the principles of conduct of the Board of Statutory Auditors, established by the National Council of Chartered Accountants and of Accounting Experts. The Board has monitored the general layout of the financial statements and of the explanatory notes with regard to their compliance with the law, in regard to its composition and structure, as well as its correspondence to known facts and information. In particular, the Board observes that the Financial Statements have been drawn up in compliance with the IAS/IFRS International accounting standards applicable at the reference date and that the Financial Statements have been prepared on the basis of the Instructions of the Bank of Italy relating to "Financial Statements of IFRS intermediaries other than banking intermediaries" applicable to financial statements relating to the financial year closed or current on 31 December 2018. The Management Report provides adequate information on the reasons they have determined the result for the year and highlights the main events that have characterised the management of the financial year as at 31 December 2018, as well as additional information required by Art. 2428 of the Italian Civil Code. The auditing company, KPMG SpA, has informed the Board that there are no observations no remarks or recalls for information arising from thee report on the Financial Statements for the year, pursuant to Art. 14 of Italian Legislative Decree no. 39/2010 (formerly Art. 2409-ter of the Italian Civil Code) issued on 25 February 2019. Lastly, the Statutory Auditors state that, to their knowledge, in drawing up the financial statements,

the Directors did not deviate from the legislation pursuant to Art. 243, paragraph 4, of the Italian Civil Code. With reference to the Financial Statements, which show a net profit of € 113,831,200, the Board of Statutory Auditors has no observations or proposals to put forward and expresses, as far as it is within its competence, a favourable opinion for the approval of the same and for accepting the proposal made by the Board of Directors regarding the subsequent allocation of profit of € 113,831,200: (i) € 66,018,004 to the shareholder, (ii) € 47,814,196 to reserve.

Milan, 25 February 2019

**The Board of Statutory Auditors**

Piero Alonzo
Chairman

Alberto Balestreri
Standing Statutory Auditor

Marco Giuseppe Zanobio
Standing Statutory Auditor

# 1.5

AUDITING COMPANY REPORT

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

**(Translation from the Italian original which remains the definitive version)**

# Independent auditors' report pursuant to articles 14 and 19 of Legislative decree no. 39 of 27 January 2010

*To the shareholders of*
*Nexi Payments S.p.A.*

## Report on the audit of the financial statements

### *Opinion*

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

In our opinion, the financial statements give a true and fair view of the financial position of Nexi Payments S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the 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.

### *Other matters - Management and coordination*

As required by the law, the company disclosed the key figures from the latest financial statements of the company that manages and coordinates it in the notes to its own financial statements. Our opinion on the financial statements of Nexi Payments S.p.A. does not extend to such data.

## *Responsibilities of the company's directors and board of statutory auditors ("Collegio Sindacale") for the financial statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the company's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the 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 financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## Report on other legal and regulatory requirements

### *Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10*

The company's directors are responsible for the preparation of a directors' report at 31 December 2018 and for the consistency of such report with the related financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the company's financial statements at 31 December 2018 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the company's financial statements at 31 December 2018 and has been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 25 February 2019

KPMG S.p.A.

(signed on the original)

Roberto Fabbri
Director of Audit

# 1.6

RESOLUTIONS OF THE SHAREHOLDERS MEETING

# RESOLUTIONS OF THE SHAREHOLDERS MEETING

of 11 March 2019

The resolutions adopted by the Ordinary Shareholders Meeting held on first call on 11 March 2019 are summarized hereinafter as follows:

1) YEARLY FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018; MANAGEMENT REPORT OF THE DIRECTORS, REPORT OF THE STATUTORY AUDITORS AND REPORT OF THE AUDITING FIRM. RELATED AND CONSEQUENT RESOLUTIONS.
The Shareholders' Meeting has approved the financial statements as at 31 December 2018 as presented by the Board of Directors and the relevant destination of the profits of the fiscal year.

2) PROPOSAL TO GRANT THE MANDATE OF EXTERNAL AUDITING FOR THE FISCAL YEARS 2019-2027 PURSUANT TO LEGISLATIVE DECREE 39/2010 AND DETERMINATION OF THE RELEVANT REMUNERATION; RELATED AND CONSEQUENT RESOLUTIONS.
The Shareholders Meeting has resolved to appoint as external auditing firm, for the 9-year term 2019-2027, PriceWaterhouseCoopers SpA.

3) APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS FOR THE FISCAL YEARS 2019, 2020 AND 2021 AND DETERMINATION OF THE RELEVANT REMUNERATIONS. RELATED AND CONSEQUENT RESOLUTIONS.
The Shareholders Meeting as resolved to appoint as members of the Board of Statutory Auditors until approval of the financial statements as at 31 December 2021, the following individuals:
Piero Alonzo, as Chairman
Mariella Tagliabue, as effective statutory auditor
Marco Giuseppe Zanobio, as effective statutory auditor
Tommaso Ghelfi, as alternate statutory auditor;
Andrea Carlo Zonca, as alternate statutory auditor

4) APPOINTMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS FOR THE FISCAL YEARS 2019, 2020 AND 2021, PREVIOUSLY DETERMINING THE NUMBER OF MEMBERS. DETERMINATION OF THE RELEVANT REMUNERATIONS.
The Shareholders Meeting has resolved to appoint a Board of Directors composed of 7 members that will remain in office until the date of the Shareholders Meeting convened for the approval of the financial statements as at 31 December 2021, which are the following:
Michaela Castelli, as Chairman
Marco Bassilichi
Paolo Bertoluzzo
Francesco Casiraghi
Emanuele Cuccio
Maurizio Mussi
Antonio Patuelli

# 1.7

## CORPORATE POSITIONS

# CORPORATE POSITIONS

at 11 March 2019

## BOARD OF DIRECTORS

| | |
|---|---|
| **Chairman** | Michaela Castelli |
| **Deputy Chairman** | Marco Bassilichi |
| **Deputy Chairman** | Antonio Patuelli |
| **Chief Executive Officer** | Paolo Bertoluzzo |
| **Directors** | Emanuele Cuccio<br>Francesco Casiraghi<br>Maurizio Mussi |

## BOARD OF STATUTORY AUDITORS

| | |
|---|---|
| **Chairman** | Piero Alonzo |
| **Statutory auditors** | Mariella Tagliabue<br>Marco Giuseppe Zanobio |
| **Alternate Auditors** | Tommaso Ghelfi<br>Andrea Carlo Zonca |

# 1.8

SHAREHOLDERS' LIST

# SHAREHOLDERS' LIST

at 11 March 2019

| | |
|---|---|
| **Nexi SpA** | Milano |
| **Banca Popolare di Sondrio S.C.p.A.** | Sondrio |

**Nexi Payments SpA**

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Milano, Monza Brianza and Lodi Registry of Companies, Tax Code 04107060966
Member of Nexi VAT group - VAT n. 10542790968
Register of Economic Activities (REA) 1725898
Share Capital € 66.018.004,80 fully paid in
Entered in the Electronic Money Institution (IMEL) Register under n. 32875.7
The Company is subject to the direction and coordination of the Parent Company, Nexi SpA

Concept, Graphic design:

mercurio GP
www.mercuriogp.eu

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Payments