ANNUAL REPORT AND SEPARATE FINANCIAL STATEMENTS 2017

CRÉDIT AGRICOLE
FRIULADRIA

Crédit Agricole FriulAdria

Annual Report and Financial Statements

2017

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Letter from the Chairwoman

I am very proud to present the Shareholders of Crédit Agricole FriulAdria with these Annual Report and Financial Statements giving evidence of one of the best performing years in the history of our Bank.

2017 was an important year from several standpoints. The economy of the Euro Area continued to recover appreciably and Italy, after a long recession period, proved to have decidedly returned to grow. Confidence has improved in all sectors and across wide social layers, even though problems and challenges have remained and require structural approaches to be solved.

Northeast Italy proved lively once again: key indicators, such as industrial output, investments, exports, the employment rate and domestic consumption showed stable growth.

Both in Friuli Venezia Giulia, the home Region of our Bank, and in Veneto, the main market for our development, the manufacturing sector, which was favoured by the incentives provided by the Government, was the driver of the entire system.

In this economic scenario, Crédit Agricole FriulAdria accompanied and supported the expansionary phase experienced by the economy and by the community, reasserting its ability to achieve quite considerable business performances while maintaining high profitability. The Bank made a net profit of Euro 50 million, up by 35.5% vs. the previous year: it is one of the best performances ever.

The growth in the main indicators, and especially in loans to Customers, is evidence that our Bank is steady in pursuing its mission: the mission of assisting and driving the economy of the communities it operates in, with close focus on the needs of households and businesses.

In 2017, we engaged in some important strategic projects, including the strengthening of our business operations in the Veneto Region, especially in Verona, where we have just opened the new hub of Crédit Agricole services intended for all ranges of Customers.

More in general, we continued to implement the “Ambizione 2020” Group Strategic Plan, which was launched in 2016 and provides for building a distinctive positioning in the target market featuring Customer centrality, a multichannel service model, digital innovation and investments in advanced technologies and people. In this perspective, the institutional campaign featuring the slogan “Una grande banca, tutta per te” (“a great big Bank all for you”) has further increased the renown of our brand, conveying the strength and soundness resulting from its belonging to the Crédit Agricole Group.

The Chairwoman
Chiara Mio

Corporate Officers and Independent Auditors

Board of Directors

CHAIRWOMAN

Chiara Mio

DEPUTY-CHAIRMAN

Ariberto Fassati(*)

DIRECTORS

Andrea Babuin(*)

Jean-Yves Barnavon

Michel Jean Mary Benassis

Gianpietro Benedetti(°)

Michela Cattaruzza(°)

Jean-Louis Delorme

Mariacristina Gribaudi(°)

Olivier Guilhamon(1)(*)

Jean-Philippe Laval(*)

Giampiero Maioli(*)

Marco Stevanato(°)

(*) Members of the Executive Committee
(1) In office since 22 April 2017
(°) Independent

Board of Auditors

CHAIRMAN

Roberto Branchi

STANDING AUDITORS

Alberto Guiotto

Andrea Martini

Francesca Pasqualin

Antonio Simeoni

ALTERNATE AUDITORS

Ilario Modolo

Micaela Testa

General Management

GENERAL MANAGER

Carlo Piana[a]

DEPUTY GENERAL MANAGER

Cesare Cucci[b]

INDEPENDENT AUDITORS

EY S.p.A.

(a) In office since 1 March 2018 in place of Roberto Ghisellini
(b) In office since 12 June 2017 in place of Gérald Grégoire

Key figures

Income Statement data *(thousands of Euro)*	**2017**	**2016**	**2015**
Net operating revenues	315,473	305,729	310,232
Operating margin	126,127	110,734	122,540
Net profit	50,131	37,000	34,249

Balance Sheet data *(thousands of Euro)*	**2017**	**2016**	**2015**
Loans to Customers	7,187,346	6,817,046	6,603,173
Funding from Customers	8,041,479	7,054,795	6,198,946
Indirect funding from Customers	7,413,550	6,926,288	6,382,883

Operating structure	**2017**	**2016**	**2015**
Number of employees	1,461	1,477	1,471
Average number of employees	1,270	1,309	1,362
Number of branches	174	182	187

Profitability, efficiency and credit quality ratios	**2017**	**2016**	**2015**
Cost(°)/income ratio	57.9%	58.8%	57.8%
Net profit/Average equity (ROE)	6.9%	5.1%	4.8%
Net profit/Average Tangible Equity (ROTE)	8.3%	6.2%	5.8%
Net non-performing loans/Net loans to Customers	5.6%	7.2%	7.7%
Total adjustments of non-performing loans/Gross non-performing loans	47.6%	42.9%	44.3%

Capital ratios	**2017**	**2016**	**2015**
Common Equity Tier 1 ratio	12.6%	12.3%	11.9%
Tier 1 ratio	12.6%	12.3%	11.9%
Total capital ratio	12.6%	12.3%	11.9%

(°) Ratio calculated excluding ordinary and extraordinary contributions to support the banking system

Significant events

JANUARY

An important partnership was established between Crédit Agricole and the Ca' Foscari University of Venezia for the 2017-2021 five-year period.
It is a strategic agreement aimed at consolidating a high-quality cooperation and experience sharing to the benefit of both partners, taking all the stakeholders into an international and innovative dimension.
The partnership activities included several training initiatives and financial education sessions for the partner University's students.

FEBRUARY

For the ninth year in a row, the Crédit Agricole Cariparma Banking Group was awarded the Top Employers Italia official certification for the excellent work conditions it provides its employees with; for the training and development policies implemented at all corporate levels; for its HR management strategies, thus proving a leader in the HR scope, committed to continuous improvement in the policies and Best Practices in the field of Human Resources.
Within the "Cerchio d'Oro dell'Innovazione Finanziaria" financial innovation prize, the Crédit Agricole Italia Banking Group was awarded two Special Mentions in the "Payment products and services" and "Lending products and services" categories. The prize winners were BankMeApp, the new app dedicated to teenagers and their families for shared management of expenses and small savings, and Mutuo Adesso, the website entirely dedicated to real estate loans.
The Crédit Agricole Italia Banking Group was awarded the Family Audit certification; Family Audit is a managerial tool promoting the implementation of staff management policies aimed at the wellbeing of employees and their families. This certification is awarded to organizations that are committed to designing and implementing a "Conciliation Activity Plan", such as than implemented by our Group within the Artemisia Project.

MARCH

Crédit Agricole Cariparma successfully issued its new Covered Bonds.
The Covered Bonds were put on the market on a dual-tranche basis, at 8 and 12 years; the outcome of the transaction, which had a total value of Euro 1.5 billion, proved once again that the Group is highly appreciated by investors.

The Crédit Agricole Italia Banking Group won the 2017 Innovation Prize awarded by the Italian Banking Association (ABI) , in the category "Innovation for Retail Customers: the bank for households and young people" thanks to BankMeApp.

APRIL

The Smart Working project started as an integral part of the "Ambizione Italia 2020" Medium Term Plan, with which the Group puts in practice its commitment to finding solutions for its employees' work-life balance.

JUNE

Crédit Agricole won 5 prizes within the Milano Finanza Global Awards, given to the Crédit Agricole Italia Banking Group, to Crédit Agricole Carispezia and to Agos: good evidence of the role that the Group plays in the Italian banking and economic field, and also evidence of the importance of the synergies developed by and between the various Crédit Agricole entities.

The Crédit Agricole Italia Banking Group extended its service model with a new commercial channel, namely a network of over 100 financial advisors operating on 10 different markets and providing Customers with advanced full-range financial advisory services.

JULY

Crédit Agricole Leasing Italia presents home leases for principal residence. Tax benefits for young people and for those who cannot buy a home in other ways.

OCTOBER

The Crédit Agricole Italia Banking Group launched a media campaign to enhance brand awareness and its new positioning, with a new payoff "Una grande banca, tutta per te" ("A great big bank, all for you"):
- A big international strong and reliable bank, part of the Crédit Agricole Group
- A banking group whose priorities include customer centrality, the enhancement of the communities it operates in and customer satisfaction, aiming at being accessible, innovative and able to provide more certainties in life and for the projects of households and businesses.

NOVEMBER

Within the "Future Bancassurance Awards", the Group won the prize "For innovation in the Multimanager scheme of Strategia PIR and Multi Pir Private products". This prize acknowledges the quality of the two Individual Saving Plans (Italian acronym PIR) recently launched by CA Vita, dedicated to the Retail and Private Banking segments and distributed by the Group's Banks.

DECEMBER

Crédit Agricole Cariparma made a new successful issue of Covered Bonds, for a total amount of Euro 750 million and with 8-year duration.

The Crédit Agricole Italia Banking Group was awarded the "Premio dei Premi" (the prize of prizes), a yearly event rewarding the best innovation projects in the banking, manufacturing, service, university, public administration and tertiary sectors. Specifically, the prize was awarded for BankMeApp, the app for teenagers and their families.

Crédit Agricole Cariparma finalized the acquisition of the majority shareholding in Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato.

THE CRÉDIT AGRICOLE GROUP WORLDWIDE

1 st
BANCASSURER IN EUROPE

1 st
ASSET MANAGER IN EUROPE

139,000
EMPLOYEES

52 Mln
CUSTOMERS WORLDWIDE

THE CRÉDIT AGRICOLE GROUP
IN ITALY

3.1 Bln€

REVENUES*

257 Bln€

CUSTOMERS' DEPOSITS AND FUNDS UNDER MANAGEMENT**

64 Bln€

LOANS TO THE ITALIAN ECONOMY*

OVER 14,000

STAFF

4 Mln

CUSTOMERS IN ITALY

* FCA Bank considered at 25% for all its operations; integration of Pioneer Investments since 3 July 2017 and of CR Rimini, CR Cesena and CR San Miniato since 21 December 2017

** Including "out-of-Group" Amundi AuM, CACEIS Assets under Custody, and CR Rimini, CR Cesena and CR San Miniato direct and indirect funding

CRÉDIT AGRICOLE GROUP ITALIA

CRÉDIT AGRICOLE CARIPARMA | FRIULADRIA | CARISPEZIA · AGOS · FCA BANK · CRÉDIT AGRICOLE LEASING · CRÉDIT AGRICOLE EUROFACTOR · CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK · Amundi ASSET MANAGEMENT · CRÉDIT AGRICOLE CREDITOR INSURANCE · CRÉDIT AGRICOLE VITA · CRÉDIT AGRICOLE ASSICURAZIONI · caceis INVESTOR SERVICES · INDOSUEZ WEALTH MANAGEMENT · INDOSUEZ FIDUCIARIA · CRÉDIT AGRICOLE GROUP SOLUTIONS

Profile of the Crédit Agricole Italia Banking Group

The **Crédit Agricole Italia Banking Group**, through its commercial banks, operates in the 11 Italian Regions that account for 73% of the population and generate 80% of the Italian GDP.

With its distinctive positioning based on Customer centrality, the Group is a proximity banking player that covers all market segments.

RETAIL BANKING
with 1,010 branches and 49 Small Business centers

PRIVATE BANKING
with 22 markets and 12 sub-centers

CORPORATE BANKING
with 21 markets and 14 sub-centers
1 Large Corporate Area

FINANCIAL ADVISORS
with 9 markets

Listening to Customers, trust, confidence, social responsibility, innovation, internationality and quality: These are the Group's driving values:

- **Quality of its relations** with Customers as a key value conveyed through a system ensuring that Customers are constantly **listened to** and focused on, combined with high-level service
- **Social responsibility** as an integral part of its **corporate culture**
- Innovation as **new digital services** that allow Customers to make transactions also remotely and that supplement direct relations without replacing them
- Highly-specialized **dedicated services:**
  - ✓ **Investment advisory services combined with digital services,** in order to meet the expectations of advanced Customers through the Financial Advisors and Private Bankers Network
  - ✓ A **complete service model for the Large Corporate segment**, thanks to innovative payment services, to the International Desk service that assists small and medium enterprises in their international development, and to the considerable commercial **synergies** with the other Companies of the Crédit Agricole Italia Group
  - ✓ A full range of products and specialist advisory services for the **agri-food sector**
  - ✓ A new service model dedicated to **small businesses** with teams of advisors for thorough coverage of the areas of operations.

Its belonging to a sound international group such as Crédit Agricole strengthens **the soundness of the Crédit Agricole Italia Banking Group** that proved once again a leading player in the Italian banking system.

CAPITAL STRENGTH AS AT 31 DECEMBER 2017: CET 1 11.6% (TOTAL CAPITAL RATIO 15.1%)

LONG-TERM RATING
A3
MOODY'S 12 JANUARY 2016

CRÉDIT AGRICOLE CARIPARMA

Parent Company of the Crédit Agricole Italia Banking Group, it is strongly rooted in the communities it operates in and originated from local banks. In addition to its provinces of origin, Parma and Piacenza, it **operates in Italy's most productive cities**: Turin, Milan, Florence, Bologna, Rome and Naples.

610	29.8 Bln€	81.4 Bln€
points of sale	worth of loans	worth of total funding

CRÉDIT AGRICOLE FRIULADRIA

In 2007, Crédit Agricole FriulAdria became part of the Group, with the objective of expanding its operations to cover the entire Triveneto Region. It has **15,000 mutual shareholders**, who give evidence of its strong bond with the local fabric; today it is a reference point for households and businesses in North-eastern Italy, and is implementing a **significant project to expand operations to the Veneto Region.**

206	7.2 Bln€	15.5 Bln€
points of sale	worth of loans	worth of total funding

CRÉDIT AGRICOLE CARISPEZIA

Carispezia, one of the **oldest savings banks in Italy**, joined the Group in 2011. It is the market leader in the original provinces of operation, La Spezia and Massa Carrara; in 2016 it launched a **project to expand operations to Western Liguria**, branching out to the markets of Genoa, Savona and Imperia.

100	2.7 Bln€	6.8 Bln€
points of sale	worth of loans	worth of total funding

CRÉDIT AGRICOLE LEASING

Crédit Agricole Leasing operates in the property, equipment, vehicle and energy leasing segments. **At the end of 2017, the loan portfolio amounted to Euro 2 Bln.**

CRÉDIT AGRICOLE GROUP SOLUTIONS

CAGS is the consortium company of the **Crédit Agricole Italia Banking Group** in charge of all activities relating to Operational Processes, Information Systems, Technical Logistics, Safety and Security, Business Continuity, Purchases and Real Estate Management, as well as Human Resources Administration.

On **21 December 2017**, Crédit Agricole Cariparma finalized the purchase from the Italian Interbank Deposit Protection Fund – Voluntary Scheme of 95.3% the share capitals of **Cassa di Risparmio di Cesena S.p.A., Cassa di Risparmio di Rimini S.p.A. and Cassa di Risparmio di San Miniato S.p.A.** (hereinafter the "Banks").
This acquisition allows **depositors to be protected, jobs to be retained and the Banks to be enhanced**, since they will benefit from being integrated into a strong and international banking group, with significant positive externalities on the economy of the communities of operations and on the interests of the various stakeholders.
Indeed, the three Banks are cornerstones in their communities: the plan for the Banks' integration aims at **enhancing their distribution networks inside the Group**, leveraging on their strong bond with their communities, also by **developing their Human Resources.**

This transactions stands on sound strategic reasons for the Group that will:

DEVELOP
Its Customer-focused Proximity Bank Model

GROW
In long-standing areas of operations with high potential

INCREASE
in "size" and become more competitive

MAXIMIZE
Industrial synergies

The Group has also **prepared a 2017-2020 forward-looking plan aimed at ensuring that the three Banks reach adequate profitability**, by improving the cost of credit and by generating synergies.

CASSA DI RISPARMIO DI CESENA S.p.A.

Founded in 1841, Cassa di Risparmio di Cesena has been a cornerstone for the **economic development of the Cesena and Romagna areas**, the driving sectors of which are craft trade, small enterprises, agriculture, export of fruit and vegetables, tourism, residential building and footwear manufacturing. Through its branches, it provides its Customers with services ranging from strictly banking ones to financial intermediation and wealth management.

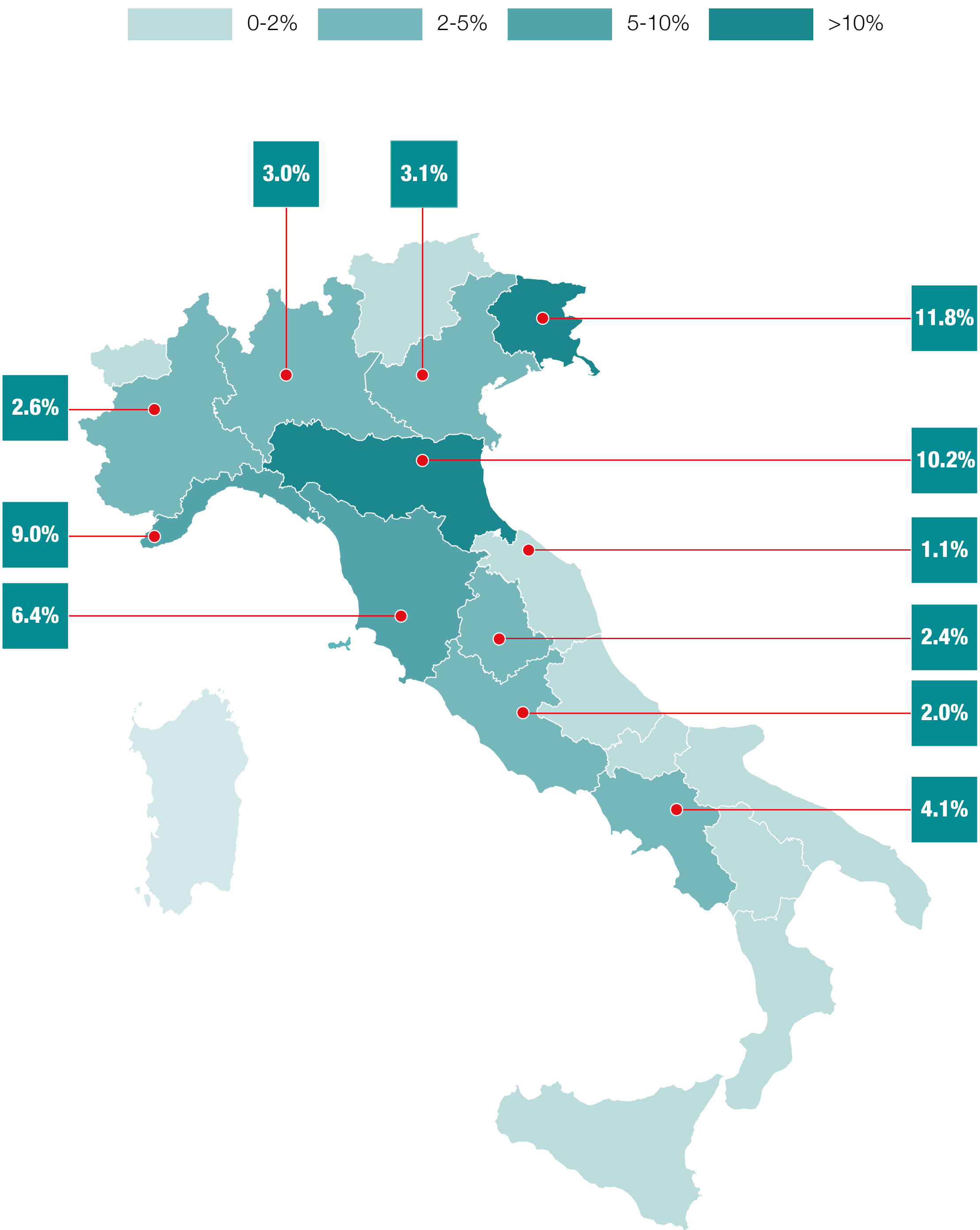
BANCA CARIM

Founded in Rimini in 1840, it is the **partner bank for households and small-medium enterprises based in the Rimini Province**. Strongly rooted in the Adriatic Riviera and in the Romagna inland, it operates also in the Marche, Umbria and Lazio Regions. In 2013, subsequent to the merger by absorption of Eticredito – Banca Etica Adriatica S.p.A., it became the first Italian commercial bank operating institutionally with ethical finance projects.

CARISMI
CASSA DI RISPARMIO DI SAN MINIATO S.p.A.

Founded in 1830, Cassa di Risparmio di San Miniato is **one of the oldest savings Banks in Italy**. Its original Articles of Association sets forth that its main purpose is "being a bank for the people, for the inhabitants also of small and remote communities". Even though in different forms, this purpose still informs the operations of the Bank that is still deeply rooted in the social and economic fabric of the communities it operates in, promoting the Tuscany Region and its high-quality enterprises well beyond the regional borders.

Market shares



OVER
1,100
points of sale

OVER
10thousand
Employees

OVER
2Mln
Customers

Notes

- System data – source: Bank of Italy as at 31 December 2017
- Crédit Agricole Italia Banking Group data as at 31 December 2017

Crédit Agricole FriulAdria

2017 Annual Report and Financial Statements

Financial highlights and ratios

Income Statement highlights(°) *(thousands of Euro)*	**31.12.2017**	**31.12.2016**	**Changes**	
			Absolute	**%**
Net interest income	171,422	166,521	4,901	2.9
Net fee and commission income	138,523	129,054	9,469	7.3
Dividends	198	221	-23	-10.4
Income from banking activities	6,022	12,675	-6,653	-52.5
Other operating income (expenses)	-692	-2,742	-2,050	-74.8
Net operating income	315,473	305,729	9,744	3.2
Operating expenses	-189,346	-194,995	-5,649	-2.9
Operating margin	126,127	110,734	15,393	13.9
Provisions for risks and charges	-1,679	-3,516	-1,837	-52.2
Net value adjustments of loans	-46,040	-51,713	-5,673	-11.0
Profit (loss) for the year	50,131	37,000	13,131	35.5

Balance Sheet highlights(°) *(thousands of Euro)*	**31.12.2017**	**31.12.2016(*)**	**Changes**	
			Absolute	**%**
Loans to Customers	7,187,346	6,817,046	370,300	5.4
Financial assets available for sale	690,559	884,374	-193,815	-21.9
Investments held to maturity	442,859	-	442,859	
Net Loans To Banks(*)	273,410	-51,715	325,125	
Equity investments	3,500	3,500	-	-
Property, plant and equipment and intangible assets	180,311	183,040	-2,729	-1.5
Total net assets	9,141,523	8,217,459	924,064	11.2
Funding from Customers	8,041,479	7,054,795	986,684	14.0
Net Financial Assets/Liabilities held for trading	267	521	-254	-48.8
Indirect funding from Customers	7,413,550	6,926,288	487,262	7.0
of which: asset management	5,608,466	5,224,824	383,642	7.3
Equity	731,135	712,622	18,513	2.6

Operating structure	**31.12.2017**	**31.12.2016**	**Changes**	
			Absolute	**%**
Number of employees	1,461	1,477	-16	-1.1
Average number of employees(§)	1,270	1,309	-39	-3.0
Number of branches	174	182	-8	-4.4

(°) Income statement and balance sheet data are those restated in the reclassified financial statements shown on pages 27 and 34

(§) The average number has been calculated as the weighted average of employees and atypical workers, where the weight is the number of months worked in the year; part-time staff is conventionally weighted at 50%

(*) 2016 net Loans To Banks (liability mismatch) were reclassified for smoothing with 2017 (asset mismatch)

Structure ratios[°]	31.12.2017	31.12.2016
Loans to customers/Total net assets	78.6%	82.4%
Direct funding from Customers/Total net assets	88.0%	85.3%
Asset management/Total indirect funding from Customers	75.7%	75.4%
Loans to Customers/ Direct funding from Customers	89.4%	96.6%
Total assets/Equity	14.2	12.5

Profitability ratios[°]	31.12.2017	31.12.2016
Net interest income/Net operating revenues	54.3%	54.5%
Net fee and commission income/Net operating revenues	43.9%	42.2%
Cost(*) /income ratio	57.9%	58.8%
Net profit/Average equity (ROE)[a]	6.9%	5.1%
Net profit/Average Tangible Equity (ROTE)[a]	8.3%	6.2%
Net profit/Total assets (ROA)	0.5%	0.4%
Net profit/Risk-weighted assets	1.3%	1.0%

Risk ratios[°]	31.12.2017	31.12.2016
Gross bad loans/Gross loans to Customers	6.7%	7.1%
Net bad loans/Net loans to Customers	2.9%	3.1%
Impairments of loans/Net loans to Customers	0.6%	0.8%
Cost of risk(b)/Operating margin	37.8%	49.9%
Net bad loans/Total Capital[c]	42.3%	45.2%
Net non-performing loans/Net loans to Customers	5.6%	7.2%
Total Impairments of non-performing loans/Gross non-performing loans	47.6%	42.9%

Productivity ratios(°) (in income terms)	31.12.2017	31.12.2016
Operating expenses/No. of Employees (average)	149.1	149.0
Operating revenues/No. of Employees (average)	248.4	233.6

Productivity ratios(°) (in financial terms)	31.12.2017	31.12.2016
Loans to Customers/No. of Employees (average)	5,659.3	5,207.8
Direct funding from Customers/No. of Employees (average)	6,331.9	5,389.5
Gross banking income(f) /No. of Employees (average)	17,828.6	15,888.6

Capital ratios	31.12.2017	31.12.2016
Common Equity Tier 1(d) /Risk-weighted assets (CET 1 ratio)	12.6%	12.3%
Tier 1(e)/Risk-weighted assets (Tier 1 ratio)	12.6%	12.3%
Total Capital(c) / Risk-weighted assets (Total capital ratio)	12.6%	12.3%
Risk-weighted assets (Euro thousands)	3,886,937	3,851,288

(°) The Ratios are based on the balance sheet and income statement data of the reclassified financial statements shown on pages 27 and 34
(*) Ratio calculated excluding ordinary and extraordinary contributions to support the banking system
(a) Ratio of net earnings to equity weighted average (for ROTE net of intangibles).
(b) Total risk cost includes the provision for risks and charges, as well as net value adjustments of loans.
(c) Total Capital: total regulatory own funds.
(d) Common Equity Tier 1: Common Equity Tier 1
(e) Tier 1: Tier 1 Capital.
(f) Loans to Customers + Direct Funding + Indirect Funding

Management Report

THE MACROECONOMIC SCENARIO AND THE FINANCIAL SYSTEM

THE INTERNATIONAL MACROECONOMIC SCENARIO IN 2017[1]

In 2017 the global scenario showed positive signs, with economic indicators of an **expansionary phase**, strengthening the growth that had already started in 2016.

At the end of 2017, the world economy posted **new growth in the global GDP/GWP** and an average increase in global trade of nearly 5% (more than twice the average annual growth between 2012 and 2016). Moreover, the increase in feedstock prices, the good performance of global equity markets, the recovery of emerging countries, especially Russia and Brazil, after years of deep recession, the growth on the main European economies and low inflation in the EMU are all factors that generated positive effects on the international economic scenario.

Uncertainties remain, which result from the international geopolitical situation, such as the new budgetary policy and possible protectionist trade policies of the United States, as well as the ability of some emerging countries to keep growing, but also the political situation in Europe and the EU reforms that seem difficult to implement.

On the other hand, the approval of the US tax reform (decrease in the tax burden mainly on corporate income to support investments), the consolidation of the Chinese political situation, with the October congress and the related support to the Country's macroeconomic stability, in addition to the European economic cycle that continues to increase above expectations, have all contributed to the strengthening of global recovery and to positive performances of financial markets.

MONETARY POLICIES

In this economic scenario, the main central banks are implementing different **monetary policies**:

- The Fed continued with its policy for higher interest rates started in 2015 (interest rates had already gone up in December 2015 and December 2016) and increased rates by 0.25 points in three goes in 2017 (March, June and December), thus taking the Fed Funds rate between 1.25% and 1.50%;
- On the other hand, after averting the danger of inflation, the **European Central Bank** has continued to implement expansionary monetary policies **extending the Quantitative Easing** at least until September 2018, in an open-ended approach but with monthly purchases decreasing from Euro 60 to 30 billion, **keeping its policy rates unchanged** (the rate on the main refinancing operations at its all-time low of 0% and the **deposit facility rate with the ECB** at -0.40%) and extending its targeted longer-term refinancing operations **TLTRO** II with the fourth and last auction in March 2017;
- At the beginning of November 2017, the **Bank of England** decided to raise interest rates in the United Kingdom from 0.25% to 0.5%. It was the first increase since July 2007. The main reason was to contain inflation that had come to 2.7%.

(1) Source: Prometeia, Forecast Report (March 2018)

MAIN ECONOMIES

In 2017, the Gross World Product increased by +3.6%, progressively improving vs. 2016 (up by +2.9%). The various economic areas are now at different stages in the recovery cycle: the United States have been in expansion for eight years, the Euro Area for five (since the 2011-2012 sovereign debt crisis), whereas the main emerging economies (excluding China) are just now starting to grow at a steady pace. Also because of this, performances continued to be uneven in the various geographical areas and the difference was more marked within emerging economies:

- The **United States** continued to grow, with the GDP coming to +2.3% at the end of the year, up by +1.5% vs. the GDP at the end of 2016, benefiting from an increase in domestic demand. The labour market improved as shown by the unemployment rate decreasing vs. 2016 and by increasing wages. Uncertainties remain associated with trade policies;
- **Japan**: the increase in the GDP (up by +1.7%) vs. 2016 was driven by domestic demand and non-residential private investments. The labour market remained healthy, prices increased at a modest pace and household confidence came to its all-time high since 2014;
- **China's** economy continued to grow with the GDP increasing to +6.8% thanks to exports, consumption and investments, even though it slowed down in the second half of the year because of the lower expansionary momentum of the budgetary policies. After the October Congress, important reforms were announced for the opening of Chinese markets to foreign players and for restricting forms of intermediation outside the banking system and not subject to the relevant regulations, namely the so-called "shadow banking";
- **India's** GDP increased by +6.4% even though at slower pace than in 2016, due to demonetization and tax reforms. The economy was driven by the increase in private consumption, whereas real net exports gave a negative contribution;
- After reporting a negative GDP of -3.5% in 2016 and despite considerable political uncertainties, in 2017 the economy of **Brazil** increased by +1% lifting the uncertainty on the actual start of economic recovery;
- In **Russia** the situation improved, with the annual GDP up by +1.6% driven by the progressive increase in retail sales (thanks to higher real wages, to very low unemployment and to very modest inflation), whereas investments were the weakest component;
- The economy of the **United Kingdom** reported a +1.7% rate of growth, driven by good developments in productive investments and by the labour market with all-time low unemployment. Despite the agreement reached on the first phase of negotiations for the exit of the United Kingdom from the European Union, the future relationship between the two economies remains very uncertain.

EURO AREA

The recovery in the **economy** of the Euro Area is continuing at a steadier pace, thus with return to before-crisis levels: **The 2017 GDP came to +2.5%**, improving vs. 2016 (up by +1.8%), thanks to the ongoing expansionary economic policies, to an international scenario that is favourable for exports and domestic demand, and to low inflation.

In the year, Business and Consumer confidence continued to improve. Household consumption kept growing at paces unseen since the big recession, which were driven by the improvement in the labour market and high purchasing power fuelled by low inflation. Businesses increased their productive capacity benefiting from favourable financing conditions and from the robust domestic and internal demand, as well as from still wide labour supply.

France posted a **+2%** increase, benefiting from higher consumption and private investments; **Germany**, which completed its eighth year in expansion as did the United States, grew by **+2.5%** thanks to stronger performances in foreign trade and to restocking; in **Spain**, which proved one of the best performing major economies in the EMU for the third year in a row, the GDP increased by **+3.1%** driven by final domestic demand and especially by investments in machinery and means of transport, offsetting the lower contribution of foreign trade.

GDP: % YOY change

Source: Prometeia, Forecast Report – March 2018.

THE ITALIAN ECONOMY

After a long recession, in 2017 the Italian economy confirmed the recovery started in the last two years, thanks to the improvement in the international economic scenario, to the structural reforms that were started and to the recovery in the domestic market.

In 2017, with a +1.5% increase in the GDP, the growth rate became steadier (the highest in the last 7 years) with positive performances exceeding expectations in all sectors of the economy. Indeed, recovery was driven by the good performance of all main macroeconomic indicators: industrial production increased, as did exports, the rate of employment and households' disposable income, while the financial conditions of businesses improved, with the building sector as the only one still showing no signs of improvement.

Recovery continued to be driven by **domestic demand** (up by +1.4%) thanks to the support provided by economic policies and to the improvement in economic and financial conditions and in the labour market. **Investments** performed particularly well (up by +3.9%) and **exports**, which extended to both new geographical areas and to new sectors, improved (up by +6%) vs. the previous year performing better than the leading Euro Area partners.

Consumption grew at the same pace of the previous year, up by +1.3%, also thanks to increased propensity to consume subsequent to the improvement in the economic situation and, therefore, in employment and income prospects. Conversely, purchasing power slowed down significantly with disposable income regularly increasing, because of higher inflation.

In the year, **consumer[(2)] confidence** progressively improved across all its components: consumer personal climate, consumer economic climate, consumer current climate and consumer future climate. In 2017, assessments **on the present economic situation and expectations for the future** both improved appreciably. For both components, recovery slowed down in the last months of the year vs. its performance from February to September. Analyzing the **views on the performance** of consumer prices, opinions and expectations for a decrease in prices were found to prevail. Expectations on unemployment also improved. Moreover, as recently remarked by the Governor of the Bank of Italy, Ignazio Visco: "Prudent budgetary policies will help make markets more confident in the reduction of the public debt-to-GDP ratio".

As regards **businesses**, confidence improved subsequent to increased confidence in all sectors: manufacturing, construction, services and retail trade. The number of innovative start-ups on the Business Register increased (approximately 8,000 in 2017 vs. 2,000 in 2014).

(2) Source: ISTAT (the Italian National Institute of Statistics), Flash press release on Consumer and Business Confidence (December 2017)

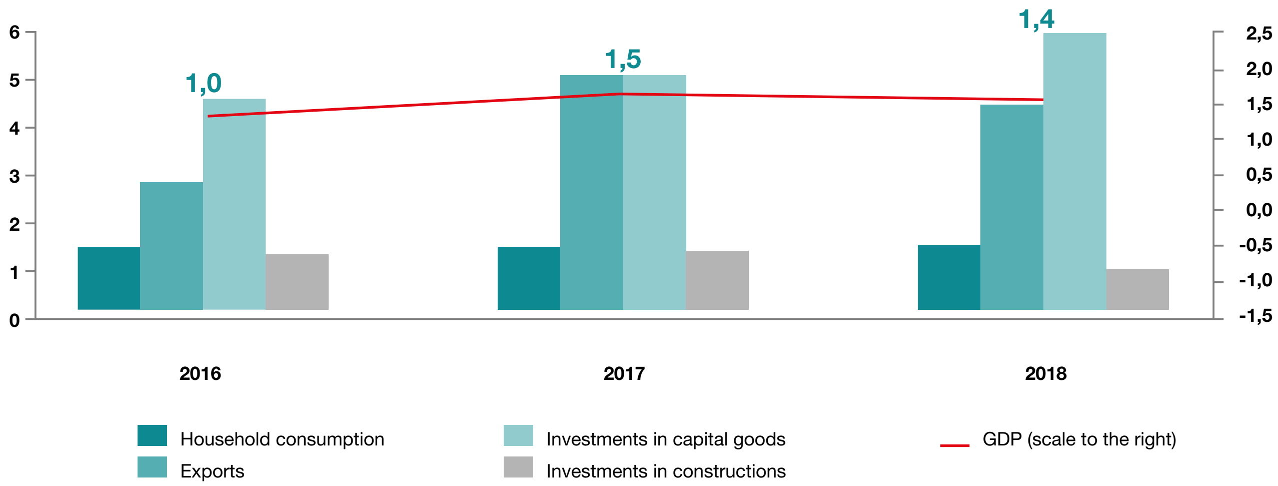
Total investments increased by **+3.9% vs. the previous year:** Significant momentum was given by **investments in machinery and means of transport** driven by tax incentives, whereas investments in constructions showed signs of recovery, even though at a slower pace.

Annual **industrial production** increased by +4.9%; tendentially[(3)] indexes posted significant increases in capital goods, and just as considerable were the increases in intermediate goods and consumer goods, whereas the energy sector decreased.

The **unemployment rate**[(4)] showed a decreasing trend: in December 2017 it came to 10.8% (youth unemployment to 32.2%); the number of employed persons also increased (employment rate at 58.0%) with a higher number of employees, mainly permanent ones, despite a slight increase in NEETs (young people not in employment, education or training).

On average, in 2017 **consumer prices**[(5)] increased by 1.2% after posting a modest decrease in 2016 (down by -0.1%). "Core inflation", net of energy and fresh food products, came to +0.7%, with a rate that is only slightly higher than that of 2016 (+0.5%).

Italy: GDP and its components



Source: Prometeia, Forecast Report – March 2018.

THE BANKING SYSTEM

Subsequent to the **legislative measures implemented in 2016** and aimed at stabilizing the banking system (to be specifically mentioned are the Atlante Recovery Fund, the State guarantee scheme backing securitization of bad loans (GACS), the Decree on Cooperative Banks and the Decree for the Protection of Savings), **in 2017 the existing crises were solved** and the **industry was strengthened.**

The **combinations between banks** accounted for some of the main processes in 2017 and allowed ailing lenders to be rescued, thus contributing to the stabilization of the banking system, increasing the market shares of the leading groups and decreasing fragmentation. Some of the main combinations were:

- The purchase by Intesa Sanpaolo of some assets and liabilities of **Veneto Banca** and **Banca Popolare di Vicenza**;
- The acquisition by UBI of **Nuova Banca Marche, Nuova Banca Etruria** and **Nuova Carichieti**;
- The acquisition of **Nuova CariFerrara** by Banca Popolare dell'Emilia Romagna;
- The acquisition by the Crédit Agricole Italia Banking Group of **Cassa di Risparmio di Rimini, Cassa di Risparmio di Cesena and Cassa di Risparmio di San Miniato**;

(3) Source: ISTAT (the Italian National Institute of Statistics), Flash press release on Industrial Output (February 2018)
(4) Source: ISTAT (the Italian National Institute of Statistics), press release on Employed and Unemployed Persons (February 2018)
(5) Source: ISTAT (the Italian National Institute of Statistics), Flash press release on Consumer Prices (December 2017)

- The finalization of the incorporation of the new **Banco BPM** Group, which started in 2016, from the merger of Banco Popolare and Banca Popolare di Milano (with the merger, the entity became a joint-stock company, in compliance with the Reform of Italian cooperative banks).

In the year, **capital strengthening** took place in the banking industry in accordance with the relevant regulatory requirements. Lenders had to comply with the minimum capital requirements laid down by the ECB, improving their *Common equity tier 1 ratios* through **capital increases** and **decreases in asset riskiness.**

The main capital increases were:
- **Unicredit** recapitalization for Euro 13 billion;
- The **precautionary recapitalisation of Monte dei Paschi di Siena for Euro 8.1 billion**, of which Euro 3.9 billion of share capital increase subscribed by the Italian Ministry of the Economy and Finance and Euro 4.3 billion resulting from burden sharing (forced conversion of all junior bonds issued by the Bank before the subscription of the shares by the Ministry of the Economy and Finance). This transaction was included in the 2017-2021 Restructuring Plan and approved by the European Commission. An integral part of the restructuring plan is the disposal of gross bad loans for Euro 28.6 billion, the most part of which through a securitization structure and the remaining part, consisting of small-amount positions, through dedicated procedures;
- Carige recapitalization for Euro 544 billion;
- **UBI** recapitalisation for Euro 400 million supporting the acquisition of the new Banca Marche, Banca Etruria and Carichieti.

The improvement in banks' assets was possible also thanks to extraordinary disposals of non-performing loans, for a gross amount of approximately Euro 30 billion for the System as a whole, among which worth mentioning are the NPL sales by Monte dei Paschi di Siena, Carige and Creval, in addition to several ordinary transactions entailing lower amounts made by other banks. The efforts made by the Italian banking industry to decrease NPLs have been acknowledged: the 2018 First Progress Report on the Reduction of Non-Performing Loans in Europe issued by the European Commission ranks our Country as one of the most virtuous ones.

Another driver for the restructuring of the Italian banking industry has been the reform of **cooperative banks**, which required the combination of over 300 cooperative banks under holding parent companies. The combination process is in its final stage and will result in the incorporation of two banking holding companies: Iccrea and Cassa Centrale Banca. The next step for the new Groups to face will be the Comprehensive Assessment by the ECB, i.e. the Asset Quality Review, and stress tests.

The **profitability**[(6)] of the Italian banking system for 2017 has been estimated as **possibly the best one since the crisis**, despite interest rates at their all-time low (the average 3-month **Euribor** of December 2017 at -0.33%) and the considerable writedowns of loans in the year, which, even though decreasing vs. 2016, absorbed a considerable portion of profitability. Return on capital and reserves came to 4.1% as at the end of 2017. This performance resulted from the recovery in the domestic economy and in the international one, combined with the ECB expansionary monetary policies:
- The December 2017 data show that credit quality markedly improved: NPL stocks and weights have decreased and coverage increased. As at the end of 2017, net bad loans decreased to Euro 64 billion down by 26% vs. the end of the previous year. The weight of net bad loans on total loans came to 3.71%, decreasing from 4.89% recorded at the end of 2016;
- **Loans to households and businesses, net of bad loans, decreased by -1.3%**[(7)] vs. the previous year. In the reporting year market recovery for **mortgage loans** continued, which drove growth in the household segment, whereas businesses still showed some slowdown;
- In December 2017, the **interest rates applied to loans to customers** further **decreased**: the average rate on total loans came to 2.69%, at a new all-time low record; rates on new loans were also very low (home loans: 1.90%; loans to businesses:1.45%);

(6) Source: ABI Monthly Outlook (January 2018).
(7) Source: Data on ABI Sample (January 2018).

- At the end of 2017, **direct funding** (deposits from resident customers and bonds) was essentially **stable** YOY. The medium/long-term funding component progressively decreased, with bonds down by -15.2% vs. December 2016, with a concomitant increase in deposits (up by +3.6% vs. the end of the previous year) or in asset management products, which proved more profitable for customers in a phase of interest rates at their all-time low.
- In 2017, the **yields** on **direct funding** also **decreased** further: **the** average **interest rate** on funding was 0.89%, vs. 0.99% in 2016;
- The spread between the average rate on loans to and the average rate on deposits from households and non-financial corporations has remained, in Italy, at **very low levels**; in December 2017 it came to 180 basis points decreasing vs. 188 basis points in December 2016;
- As regards the **asset management industry**[8], at the end of 2017, the system reported net total funding of close to Euro 100 billion. Equity came to its new all-time high of Euro 2,086 billion, **increasing** by +7.7% vs. December 2016. Open-end funds proved the main drivers achieving Euro 77 billion worth of net funding. Investors preferred especially bonds;
- In **2017 operating expenses**[9] **decreased** vs. the previous year, thanks both to the rationalization of branches and to the downsizing of staff, as well as to continuous actions for the improvement of process efficiency and reduction of costs. The Cost/Income ratio came to 71%, improving after the exceptional levels of 2016, also due to additional expenses for redundancies and to extraordinary contributions to the resolution fund.

In terms of income, 2017 **profits** of the banking industry have been estimated[9] as positive, after the negative performance at the end of 2016, thanks to the increase in net fee and commission income (driven by the growth in the asset management component), to the effective actions for cost reductions and to the decrease in the cost of risk after the exceptional levels reached in 2016, as well as to the recognition of non-recurring income (Government grants, badwill, gains from disposals of assets).

THE ECONOMY IN NORTHEAST ITALY[10]

The economy of Northeast Italy continues to play an important role and has always proved a driver for the Italian national economy, thanks to a number of chains that have always been able to adapt and respond to the requirements of international markets.

In 2017, Northeast Italy, continuing on the path started in 2016, **strengthened its economic recovery** thanks both to the good performance of domestic demand and to the growth in international trade. Unemployment decreased from 6.8% in 2016 to 5.9% in 2017, and the income situation of households further improved.

Investments have been estimated as increasing by +2.7%, driven by positive expectations on demand performance, by the improvement in the financial conditions of businesses and by the incentives provided by the Government.

In the **Friuli Venezia Giulia** Region, the growth in the manufacturing sector activities allowed good income and liquidity conditions to be maintained. Exports, net of shipbuilding, which features long production cycles, proved very lively.

In the **Veneto** Region, the growth in manufacturing activities also strengthened, across all the Region's specialist sectors, thanks to the development in exports in the main target markets. Exports increased by +2.7%, vs. 2016.

Overall, the 2017 **GDP** of Northeast Italy has been estimated as progressively increasing by +1.5%; both in Friuli Venezia Giulia and in Veneto it is expected to increase by +1.3% and +1.5%, respectively.

(8) Source: Assogestioni (the Italian National Association of Asset Management Firms), Asset Management Monthly Map (January 2018)
(9) Source: Prometeia Bank Financial Statement Forecast (January 2018)
(10) Source: Prometeia, Scenarios for Local Economies (October 2017). Bank of Italy, Regional Economies (November 2017)

PERFORMANCE OF OPERATIONS

In a quite complex economic and regulatory scenario, affected by several uncertainty factors, in 2017, Crédit Agricole FriulAdria proved once again able to achieve significant business performances and to maintain high profitability.

Crédit Agricole FriulAdria made a net profit of Euro 50 million (up by +35.5% YOY), the best performance achieved by the Bank since it became part of the Crédit Agricole Italia Banking Group. The above profit figure includes the cost for the contributions to: The Single Resolution Fund (SRF), the Deposit Guarantee Scheme and the Solidarity Fund (totalling Euro 6.5 million before taxes). Net of these effects, the operating profit would come to Euro 54 million.

THE PERFORMANCE OF BALANCE SHEET AGGREGATES

Reclassification of the Balance Sheet

In order to provide a more direct representation of the Company's balance sheet and financial position, a summary balance sheet was prepared by suitably grouping balance-sheet items. These grouping concerned:

- Presentation of Financial Assets/Liabilities held for trading on a net basis;
- Presentation of Due from/Due to banks on a net basis;
- Inclusion of the value of hedging Derivatives and of the Value Adjustment of financial assets/liabilities subject to macro-hedging in the Other Assets/Other Liabilities items;
- Grouping of Intangible Assets and Property, Plant and Equipment into a single aggregate;
- Inclusion of the item "Cash and cash equivalents" in the "Other Assets" residual item;
- Grouping in the "Funding from customers" item of the "Due to customers" and "Debt securities issued" items;
- Reclassification from "Due to banks" to "Funding from customers" of the deposit made by the Parent Company regarding the portion of the Covered Bond that was issued by the same Parent, for the mortgage loans transferred by Crédit Agricole FriulAdria to the pool securing the bond;
- Grouping of specific-purpose provisions (i.e. Provision for employee severance benefits and Provisions for risks and charges) into a single aggregate.

The figures reported in the next pages are expressed in thousands of Euros.

Reclassified Balance Sheet

Assets	31.12.2017	31.12.2016(*)	Changes	
			Absolute	%
Financial assets available for sale	690,559	884,374	-193,815	-21.9
Investments held to maturity	442,859	-	442,859	100.0
Net Loans To Banks(*)	273,410	-51,715	325,125	
Loans to Customers	7,187,346	6,817,046	370,300	5.4
Equity investments	3,500	3,500	-	-
Property, plant and equipment and intangible assets	180,311	183,040	-2,729	-1.5
Tax assets	107,458	118,661	-11,203	-9.4
Other assets	256,080	262,553	-6,473	-2.5
Total net assets	**9,141,523**	**8,217,459**	**924,064**	**11.2**

Liabilities	31.12.2017	31.12.2016(*)	Changes	
			Absolute	%
Net financial liabilities/assets held for trading	267	521	-254	-48.8
Funding from Customers	8,041,479	7,054,795	986,684	14.0
Tax liabilities	33,916	29,081	4,835	16.6
Other liabilities	296,826	371,603	-74,777	-20.1
Specific-purpose provisions	37,900	48,837	-10,937	-22.4
Capital	120,689	120,689	-	-
Reserves (net of treasury shares)	557,878	554,795	3,083	0.6
Valuation reserves	2,437	138	2,299	
Net Profit (Loss) for the year	50,131	37,000	13,131	35.5
Total equity and net liabilities	**9,141,523**	**8,217,459**	**924,064**	**11.2**

(*) 2016 net Loans To Banks (liability mismatch) were reclassified for smoothing with 2017 (asset mismatch)

Reconciliation of the official and reclassified balance sheets

Assets	31.12.2017	31.12.2016(*)
Financial assets available for sale	**690,559**	**884,374**
40. Financial assets available for sale	690,559	884,374
Investments held to maturity	**442,859**	**-**
50. Investments held to maturity	442,859	-
Net Loans To Banks	**273,410**	**-51,715**
60. Loans To Banks	1,495,136	662,581
10. Due to banks	-2,384,665	-1,405,909
of which: Group Covered Bond: the Bank' s contribution	1,162,939	691,613
Loans to Customers	**7,187,346**	**6,817,046**
70. Loans to Customers	7,187,346	6,817,046
Equity investments	**3,500**	**3,500**
100. Equity investments	3,500	3,500
Property, plant and equipment and intangible assets	**180,311**	**183,040**
110. Property, Plant and Equipment	60,206	60,722
120. Intangible Assets	120,105	122,318
Tax assets	**107,458**	**118,661**
130. Tax assets	107,458	118,661
Other assets	**256,080**	**262,553**
10. Cash and cash equivalents	43,843	42,448
80. Hedging derivatives	112,241	142,736
90. Fair value change of financial assets in macro-hedge portfolios (+/-)	5,579	1,994
150. Other assets	94,417	75,375
Total assets	**9,141,523**	**8,217,459**

Liabilities	31.12.2017	31.12.2016(*)
Funding from Customers	**8,041,479**	**7,054,795**
20. Due to customers	6,458,457	5,629,347
30. Debt securities issued	420,083	733,835
Group Covered Bond: the Bank' s contribution	1,162,939	691,613
Net financial Liabilities/Assets held for trading	**267**	**521**
40. Financial liabilities held for trading	7,736	8,657
20. Financial assets held for trading	-7,469	-8,136
Tax liabilities	**33,916**	**29,081**
80. Tax liabilities	33,916	29,081
Other liabilities	**296,826**	**371,603**
60. Hedging derivatives	78,348	121,323
70. Fair value change of financial liabilities in macro-hedge portfolios (+/-)	78,475	112,540
100. Other liabilities	140,003	137,740
Specific-purpose provisions	**37,900**	**48,837**
110. Employee severance benefits	20,380	21,934
120. Provisions for risks and charges	17,520	26,903
Capital	**120,689**	**120,689**
180. Capital	120,689	120,689
Reserves (net of treasury shares)	**557,878**	**554,795**
160. Reserves	91,121	88,038
170. Share premium reserve	471,757	471,757
190. Treasury Shares	-5,000	-5,000
Valuation reserves	**2,437**	**138**
130. Valuation reserves	2,437	138
Net Profit (Loss) for the year	**50,131**	**37,000**
200. Profit (Loss) for the year	50,131	37,000
Total liabilities and equity	**9,141,523**	**8,217,459**

(*) 2016 net Loans To Banks (liability mismatch) were reclassified for smoothing with 2017 (asset mismatch)

Loans to Customers

As at 31 December 2017, loans to Customers came to Euro 7,187 million, increasing by over 5% YOY, giving evidence of the continuous support given by the Bank to the real economy: indeed, a considerable increase was achieved both in mortgage loans (especially home loans to households), which accounted for 69% of total loans to Customers and increased by 6.4% vs. 31 December 2016 (coming to Euro 4,968 million), and in technical forms with shorter maturities – where the Bank's operations focused on advances and credit facilities, especially on products with pricing that is favourable to Customers (also based on whether the related assets are eligible for operations with the ECB) – increasing by Euro 145 million vs. the previous year (up by +11.9%).

Credit quality

The increase in volumes was achieved while constantly focusing on credit quality, with the weight of non-performing loans on total loans to customers decreasing in the reporting year (from 11.9% to 10.2%, especially bad loans and unlikely-to-pay) and, concomitantly, an increased coverage ratio (up from 42.9% to 47.6%). The NPL stock could be controlled with effective actions aimed at decreasing the number of positions becoming non-performing and with the sale of NPLs for a gross amount of Euro 30.9 million. Again in terms of prudential management, the coverage ratio of bad loans improved, from 58.1% to 59.3%, as did the coverage ratio of unlikely-to-pay (from 20.5% in 2016 to 25.0%).

Funding from Customers

Giving evidence of Customers' confidence and trust in Crédit Agricole FriulAdria, in the reporting period total funding increased by Euro 5.5 billion vs. 2016 (up by +11%). This growth was driven both by the direct funding component (up by +14%, i.e. Euro +987 million YOY) and by the indirect funding one (up by +7%, i.e. Euro 487 million).

The development in direct funding (which, as at 31 December 2017 came to over Euro 8 billion) was mainly driven by credit balances on current accounts (up by Euro 847 million i.e. +16.1%), while term deposits decreased to Euro 296 million (down by -6.5%). "Debt securities issued" increased (up by +11%), essentially subsequent to the Bank's increasing contribution to the Covered Bond Issue Plan that was started a few years ago by the Crédit Agricole Italia Banking Group.

Indirect funding

Indirect funding (which, as at 31 December 2017, came to over Euro 7.4 billion), markedly increased YOY (up by Euro +487 million, i.e. +7%), driven by the component yielding higher value to Customers (asset management up Euro +354 million vs. 2016, i.e. up by +14.4%), across all its determinants (Funds – benefiting from the development in Individual Saving Plans – Asset Management and Bancassurance). Assets under administration also increased (up by Euro +104 million YOY).

Net interbank position

As at 31 December 2017, the net interbank position of Crédit Agricole FriulAdria was positive and came to Euro 273 million, increasing by Euro 325 million vs. the previous year. This figure resulted from the deposit made by the Parent Company regarding the portion of the Covered Bonds issued by the same Parent for the mortgage loans transferred by Crédit Agricole FriulAdria to the pool securing the bonds;

Financial assets available for sale

Financial assets available for sale (Euro 691 million as at 31 December 2017) consisted almost exclusively of the Bank's portfolio of Italian government securities (Euro 1,117 million) and, to a residual extent, by equity securities on the banking book.

The decrease in 2017 (down by Euro -185 million, i.e. -22%) resulted both from the changes in market prices and from the decrease in the portfolio of Italian government securities.

The change in the portfolio of equity securities essentially reports, on the one hand, the full write-down of the contribution to the Voluntary Scheme of the Italian Interbank Deposit Protection Fund (intended for the acquisition of shares in the capital of Financial Intermediaries experiencing temporary difficulties and, as such, entailing equity risk) of the equity investment in Mediocredito FVG and, on the other hand, the disposal of other securities on the banking book.

Equity investments

The Bank's "Equity investments" item did not change vs. 31 December 201s and consisted exclusively of the shareholding in Crédit Agricole Group Solutions S.C.p.A., the service consortium company of the Crédit Agricole Italia Banking Group.

Property, plant and equipment and intangible assets

As at 31 December 2017, property, plant and equipment and intangible assets came to Euro 180 million, decreasing vs. 2016 by depreciation and amortization for the period.

Specific-purpose provisions

Specific-purpose provisions came to Euro 38 million, decreasing by Euro 11 million (down by -22.4%) vs. 2016. This change mainly regarded the "Other provisions for risks and charges" item that came to Euro 18 million, down by Euro 9 million (i.e. -34.9%) vs. 2016, covering personnel expenses, operational risks and legal disputes.

Equity

As at the reporting date, equity, including the earnings for the year, came to over Euro 731 million, increasing by Euro 19 million (up by +3%) vs. the previous year, mainly due to the increase in reserves for the valuation of financial assets available for sale (Government Securities) and in the profit for the period.

Own Funds

As at 31 December 2017, the capital ratios came to 12.6%, increasing vs. the previous year (12.3% as at 31 December 2016).

Own Funds were calculated taking account of the developments in the transitional provisions set down by the supervisory regulation for banks (Regulation (EU) No. 575/2013; Circular No. 285 of the Bank of Italy) and the clarifications given by the Bank of Italy in January 2017 on the treatment of unrealized profits and losses resulting from exposures to central counterparties classified as "Financial assets available for sale".

The increase in Own Funds was mainly due to the allocation of the net profit, in accordance with the proposal made by the Board of Directors to the General Meeting of Shareholders, and to lower deductions mainly associated with the shortfall (down by Euro -18 million).

As at 31 December 2017, RWAs came to Euro 3,887 million, increasing by Euro 36 million (+0.9%) vs. the previous year, mainly reflecting the changes in loans to Customers.

Loans to customers

Items	31.12.2017	31.12.2016	Changes	
			Absolute	%
- Current accounts	445,987	438,202	7,785	1.8
- Mortgage loans	4,968,169	4,667,192	300,977	6.4
- Advances and credit facilities	1,367,619	1,222,202	145,417	11.9
- Non-performing loans	405,571	489,450	-83,879	-17.1
Loans	7,187,346	6,817,046	370,300	5.4
Loans to Customers	**7,187,346**	**6,817,046**	**370,300**	**5.4**

Credit quality

Items	31.12.2017			31.12.2016		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
- Bad loans	510,712	302,906	207,806	512,078	297,431	214,647
- Unlikely to Pay	258,221	64,585	193,636	340,015	69,761	270,254
- Past-due/overlimit loans	4,593	464	4,129	5,147	598	4,549
Non-performing loans	773,526	367,955	405,571	857,240	367,790	489,450
Performing loans	6,802,668	20,893	6,781,775	6,348,942	21,346	6,327,596
Total	**7,576,194**	**388,848**	**7,187,346**	**7,206,182**	**389,136**	**6,817,046**

Items	31.12.2017			31.12.2016		
	Gross/total exposure	Net/total exposure	Coverage ratio	Gross/total exposure	Net/total exposure	Coverage ratio
- Bad loans	6.7%	2.9%	59.3%	7.1%	3.1%	58.1%
- Unlikely to Pay	3.4%	2.7%	25.0%	4.7%	4.0%	20.5%
- Past-due/overlimit loans	0.1%	0.1%	10.1%	0.1%	0.1%	11.6%
Non-performing loans	10.2%	5.6%	47.6%	11.9%	7.2%	42.9%
Performing loans	89.8%	94.4%	0.3%	88.1%	92.8%	0.3%
Total	**100.0%**	**100.0%**	**5.1%**	**100.0%**	**100.0%**	**5.4%**

Funding from Customers

Items	31.12.2017	31.12.2016	Changes	
			Absolute	%
- Deposits	295,534	316,167	-20,632	-6.5
- Current and other accounts	6,101,518	5,254,794	846,724	16.1
- Other items	61,405	58,386	3,020	5.2
- Repurchase agreements	-	-	-	
Due to Customers	**6,458,457**	**5,629,347**	**829,112**	**14.7**
Debt securities issued	**1,583,022**	**1,425,448**	**157,572**	**11.1**
Total direct funding	**8,041,479**	**7,054,795**	**986,684**	**14.0**
Indirect funding	**7,413,550**	**6,926,288**	**487,262**	**7.0**
Total funding	**15,455,029**	**13,981,083**	**1,473,946**	**10.5**

Indirect funding

Items	31.12.2017	31.12.2016	Changes	
			Absolute	%
- Asset management products	2,814,205	2,459,796	354,409	14.4
- Insurance products	2,794,261	2,765,028	29,233	1.1
Total assets under management	**5,608,466**	**5,224,824**	**383,642**	**7.3**
Assets under administration	**1,805,084**	**1,701,464**	**103,620**	**6.1**
Indirect funding	**7,413,550**	**6,926,288**	**487,262**	**7.0**

Financial assets available for sale

Items	31.12.2017	31.12.2016	Changes	
			Absolute	%
- Bonds and other debt securities	671,452	856,279	-184,827	-21.6
- Equity securities and units of collective investment undertakings	246	356	-110	-30.9
Securities available for sale	**671,698**	**856,635**	**-184,937**	**-21.6**
- Equity investments	18,861	27,739	-8,878	-32.0
Shareholdings available for sale	**18,861**	**27,739**	**-8,878**	**-32.0**
Financial assets available for sale	**690,559**	**884,374**	**-193,815**	**-21.9**

Government securities held

	31.12.2017		
	Nominal value	Book value	Revaluation reserve
FVTPL			
Argentinian Government securities	21	-	X
AFS			
Italian Government securities	580,000	671,452	7,106
HTM			
Italian Government securities	400,000	442,859	X
Total	**980,021**	**1,114,311**	**7,106**

Equity

Items	31.12.2017	31.12.2016	Changes	
			Absolute	%
Share capital	120,689	120,689	-	-
Share premium reserve	471,757	471,757	-	-
Income reserves	90,386	87,303	3,083	3.5
Other reserves	735	735	-	-
Reserves from valuation of available-for-sale financial assets	7,450	5,215	2,235	42.9
Reserves from valuation of actuarial gains (losses) relating to defined-benefit pension plans	-5,013	-5,077	-64	-1.3
Treasury Shares	-5,000	-5,000	-	-
Profit for the year	50,131	37,000	13,131	35.5
Total (book) equity	**731,135**	**712,622**	**18,513**	**2.6**

Own Funds

Regulatory Capital and capital ratios	31.12.2017	31.12.2016
Common Equity Tier 1 (CET1)	**490,900**	**474,884**
Additional Tier 1 (AT1)	-	-
Tier 1 – T1	**490,900**	**474,884**
Tier 2 (T2)	-	-
Total Capital (Own Funds)	**490,900**	**474,884**
Risk-weighted assets	**3,886,937**	**3,851,288**
of which by credit and counterparty risks and by the risk of value adjustment of the loan	3,421,773	3,391,159
CAPITAL RATIOS		
Common Equity Tier 1 ratio	**12.6%**	**12.3%**
Tier 1 ratio	**12.6%**	**12.3%**
Total Capital ratio	**12.6%**	**12.3%**

PROFIT OR LOSS

Income Statement reclassification

In order to represent performance more effectively, a summary income statement has been prepared with appropriate reclassifications and based on appropriate criteria so as to report the various items on the basis of consistent operational standards.

The reclassifications concerned the following:

- The recovery of the time value component on loans was reported under “Net Interest Income” rather than under “Net Impairment Adjustments of Loans”, since this results directly from applying the amortized cost method when there are no changes in expected future cash flows;
- The effect of the amortized cost of hedging of debt instruments has been reported under the “Net Interest Income” item rather than under “Net Gains (Losses) on Hedging Activities”;
- Net Gains (Losses) on Trading Activities, Net Gains (Losses) on Hedging Activities and Net Gains (Losses) on financial assets and liabilities designated at fair value have been reported under Profit (Loss) from Banking Activities;
- Gains and losses on disposal or repurchase of financial assets available for sale and financial liabilities have been reallocated to Profit (Loss) on Banking Activities;
- Expenses, taxes and levies recovered have been reported as a direct decrease in Administrative Expenses, rather than being recognized under Other operating income/expenses;
- Expenses for the management of non-performing loans and the relevant recoveries have been reclassified as Net Value Adjustments of Loans;
- Commission income for fast loan application processing has been taken to “Fee and commission Income” rather than being recognized under “Other operating income/costs”;
- Net adjustments/writebacks on impairment of available-for-sale financial assets have been reclassified under Other Operating Income/Expenses;
- Net losses on impairment of other financial transactions, mainly relating to guarantees and commitments, have been reclassified under “Net value adjustments of loans”.

Reclassified income statement

	31.12.2017	31.12.2016	Changes	
			Absolute	%
Net interest income	171,422	166,521	4,901	2.9
Net fee and commission income	138,523	129,054	9,469	7.3
Dividends	198	221	-23	-10.4
Net income from banking activities	6,022	12,675	-6,653	-52.5
Other operating income (expenses)	-692	-2,742	-2,050	-74.8
Net operating income	**315,473**	**305,729**	**9,744**	**3.2**
Personnel expenses	-97,029	-104,829	-7,800	-7.4
Administrative expenses	-85,197	-83,436	1,761	2.1
Depreciation of Property, plant and equipment and amortization of intangible assets	-7,120	-6,730	390	5.8
Operating expenses	**-189,346**	**-194,995**	**-5,649**	**-2.9**
Operating margin	**126,127**	**110,734**	**15,393**	**13.9**
Net provisions for risks and charges	-1,679	-3,516	-1,837	-52.2
Impairments of loans	-46,040	-51,713	-5,673	-11.0
Profit (losses) on investments held to maturity and other investments	84	-21	105	
Profit (loss) on continuing operations before taxes	**78,492**	**55,484**	**23,008**	**41.5**
Taxes on income from continuing operations	-28,361	-18,484	9,877	53.4
Profit (loss) on discontinuing operations after taxes	-	-	-	
Net profit for the year	**50,131**	**37,000**	**13,131**	**35.5**

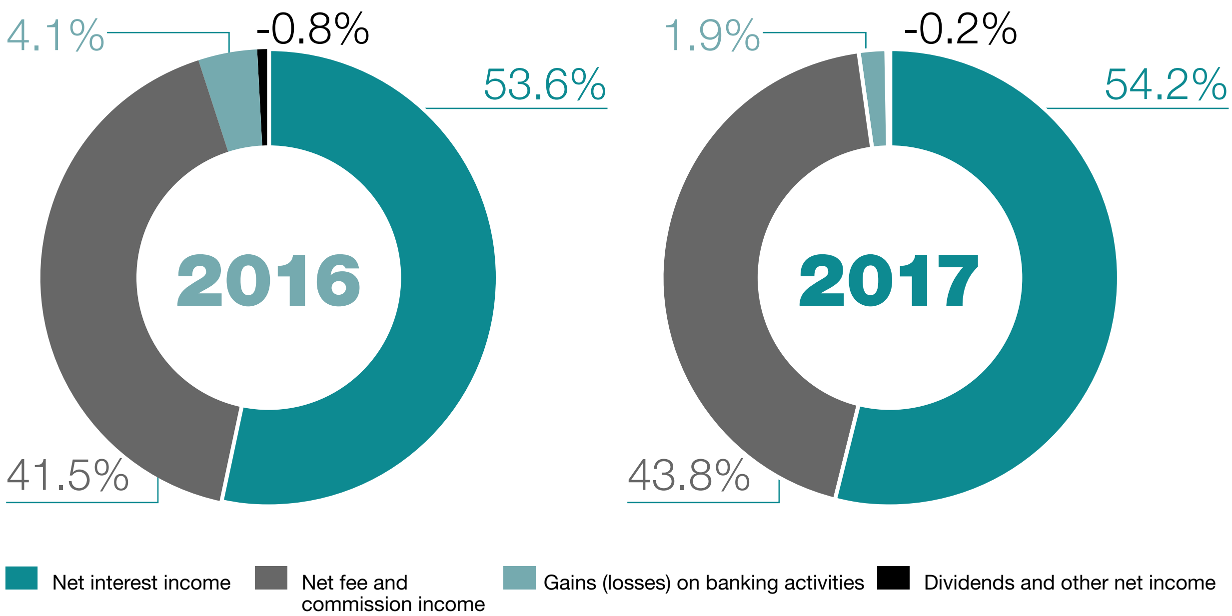
Reconciliation between the Official and the Reclassified Income Statements

	31.12.2017	31.12.2016
Net interest income	**171,422**	**166,521**
30. Net interest income	162,643	155,498
90. Net profit (losses) on hedging activities: of which amortized cost effect of hedging of debt instruments	-1,186	-934
130. Net losses on impairment of: a) loans of which time value on non-performing loans	9,965	11,957
Net fee and commission income	**138,523**	**129,054**
60. Net fee and commission income	136,261	124,554
190. Other operating expenses/income: of which Commission income from Fast Loan Application Processing	2,262	4,500
Dividends and similar income = item 70	**198**	**221**
Profit (loss) on banking activities	**6,022**	**12,675**
80. Net profit (loss) on trading activities	3,530	4,610
90. Net profit (loss) on hedging activities	-2,748	-866
90. Net profit (loss) on hedging activities: of which amortized cost effect of hedging of debt instruments	1,186	934
100. Profit (loss) on disposal or repurchase of: a) loans of which debt securities classified as loans	-	-
100. Profit (loss) on disposal or repurchase of: b) financial assets available for sale	4,452	8,481
100. Profit (loss) on disposal or repurchase of: d) financial liabilities	-398	-484
Other operating income (expenses)	**-692**	**-2,742**
190. Other operating expenses/income	50,341	49,614
130. Net losses on impairment of: d) other financial transactions of which impairments/recoveries relating to FITD (Italian Interbank Deposit Protection Fund) actions	-	-39
To deduct: expenses recovered	-43,436	-45,917
To deduct: recovered expenses for the management of non-performing loans	-1,186	-1,285
To deduct: Commission income from Fast Loan Application Processing	-2,262	-4,500
130. Net losses on impairment of: b) financial assets available for sale	-4,149	-615
Net operating income	315,473	305,729
Personnel expenses = item 150 a)	**-97,029**	**-104,829**
Administrative expenses	**-85,197**	**-83,436**
150. Administrative expenses: b) other administrative expenses	-132,376	-132,796
190. Other operating expenses/revenues: of which expenses recovered	43,436	45,917
150. Administrative expenses: b) other administrative expenses: of which expenses for the management of non-performing loans	3,743	3,443
Depreciation of property, plant and equipment and amortization of intangible assets	**-7,120**	**-6,730**
170. Net adjustments/recoveries on property, plant and equipment	-4,907	-4,517
180. Net adjustments/recoveries on intangible assets	-2,213	-2,213
Operating expenses	**-189,346**	**-194,995**
Operating margin	**126,127**	**110,734**
Impairment on goodwill = item 230	**-**	**-**
Net provisions for risks and charges = Item 160	**-1,679**	**-3,516**
Net impairments of loans	**-46,040**	**-51,713**
100. Profit/losses on disposal of: a) loans	-2,270	-538
to deduct: profit (loss) on disposal or repurchase of debt securities classified as loans	-	-
130. Net losses on impairment of: a) loans	-30,555	-37,350
130. Net losses on impairment of: a) loans of which time value on non-performing loans	-9,965	-11,957
150. Administrative expenses: b) other administrative expenses: of which expenses for the management of non-performing loans	-3,743	-3,443
To deduct: recovered expenses for the management of non-performing loans	1,186	1,285
130. Net losses on impairment of: d) other financial transactions	-693	251
To deduct: losses/recoveries relating to FITD (Italian Interbank Deposit Protection Fund) actions	-	39
Profit (losses) on investments held to maturity and other investments	**84**	**-21**
210. Profit (losses) on equity investments	-	-
240. Profit (losses) on disposals of investments	84	-21
Profit (loss) on continuing operations before taxes	**78,492**	**55,484**
Taxes on income from continuing operations = item 260	**-28,361**	**-18,484**
Net profit (loss) for the year	**50,131**	**37,000**

Net operating income

Net operating income came to Euro 315 million, increasing vs. the previous year (up by Euro +9.7 million, i.e. +3.2% YOY), thanks mainly to the increase in net interest income and in net fee and commission income that offset the lower net income from banking activities.

Revenues



Net interest income

Net interest income came to Euro 171.4 million, increasing vs. the previous year (up by +2.9%). Intermediation activities with Customers were essentially stable, with lower net interest income on loans affected by the decrease in rates (also subsequent to lower market rates) which was almost entirely offset by lower cost of funding. A positive contribution to net income was given by intra-group interbank loans that reflect the Bank's contribution both to the Group's Covered Bond Issue Plan and to the Group participation in TLTROs (in the first and second series).

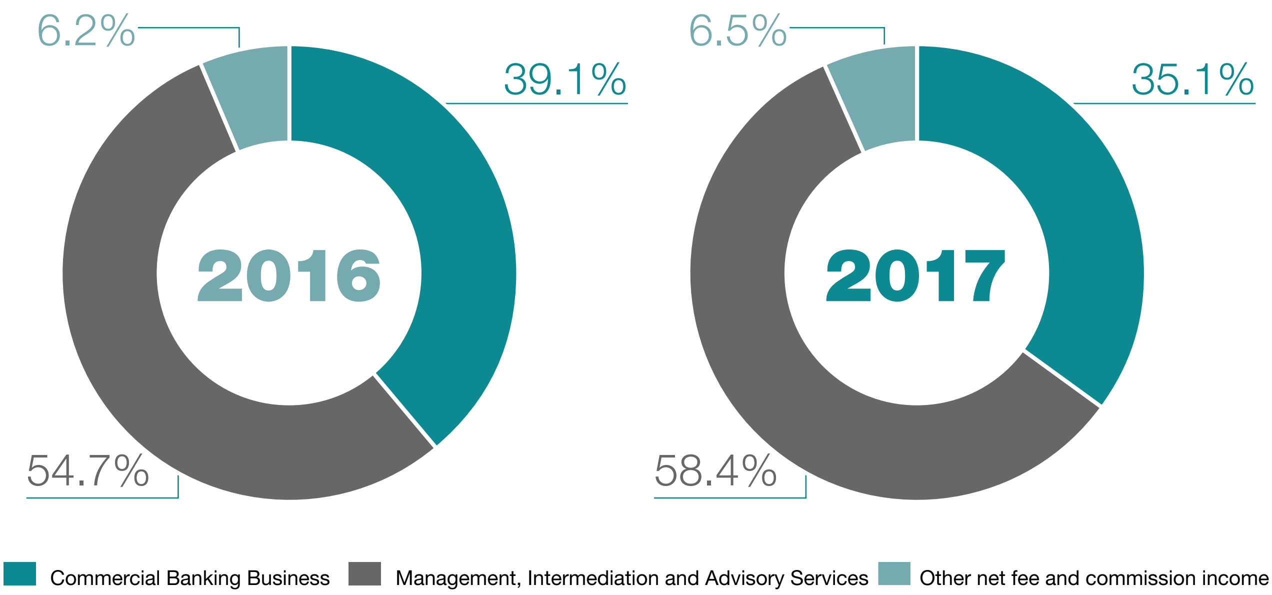
Dividend income

Dividends from shareholdings and equity investments recognized as financial assets available for sale came essentially in line with the previous year, to Euro 0.2 million.

Net fee and commission income

Net fee and commission income, which accounted for 44% of operating income (42% in 2016), came to Euro 138.5 million, increasing by 7% vs. the previous year, with essentially stable fee and commission income from traditional banking activities and increasing fee and commission income from the Wealth Management business. This performance was driven by fee and commission income from management, intermediation and advisory services (up by Euro +8.8 million, i.e. +17%), especially from intermediation and placement of securities and from distribution of insurance products, which significantly benefited from the synergies with the Companies of the Crédit Agricole Group in Italy (Crédit Agricole Vita and Crédit Agricole Assicurazioni) and consumer credit (Agos). Fee and commission income from the traditional banking business came in line with the previous year, despite the decrease in fee and commission income on loan application processing and current account management expenses (which reflects more favourable conditions for Customers).

Net fee and commission income



Net income from banking activities

The contribution to the Income Statement of net income from banking activities decreased vs. 2016 (down by Euro -6.4 million), for lower gains on government securities.

Other operating income (expenses)

Other operating expenses came to Euro -0.7 million (Euro 2.7 million in 2016), decreasing vs. the previous year essentially because of the recognition of non-recurring components, including: a settlement reached with Intesa Sanpaolo regarding the transfers of branches made in previous years (positive for Euro 5.7 million) and the write-down of the equity investment in Mediocredito FVG (negative for Euro 3.9 million).

Operating expenses

Operating expenses came to Euro 189 million, decreasing by Euro 5.6 million (down by -2.9%) vs. 2016. This decrease essentially regarded personnel expenses down by Euro 7.8 million (-7.4%).

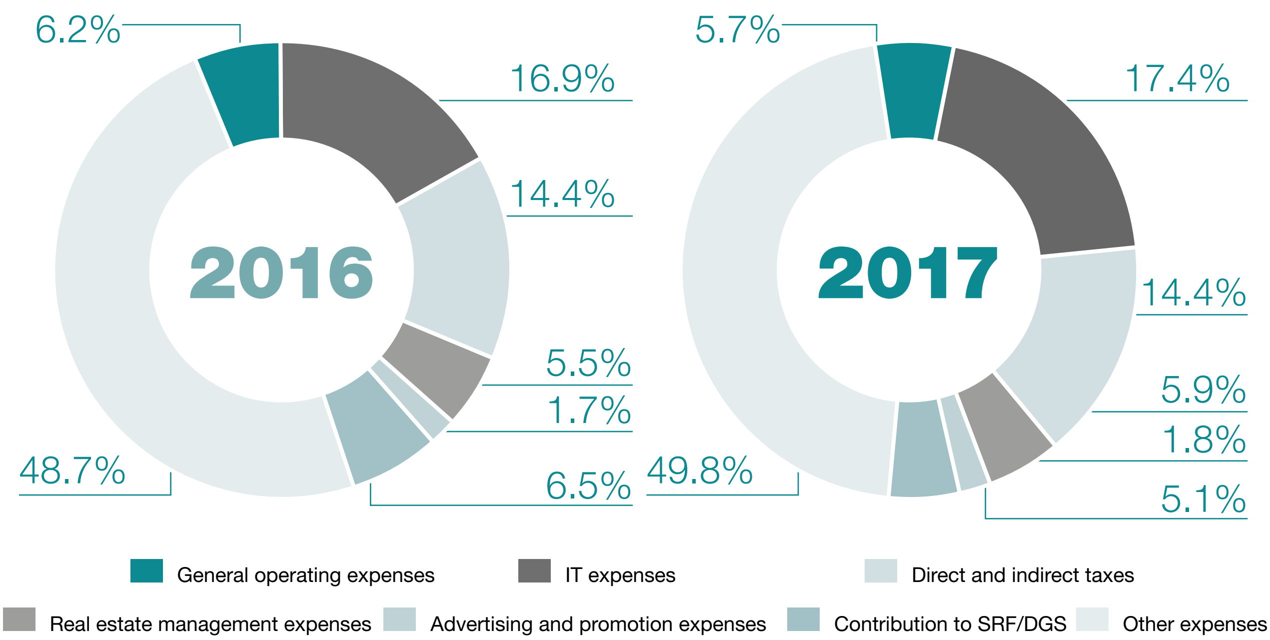
HR costs decreased as they no longer included the expenses resulting from the agreement for voluntary redundancy incentives signed at Group level with the Trade Unions in 2016; such agreement provided for voluntary redundancy of about 40 employees in 2017, with a total cost for the Bank of Euro 6.8 million. Net of such impact, the change is a -1% decrease, benefiting from the effects of income on seconded staff.

The "Administrative expenses" item reports Euro 6.6 million worth of contributions to the Single Resolution Fund (SRF), to the Deposit Guarantee Scheme (DGS) and to the Solidarity Fund. In the previous year, these costs came to Euro 8.4 million (in 2016 this figure also included the extraordinary contribution to the Single Resolution Fund). Net of these effects, administrative expenses increased by Euro 3.6 million (up by +4.8%): this performance reflects higher expenses for more services provided by Crédit Agricole Group Solutions S.C.p.A., the service provider consortium of the Crédit Agricole Italia Banking Group (up by Euro +3.8 million), subsequent to the increase in the Bank's commercial activities, and higher expenses for the projects within the 2016-2020 Medium Term Plan (up by Euro +1.8 million for communication, digital acquisition and real estate activities).

Depreciation and amortization came to Euro 7.1 million, increasing subsequent to the investments made for the Group's Business Plan.

Net of non-operating expenses[11] the cost/income ratio came to 57.9%, decreasing vs. the previous year (down by -1%).

Administrative expenses



Net Provisions for risks and charges

Provisions for 2017 came to Euro 1.7 million, decreasing vs. 2016 (down by Euro -1.8 million) and consisted of provisions for legal disputes with the Bank as the defendant and actions to revoke transactions in bankruptcy, which decreased YOY.

Net impairments of loans

The continuous decrease in the cost of credit was one of the key factors for the Bank's good performance in 2017: indeed, net value adjustments of loans came to Euro 46 million, down by 11% vs. the same figure for the previous year. The ratio that expresses the cost of credit risk (the ratio of the relevant adjustments taken to the Income Statement to net loans to Customers) decreased to 64 bps vs. 76 bps in the previous year, even with high and further increasing coverage ratios of non-performing loans.

Profit (loss) on continuing operations before taxes

The profit before taxes on continuing operations came to Euro 78.5 million, increasing by Euro 23 million (up by +41.5%) vs. the previous year.

Taxes on income from continuing operations

Current taxes and deferred tax liabilities came to Euro 28.4 million, increasing by approximately Euro +9.9 million vs. the previous year.

The tax burden was negatively impacted by the write-down of an equity investment for about Euro 4 million that was not deductible from taxable income; to the contrary, in the previous year, taxes were positively impacted by non-recurring components mainly consisting of the excess provision for taxes allocated in previous years amounting to Euro 1 million.

Net of such changes, in percentage terms, the tax burden came to around 35%, in line with the same figure for 2016.

(11) Contributions to: the Single Resolution Fund (SRF), the Deposit Guarantee Scheme and the Solidarity Fund (totalling Euro 6.6 million before taxes).

Net profit (loss)

The profit for the year (coming to Euro 50.1 million) considerably increased vs. the previous year (up by Euro +13.1 million, i.e. +35.5%), the best performance achieved by the Bank since it became part of the Crédit Agricole Italia Banking Group. Excluding the contributions to the Deposit Guarantee Scheme, the Single Resolution Fund and the Solidarity Fund, the net profit for 2017 comes to over Euro 54 million, increasing by over 15% vs. the same figure for 2016.

Comprehensive income

Comprehensive income consists of the profit for the period and of the changes in the value of assets directly recognized in equity reserves. Comprehensive income for 2017 came to Euro 52.4 million vs. Euro 21.5 million for the previous year. This performance resulted from higher profit and from the increase in the valuation reserves of AFS securities of Euro +2.2 million vs. the Euro -14.9 million decrease in the same item in 2016.

It is pointed out that the inclusion in comprehensive income of the item reporting financial assets available for sale entails strong volatility that must be taken into account when analyzing the table.

Operations and income by business segment

As regards operations and income by business segment, please refer to the Note to the financial statements Part L – Segment Reporting.

Net interest income

Items	31.12.2017	31.12.2016	Changes	
			Absolute	%
Business with Customers	133,196	142,381	-9,185	-6.5
Business with banks	3,124	-3,266	6,390	
Debt securities issued	-8,350	-16,040	-7,690	-47.9
Spreads on hedging derivatives	22,575	24,318	-1,743	-7.2
Financial assets held for trading	-	1	-1	
Investments held to maturity	2,405	-	2,405	
Financial assets available for sale	18,473	19,093	-620	-3.2
Other net interest income	-1	34	-35	
Net interest income	**171,422**	**166,521**	**4,901**	**2.9**

Net fee and commission income

Items	31.12.2017	31.12.2016	Changes	
			Absolute	%
- guarantees issued	2,241	2,480	-239	-9.6
- collection and payment services	8,082	7,740	342	4.4
- current accounts	33,094	34,719	-1,625	-4.7
- debit and credit card services	5,259	5,518	-259	-4.7
Commercial banking business	**48,676**	**50,457**	**-1,781**	**-3.5**
- securities intermediation and placement	32,189	26,108	6,081	23.3
- intermediation in foreign currencies	724	718	6	0.8
- asset management	1,832	1,821	11	0.6
- distribution of insurance products	40,428	36,938	3,490	9.4
- other intermediation/management fee and commission income	5,724	4,980	744	14.9
Management, intermediation and advisory services	**80,897**	**70,565**	**10,332**	**14.6**
Other net fee and commission income	**8,950**	**8,032**	**918**	**11.4**
Total net fee and commission income	**138,523**	**129,054**	**9,469**	**7.3**

Net income from banking activities

Items	31.12.2017	31.12.2016	Changes	
			Absolute	%
- Interest rates	2,398	3,197	-799	-25.0
Stocks	55	96	41	42.7
- Foreign exchange	679	833	-154	-18.5
Total profit (losses) on financial assets held for trading	**3,132**	**4,126**	**-994**	**-24.1**
Total profit (losses) on assets held for hedging	**-1,562**	**68**	**1,630**	
Profit (losses) on disposal of financial assets available for sale	**4,452**	**8,481**	**-4,029**	**-47.5**
Profit (losses) on banking activities	**6,022**	**12,675**	**-6,653**	**-52.5**

Comprehensive income

Items	31.12.2017	31.12.2016
10. Net Profit (Loss) for the FY	**50,131**	**37,000**
Other comprehensive income after taxes not reversed in profit or loss	**-**	**-**
20. Property, Plant and Equipment	-	-
30. Intangible Assets	-	-
40. Actuarial profits (losses) on defined-benefit plans	64	-610
50. Non-current assets held for sale	-	-
60. Share of Valuation Reserves on equity investments measured using the equity method	-	-
Other comprehensive income after taxes reversed in profit or loss	**-**	**-**
70. Hedges of investments in foreign operations	-	-
80. Exchange rate differences	-	-
90. Cash flow hedges	-	-
100. Financial assets available for sale	2,235	-14,901
110. Non-current assets held for sale	-	-
120. Share of Valuation Reserves on equity investments measured using the equity method	-	-
130. Total other comprehensive income after taxes	**2,299**	**-15,511**
140. Comprehensive income (Item 10+130)	**52,430**	**21,489**

STRATEGIC PLAN AND CORPORATE DEVELOPMENT LINES

STRATEGIC PLAN

In 2017, the Crédit Agricole Italia Banking Group and, as part of it, Crédit Agricole FriulAdria, continued to implement the "*Ambizione Italia 2020*" Strategic Plan, which started in 2016, consistently with the new Medium Term Plan to 2019 prepared by the Parent Company Crédit Agricole S.A..

The Plan objective is to strengthen the Group **as a Customer-focused Proximity Bank with distinctive positioning in the Italian market, based on customer and community centrality, on multichannel models and on digital innovation, investing in people and talents, leveraging on its belonging to the Crédit Agricole Group and on its strength in order to start a new phase of organic growth on the key segments of the market and to create long-term value.**

The transformation envisaged in the Plan provides for the action lines listed below:
1. Repositioning in a Customer-centric approach
2. Access to the new channels and strengthening of the domains the Group excels in
3. People and Development
4. Efficiency
5. Rebranding

1. REPOSITIONING IN A CUSTOMER-CENTRIC APPROACH

Enhancement of the relationship with Customers

The project to enhance the relationship with Customers aims at establishing a high-quality relationship with Customers, by providing high-value advisory services and by constantly maintaining a high level of service. The project is being implemented with activities across all the structures of the Group, aimed at ensuring constant improvement in the Customer Experience, in a more and more multichannel mode. Specifically, in the reporting year the following actions were implemented:
- **Extension of the listening system**, starting surveys on Customers of all channels, including Customers of the Financial Advisors and Internet users;
- **Dedicated training programs**, to continue in the challenging Change Management process;
- **Targeted communication**, both internal and external;
- **Revision of the processes in order to streamline operations for Customers and Colleagues.**

«Around the Branch» multichannel integration

In order to respond to the fast changes that technological innovation has been generating in the market and in Customers' behaviour, the Crédit Agricole Italia Banking Group has implemented several activities aimed at developing a multichannel approach that is different in accordance with the actual needs of its Customers, with digital integration around the Branch. Such integration is based on the following strategic directions:
- **Innovation of digital platforms**, in terms of evolution of the existing platforms and launch of innovative ones. Two of these are BankMeApp, which has been designed for teenagers and is the result of the synergies within the Crédit Agricole Group, and the Nowbanking App that is dedicated to Small and Medium Enterprises;
- **Branch-Digital integration**: evolved tools for interaction with Customers have been implemented, including remote interaction (chat/audio/video), for selling banking products and providing advisory services also remotely, with the possibility for Customers to make transactions remotely;
- **Phone Bank role** as the center of the new multichannel experience, **going from a role of provider of support and assistance to a pivotal role in the relationship**. The project started one year ago and has included the launch of new relation-building activities addressed to Customers. The organizational structure has been significantly strengthened in terms of resources, tools and skills, also providing for a "multi-center" organization throughout the communities the Group operates in;

- **Increasing Digital Acquisition**, through dedicated web portals (Conto Adesso, Mutuo Adesso), and important innovations in the opening process (e.g. online account with a selfie). For Customers that do not live in the communities where the Group has branches or that prefer to interact with their Bank remotely while all the same having a dedicated account manager, the new Virtual Branch has become operational.

Thus, Customers will have the possibility to decide at any time with which modality they prefer to interact with the Bank.

2. ACCESS TO THE NEW CHANNELS AND STRENGTHENING OF THE DOMAINS THE GROUP EXCELS IN

New Channels driving growth

In order to drive the Group's growth, the Financial Advisors new channel continued to be strengthened and now consists of about 150 Advisors that were recruited both from inside the Group and from the outside. Moreover, important cooperation activities were started within the companies of the Crédit Agricole Group in Italy to enhance business in the **Mid-Corporate segment.**

Strengthening of the domains the Group excels in

In addition to starting operations in new market segments, our growth continues to rely on our roots and on our tradition of community banking, constantly focusing on the following domains:

- **Small Business and Agri-Food**: Specialist Centers have been set up for "core" Customers and a new dedicated service model has been implemented for the Agri-Agro (Agri-Food) segment. One year after inception, about 50 Small Business Centers have been set up with 55 dedicated account managers specializing in the Agri-Food business;
- **Mortgage loans**: in order to retain our leading position in mortgage loans, we have reviewed and streamlined mortgage loan processes, with both the possibility of using external providers for peak management and the activation of a dedicated online channel.
- **Private Banking and WM**: the Private Bankers Network, the technological tools made available to this channel and the range of advanced services to Customers continued to be strengthened also in 2017.

3. PEOPLE AND DEVELOPMENT

The challenges that the Crédit Agricole Italia Banking Group has set will be achieved thanks to an ambitious project for the enhancement of the Human Capital and of the Operational Machine.

HR transformation plan

Human Capital remains one of the main pillars for the transformation of the Group's future. In the reporting year, some important strategic activities were started:

- **Recruitment plan (approximately 300 resources)**, as needed to support the project activities provided for in the "*Ambizione Italia 2020*" Strategic Plan and essential to ensure knowledge and skills necessary for the Group's growth;
- **Generational Turnover**: Approximately 300 staff members exited after joining the Solidarity Fund for early termination, with concomitant entry of about 100 young people;
- **Continuous development of our employees**, through managerial training, career and job rotation plans, exchange programs with Italian and foreign entities of the Group. Specifically, the **Alisei 2020** project was started and aims at making all people active promoters of their professional development;
- **In terms of gender and worklife balance** specific policies have been further strengthened dealing with gender and diversity, corporate welfare (fringe benefits, etc.), on top of an ambitious Smartworking program that, in a few months, was joined by over 700 employees.

Operational Machine renewal plan

Another strategic driver of transformation concerns the Operational Machine that will support the challenges underway:

- Renovation of the work premises with real estate projects in their completion phase ("Crédit Agricole Green Life" the new Management Headquarters of the Group in Parma, housing all the Bank's Central Departments in a single complex, the renovation of the premises in Milan, on Via Armorari, the Villini complex in the Parioli district in Roma and the new hub of Crédit Agricole FriulAdria in Verona (a hub where Customers of the various segments in the local market will find all retail banking and corporate banking services); these projects aim at rationalizing the Group's premises and have been designed to meet new work requirements and habits;
- **The Group IT Plan was completed** supporting the set projects;
- **The services provided by Crédit Agricole Group Solutions have been extended** to the other companies of the Crédit Agricole Group in Italy.

4. EFFICIENCY

Transformation of the Network model

The new Network model has been designed to be based on **Customer centrality** and in order **to ensure continuous improvement in the efficiency levels** of our Branches.

To date, approximately **40% of the Network works based on a counter-free logic**, as per the new "*Agenzia Per Te*" format, allowing the automation of transactions with the machines located at the Branches, giving 24/7 service, providing Customers with more time for higher added value activities, such as advisory services.

Moreover, the geographical location of branches has been revised, **optimizing their presence in extensively covered areas**, especially for low-traffic small/very small centers. At the same time, **new development methods have started being implemented to extend operations to high-potential areas, through a new, innovative and light model of branch** (the "Hub" model), based on which the physical branch becomes the central hub housing all "jobs".

Lending and risk processes and platforms

In full compliance with the ECB regulations, the activities in the year focused mainly on the streamlining and efficiency enhancement of lending processes, with special focus on the reduction of NPLs and planning the automation and engineering of the credit claim collection component.

Enhancement of the efficiency of processes

Considerable investments were made in projects aimed at the streamlining and digitalization of activities, in order to ensure continuous improvement in the Group's efficiency. The subsequent downsizing has made resources available, who, duly trained, have been allocated to new jobs, for the strengthening and support of the new activities provided for by the MTP (for example Financial Advisors and Phone Bank).

5. REBRANDING

In October and November, a **new brand positioning campaign** was launched and has brought the Group's new signature to the market: "***Una grande banca, tutta per te***" ("A great big Bank, all for you"). Thanks to the campaign, the Group's rebranding process could be consolidated and brand awareness could be increased, by conveying the positioning of the Crédit Agricole Italia Banking Group: a great big bank that operates in actual fact through people, financial products and services always aiming at Customers' full satisfaction and at the realization of their projects, able to convey certainties and soundness thanks to its belonging to a big international entity.

CORPORATE DEVELOPMENT LINES

Commercial operations are reported below, along with the first impacts of the above-described Medium-Term Plan (MTP).

RETAIL BANKING DISTRIBUTION CHANNELS

In the reporting year, the Crédit Agricole FriulAdria further strengthened its **Customer-focused proximity bank** model, meeting households' requirements by developing dedicated products and services.

Mortgage loans and other loans

As regards home loans, in 2017 the Bank aimed at **customization and digitalization of the products and services it provides**: in April, Mutuo Crédit Agricole (Crédit Agricole Mortgage Loan) was launched, a **fully adjustable and customizable mortgage loan.**

Customers can choose not only **the type of rate** (fixed, variable or variable with ceiling rate), but also the **flexibility options** and **the benefit** to be combined with their mortgage loans. **Customization elements** (services and benefits free of charge and flexibility options) are intended to provide households with support, both upon taking out the loan, which the most challenging time in financial terms, and throughout the loan duration. Thanks to the **flexibility options** provided, small contingencies can be met with the "skip instalment" solution or with the suspension of instalment payments upon the most important events in life (marriage, birth of a child or material changes in income).

As regards **digitalization**, "Mutuo Adesso", the online platform for mortgage loans launched in 2016, became fully operational; it gives a quote of Crédit Agricole FriulAdria's range of products and provides Customers with all the necessary "educational" information on the products.

In terms of measures supporting access to credit, the Group confirmed the adoption of the ABI-MEF "First Home Guarantee Fund" protocol, which favours access to credit by Customers, giving priority also to young people, including "atypical" workers. In terms of **loans**, the partnership with Agos, a leading player in consumer credit, continued and, thanks to it, Crédit Agricole FriulAdria increased its support to households, seizing market opportunities and leveraging on the recovery in consumption.

Reforestation initiatives continued regarding the **Gran Mutuo Green** home loan promotion, which provided for a tree to be planted for every home loan taken out, in areas affected by major deterioration or at risk of hydrogeological instability. In 2017, the Group had 3,500 trees planted in the Municipality of Pietrasanta, the "La Versiliana" Park and the Municipality of La Spezia.

Transactional products and electronic money

Speaking of **Current Accounts**, the "*Conto di Conoscerti*" new product, which was launched in 2016, has proved well fit to meet the requirements of traditional banking Customers in the "Individuals" segment and proved interesting for Customers also in 2017. Moreover, Customers benefited from the **streamlining** action started on the **account opening process at the branches**, which has allowed Customers to dedicate more time to advisory services and to the relationship with their account managers.

As regards **e-money products**, Crédit Agricole FriulAdria continued to implement its development strategy focused on **innovation**.

The range of products supplied by the Group was extended with **a new evolved debit card**, EasyPlus, which meets the multitask and flexibility requirements expressed by Customers. With this new card, Customers can make purchases on the Internet safely, can customize their PIN, make contact-less transactions at enable points of sale. Moreover, Crédit Agricole FriulAdria has implemented the Apple Pay services and, thus, has enabled its Customers that are Nexi card holders to virtualize their cards and make fast, simple and safe payments using their phone.

Bancassurance

As regards motor-vehicle insurance, the range of products was extended with the inclusion of the **new "2Ruote" (2 wheels) Policy**, the line dedicated to mopeds, motorised quadricycles and motorbikes. This product has been designed to complete the range of insurance products ensuring high **customization**. Customers may benefit from **suspension**, free of charge, during the contract term of validity, as well as from **other easy terms** (in case of motor cars covered with the Protezione Guida insurance product). Thanks to **the dedicated APP**, Customers can rely on immediate assistance in case of engine failure or accident and can immediately open a claim.

The launch of the new product was accompanied by a new **communication line targeting 2Wheels**, both for Customers and for Employees: an actual tour of all work premises and branches was made, with entertainment focusing on Protection.

In 2017, within the scope of the Fast Quote project for automated quotation of Civil Liability coverage, new channels were implemented to collect registration numbers of Customers' cars and motorcycles. Specifically, Customers could enter their registration numbers in the Totems at Branches, in their Internet Banking account or in the APP and receive their Civil Liability coverage quote directly on their mobiles, also via whatsapp. Thanks also to these new media, in 2017 MV liability insurance quotations increased vs. the previous year.

In 2017, the range of insurance products dedicated to borrowers was supplemented with the "**Protezione Finanziamento Ramo Danni**" non-life creditor protection product, which has annual premium, and with the "**Protezione Leasing**" lease protection product, which has an annual premium payable in monthly instalments. These recurring premium solutions are new for the Creditor Protection segment that generally features insurance products with multi-year duration and with single premium to be paid in advance. Thanks to the new extended product range, Customers can choose the insurance package **that, in terms of coverage and type of premium, is the best for their requirements.**

Wealth Management

Once again in 2017, the Wealth Management segment was constantly focused on innovation in the products and services provided.

Product innovation:

- The main new development in the reporting year was the launch of the new **Individual Saving Plans** (Italian acronym PIR) **compliant products**. Crédit Agricole FriulAdria was one of the first players in Italy offering these plans, starting to place Amundi SGR PIR as early as in March 2017, and later, and again as one of the first players in the market, an insurance solution in cooperation with Ca Vita, which won a prize within the "Future Bancassurance Awards 2017" for product innovation. This solution consists of multiline policies that have been designed to ensure optimal balance between investment reliability and profitability in the long term, while combining PIR tax advantages with the advantages that are specific for insurance products.
- As regards **collective investment schemes**, the product offer has been increasingly shifting towards "traditional" solutions as opposed to "funds with pre-set subscription window". The range of **traditional funds** was supplemented with:
  - The launch of **Pioneer** products: with Pioneer becoming part of the Amundi Group, the range of products and services that can be provided to Customers has become even richer thanks to new global expertise and new investment solutions.
  - The launch of the CPR AM range, the independent and innovative financial boutique, 100% held by Amundi, a center of excellence for thematic equity investing, proposes, through a full range of skills, flexible investment solutions that have been specifically designed to meet investors' needs and requirements.
  - Constant updating of the quality of the catalogue of Fund and SICAV products of unrelated Companies intended for Private Banking Customers.
- As regards insurance, in addition to the new Individual Saving Plan (PIR), the quality of assets was improved thanks to **new multiline and unit-linked solutions** intended for Retail Banking Customers.

For Private Banking Customers, **multimanager insurance products** proved once again valuable ensuring the provision of advanced and bespoken advisory services;
- As regards Asset Management (AM), new solutions were proposed with higher quality contents.
- Relying on Amundi expertise in treasury management, **liquidity deposit** of legal persons **has been added to the fund catalogue.**

Tool and service innovation:
- The **efficiency of branch commercial processes has been increased** (New Provision of Advisory Services, Italian acronym NEC) and advisory services started being provided also remotely (WEB Collaboration) in order to implement a more and more innovative process for the provision of financial advisory services, while reducing operational risks, streamlining forms, reducing the number of signatures to be affixed by Customers and, thus, improving Customer experience. Moreover, the New Provision of Advisory Services has been extended to all savings and investment products.
- The **Recommended Portfolios**, which have been designed with specific solutions allowing reduction of required after-sale activities and more efficient portfolio diversification and which were launched in 2016, achieved good success with investors. In 2017, they were implemented and maintained with products of our commercial range, always ensuring that they were highly tailor-made for Customers' requirements.
- Information dissemination actions were started in order to ensure that all account managers in all commercial channels be constantly up to date and aware of the **performances of financial markets.**

All necessary upgrades were made in order to comply with all the new provisions laid down by the EU legislation, such as MiFID II and the Packaged Retail and Insurance-based Investment Products ("PRIIPs") Regulation, in view of their entry into force at the beginning of 2018.

Small Business and Agri-Food

Crédit Agricole FriulAdria, faithful to its role as a Regional Bank, in addition to regular lending, implemented several initiatives designed for businesses that are pivotal for the local economy, fostering their growth and access to credit and proving once again able to operate in synergy with the main Local Public Administration Institutions:
- It paid closed to 100 contributions in favour of Customers hit by natural disasters for a total amount of about Euro 1.7 million;
- Funds were allocated for "Preauthorized" loans intended to be used to grant both short- and medium-/long-term credit lines, as well as funds for loans on very easy terms in order to support, with fast and transparent tools, investments in the most deserving businesses.

The range of products and services provided was extended and supplemented with **important innovative features.**
- As regards loans, two new loan products were launched, namely **Flexibusiness** and ***Mutuo Ordinario***, both featuring high flexibility in terms of duration, amounts and type, and fit to quickly meet every requirement associated with business financing, irrespective of size and sector of operation.
- A dedicated range of products has been developed for **NONPROFIT Organizations** and for all entities and associations, to enhance proximity to communities and social commitment, as well as to create new development opportunities for the Distribution Network.
- The new range of products includes dedicated current accounts and the possibility for the Associations to be paid in advance their receivables from the Italian Inland Revenue Agency regarding "five per thousand' contributions that Italian taxpayers may allocate to support the nonprofit sector.

At the beginning of 2017, the POS product range was extended with the launch, in cooperation with the provider Nexi, of two new products:
- **PayM@il,** within virtual POS, to accept transactions via e-mail correspondence;
- **Wi-Fi POS,** a POS physical device using the store wireless connection.

The new products have allowed Customers to have more flexibility in choosing the types of POS terminals, meeting the increasing requirements for **mobility, security** and **user-friendliness.**

Yet another important element within the innovation field is the fact that, since 2017, all the terminals of the Bank have been **accepting payments made with Smartphones** through the new digital payment systems, such as Apple Pay, Android Pay and Samsung Pay.

Since January 2016, through Internet Banking, ATM and at its Branches, Crédit Agricole FriulAdria has been providing its Customers with the possibility of paying amounts due to local and national Public Administrations. Completing its range of products and services, since the beginning of December 2017, FriulAdria has been on the **list of Banks** that can be selected from the website of every **Public Administration Body** for payments with credit cards.

Community-focused activities

Crédit Agricole FriulAdria won the competitive procedure for the award of the contract for the **treasury service of the Ca' Foscari University** of Venice for the 2017-2021 five-year period. It is a strategic agreement aimed at establishing a partnership for **high-quality cooperation** and experience sharing to the benefit of both partners, taking all the stakeholders into an international and innovative dimension.

This partnership, which is evidence of the fact that Crédit Agricole FriulAdria is an important player in the Veneto Region, has led to the implementation of several initiatives involving the students of the University, in order to get closer and closer to the university students target:
- Issue of a Multiservice Card, called CartaConto Ca' Foscari, for all the students and staff members of the University;
- Training sessions on financial education;
- Job orientation initiatives;
- Possibility to have internships within the Crédit Agricole Italia Banking Group and abroad.

PRIVATE BANKING DISTRIBUTION CHANNEL

In 2017, the advisory scope was further strengthened by developing advisory services and products, specifically aimed at enhancing Customer centrality.

As regards services, the strong commitment to accelerating the **technological evolution of services** (remote provision of advisory services, integrated reporting, financial communication) focused on enhancing the Banker's professional doing and their Customers' satisfaction. The explicit remuneration advisory service has been especially boosted, which operates in a "fee on top" logic and is MiFID-compliant.

In terms of **product** development, worth mentioning are the release of the first target maturity fund set up by Amundi SGR and dedicated to Private Banking Customers, and the launch of the new Individual Saving Plans (Italian acronym PIR) range with dedicate pricing of a dedicated multiline insurance policy (Multi PIR Private).

As regards **loans**, in the reporting year the credit advisory team was strengthened, which provides the Private Banking Network with support in defining the most suitable loan solutions for Customers.

Constant cooperation with the Corporate Banking channel continued to be ensured in the management of specific requirements of Private Banking Customers that are also entrepreneurs.

Moreover, in the reporting period, very considerable actions were carried out:
- Implementation of an important **behavioural and commercial training programme**, which also covered technical and specialist matters, able to support the cultural change of the Private Banking Network as required subsequent to the continuous evolution in the competition scenario. The training programme had two objectives: strengthening management behaviours and skills of Structure Heads and, at the same time, promoting the Bankers' commercial culture for the management and development of the Customer portfolio.

- DOXA-certified survey of Customer satisfaction with excellent results obtained by the Private Banking channel.
- Survey carried out in cooperation with GFK Eurisko on Private Bankers' satisfaction and on the image of Private Banks in Italy.

FINANCIAL ADVISORS

Consistently with the "Ambizione 2020" medium-term plan, in 2017 the Financial Advisors channel **enhanced its operations in geographical terms**, giving Crédit Agricole FriulAdria's Customers the possibility of receiving the services of 35 Financial Advisors.

Consistently with its mission – i.e. creating value through the development of assets and high-potential Customers – in 2017 the Financial Advisors channel posted considerable growth in **assets under administration** and in the **Customer base**, thanks to effective portfolio diversification in accordance with specific needs, and to the use of the so-called "Recommended Portfolios" (allowing reduction of the necessary after-sale activities and more efficient portfolio diversification).

Special care was placed in providing Financial Advisors with tools for the planning of their commercial schedule (CRM NowDesk) and in ensuring **technological evolution of the services** provided to Customers with the implementation of "Assisted Sale" and "Web Collaboration", in order to improve both Customer experience and the service model effectiveness.

In 2017, the **first IRC Survey** started on the customers of the Financial Advisors channel with very good outcomes and with outstandingly excellent results regarding the Recommendation Index. Customers especially appreciated elements such as: skills and professionalism, but also proactivity and the ability to provide bespoken services.

Training programmes were made available regarding technical-specialist matters, legislation and regulatory matters and behavioural skills, in order to enhance a sole and distinctive commercial approach able to implement a winning and high-value advisory service model.

CORPORATE BANKING DISTRIBUTION CHANNEL

The Channel continued to provide support to enterprises both through its normal lending activity and through the development of products and services, in order to foster the growth of its Customer enterprises and the strengthening of the social and economic fabric.

The Corporate Banking channel further increased its range of products and services and structured its operations based on a coordinated set of activities and actions, such as:

- **Support to export and internationalization**, thanks to specialist advisory services, to a dedicated line of products and to the establishment of commercial agreements, also with countries outside the EU;
- Further development in **structured finance**, in which the Crédit Agricole Italia Banking Group has become a leading player;
- The development, in synergy with the FriulAdria's entities, of **innovative products**, intended especially for the agri-food sector;
- The acquisition of **new Customers** also in areas where the branch network is not directly located, establishing also new cooperation arrangements with local enterprise associations;
- The **"Preauthorized loans" initiative** that is dedicated to Customer enterprises and can quickly provide them with the liquidity they need to make investments and to finance growth plans;
- The use of instruments and agreements with various financial institutions in order to develop **"capital light" products**, i.e. with reduced capital absorption and competitive prices (EIB allocation, European Investment Fund (EIF) allocation, the agreement between the Italian Banking Association and Cassa Depositi e Prestiti on "Capital Equipment Allocation", Guarantees provided by SACE and by the Italian State Guaranty Fund for SMEs);
- Support to Customers hit by the **earthquake** through **specific credit lines** with dedicated allocations, such as the "Disaster Events Allocation" to pay for the damage suffered by individuals and enterprises.

The initiatives listed below aimed at supporting enterprises in their growth are to be specifically mentioned:

- The "ITACA (ITAlian Corporate Ambition) Project", included in the Strategic Plan, aims at improving the products and services intended for the Mid-Corporate segment, managing and strengthening relations with Customers at top management level, and at developing synergies;
- "Misys Trade Portal" is an integrated e-banking solution that makes a multifunction Internet platform available to Customers for online management of Import/Export Letters of Credit, International Guarantees and Standby LC.

DIRECT CHANNELS AND DIGITAL TRANSFORMATION

In 2017, the Group and, as part of it, Crédit Agricole FriulAdria continued to implement the digital transformation project focused on the acquisition of new Customers, on widening its multichannel product range, on developing its catalogue of remote products and services and on the promotion of and incentive to the use of direct channels.

The 2017 strategy was implemented with the following main project lines:

1. Digitalization of processes and products aimed at acquisition and cross-selling objectives;
2. Customer centrality: focus on open innovation initiatives dedicated to young people;
3. Development and strengthening of the domains the Group excels in: Small Business project;
4. Efficiency and development optimizing Customer experience.

1. DIGITALIZATION OF PRODUCTS AND PROCESSES AIMED AT ACQUISITION AND CROSS-SELLING OBJECTIVES

In order to improve its online positioning and to acquire new digital Customers, the Group engaged in several activities with high added value. The following ones are specifically reported:

- Increase in its online visibility with Google, in terms of constant presence on AdWords, and improvement in web site positioning on search engines through SEO (Search Engine Optimization) activities;
- Usability testing on the Conto Adesso and Mutuo Adesso websites with Google and TSW, aimed at improving user experience and at increasing the conversion rate of websites;
- Continuous presence on the web through the most widely used search engines in the Italian scenario (Google, Yahoo, Bing), online comparison websites, bannering on the leading Italian websites and Direct Email Marketing (DEM) activities;
- Establishment of a partnership on an exclusive basis with Immobiliare.it, the leasing real estate portal in Italy, to generate leads as regards mortgage loan products.

Moreover, in 2017 the Conto Adesso sales funnel improved and the perimeter of online sold products widened. In terms of projects, developments in the following products are to be reported:

- "**Conto Adesso Selfie**": with a new identification process through Selfies for new Customers;
- **Concurrent and responsive "Conto Adesso"**, which optimizes navigation using portable devices. Aid initiative in cooperation with the Gaslini Foundation;
- **Fastquote and Civil Liability quotations via Whatsapp:** car and motorbike insurance quotations can be obtained through Internet banking and mobile banking. MV liability insurance quotations can be obtained through Whatsapp;
- **"Agos4Now", Instant credit App**, using a 100% mobile solution, Customers can apply for loans and be informed in real time of the outcome of their application;
- **Virtual Branch:** A new service model to manage "Conto Adesso" Customers living in places where there are no branches, which is based on advanced advisory services;
- "***Pilota Gestore multicanale***" **(Multichannel Manager Pilot):** A new service model with remote interaction between Account Managers and Customers through chat/videochat, in order to provide advisory services and to sell products/services;
- **Marketplace** of new synergies thanks to the possibility to underwrite products by and between employees of the companies of the Group, through a single shared portal.

2. CUSTOMER CENTRALITY: FOCUS ON OPEN INNOVATION INITIATIVES DEDICATED TO YOUNG PEOPLE

The Group has developed high added value services for idea incubation and value generation aimed at supporting not only Customers but also prospects (teens, millennials):

- **Ca' Foscari CartaConto**: Within the development of the **Ca' Foscari University Treasury** service, a full online process was set up for the activation of the banking functions of the multiservice card distributed by Ca' Foscari. It is a card that "can open many doors" for the University employees and students. It provides them with additional services within the University scope and special rebates, as well as access to Crédit Agricole products;
- **BankMeApp:** An innovative App that provides teenagers between 13 and 17 years old with the possibility to manage their pocket money and a wish list of future purchases, while providing parents with a support and control tool in their children's financial education;
- **BankMeApp in School:** a pilot project for financial education and innovative teaching carried out by and between the Group and the students of 5 schools based in the community it operates in.

3. DEVELOPMENT AND STRENGTHENING OF THE DOMAINS THE GROUP EXCELS IN: SMALL BUSINESS PROJECT

The Small Business project was implemented to pursue the objective of investing in the evolution of digital services dedicated to this Customer target, in order to make such dedicated products and services more attractive, to contribute to the increase in the Group's Customer base and to improve Customer Experience. Specifically, in the reporting year the following activities were carried out:

- **Nowbanking App for SMEs**, in order to ensure that Customers' requirements are listened to and to provide services that are better and better able to meet the target's specific requirements, an evolutionary upgrade was developed for the pre-existing Mobile platform, with basic banking services along with exclusive services for instruments used daily (Electronic bank receipt (RIBA) and Bills;
- **New Nowbanking for Small Enterprises**, within the more general scope of New Nowbanking restyling, the Nowbanking for Small Enterprises was launched in its pilot stage and focuses on Customers' specific requirements, organized by need ("pay", "consult", "save", "manage" logic).

4. EFFICIENCY AND DEVELOPMENT OPTIMIZING CUSTOMER EXPERIENCE

Within the continuous evolution in the regulatory framework, the Group has implemented evolutionary upgrades of its existing platforms and improved the login process. The following ones are specifically reported:

- **TouchID**: New mode for Customers' identification for access and authorization of order-giving transactions;
- **Nuovo Nowbanking Privati (new Nowbanking for Individuals)**: Graphic restyling and usability upgrade of Internet Banking, in accordance with 3 scopes of proximity to users: their needs, their savings, their bank. Three key features: customization, proximity, multichannel mode.

THE WORKFORCE

As at 31 December 2017, the Bank's Employees on staff were 1,461 (of whom 96 seconded to the Parent Company and to the Consortium), with an average age of 47 years and 5 months, average seniority in service of 21 years and 4 months and women accounting for 44.3% of total Employees, slightly increasing vs. the previous year. 98.4% of the Bank's staff consists of employees with a permanent employment contract, 36.9% consists of University graduates and 25.1% of the manager positions is held by women. 15.3% of the Bank's staff has a part-time job.

In 2017, 39 resources were recruited vs. 55 terminations, 38 of whom through the Solidarity Fund.

In 2017, the "*Ambizione Italia 2020*" Medium-Term Plan (MTP) continued to be implemented throughout the Group; it also provides for several significant actions on staff ("Resources and Development" Pillar) aimed at investing in people's training and growth, at attracting and enhancing new talents, from the outside and from the inside, and at investing in IT, risk management and processes, at continuing to innovate and optimize the Branch model.

In this scenario, an activity was carried out for the segmentation and new portfolio composition of Retail Customers aimed at designing and implementing a service model that is more suitable to Customers' new "habits" and requirements, with a considerable impact on mobility of resources in job and geographical terms.,

In 2017, training was focused on, with 8,374 days of training provided, involving 96% of Employees. The objectives of the investments made were, on the one hand, the improvement of responsibility-taking by resources and of commercial effectiveness, in accordance with the guidelines set down in the "*Ambizione Italia 2020*" Medium-Term Plan (MTP), and, on the other hand, technical training provided to staff on compliance, insurance, finance and occupational safety, in line with the developments in the applicable legislation and with the requirements laid down by the Regulators.

As regards the actions aimed at the growth and enhancement of people, initiatives continued implementing Group projects (Open Talent and Who Are You) and projects of the Bank (High Flyers), aimed at ensuring especially crosswise and interfunctional development of the Bank's young talents. Moreover, again at Group level, an important project was started for surveying the skills of all Staff (Alisei 2020). In the reporting year, some internal communication initiatives were carried out aimed at fostering open and direct discussion and interaction, as well as at promoting awareness and change. "*Insieme Diversi*" (Diverse together) – male and female leadership between complementarity and integration; "*Evento Giovani*" (Young People event) – a meeting dedicated to people below 35 years of age; "Coffee Break with the General Manager" – meetings with colleagues working in the Distribution Network.

In 2017, the Financial Advisors Channel was further strengthened with the recruitment of 13 experienced resources from the market and with 4 internal resources.

In 2017, the agreements signed in 2016 with the Trade Unions for the Group as a whole were implemented in practice regarding the use of extraordinary benefits of the Solidarity Fund for the Lending industry. Our Bank had a total of 38 people exiting, subdivided into the two voluntary redundancy slots at the end of March and the end of September 2017.

As regards Corporate Social Responsibility, in 2017 the initiatives that had been started in previous years continued ("payroll giving" donations to charity, the PSYA listening and psychological advice service intended for employees and their families, the social corporate award with the possibility for employees to have additional health care services, supplementary pension schemes, education and training for their children).

FINANCE

The directions followed by the Crédit Agricole Italia Banking Group concerning financial balances and management rest of four main guidelines:

- The management of interest rate risk;
- The management of liquidity risk;
- Capital management;
- Pricing management and governance.

The objectives regarding the management of interest rate risk, consistently with the past, concerned the hedging of the Group cumulative exposure by Bank, achieving significant protection of profitability, as substantiated, also for 2016, by the contributions to the Income Statement of the stock of existing hedges.

As regards liquidity, refinancing strategies led to diversification of sources, through the issue of Covered Bonds, access to the EIB funds and TLTROs II.

In 2017, two issues were made of Covered Bonds on the market: in March 2017 the Group placed Euro 1.5 billion worth of Covered Bonds in a dual – tranche scheme with maturities of 8 and 12 years, while in December 2017 it placed Covered Bonds for Euro 750 million with 8-year maturity. Thanks to those issues, funding could be further stabilized at reasonable costs diversifying maturities over time.

In January 2018, the Group made another issue of Covered Bonds on the market for Euro 500 million with 20-year maturity. This issue, along with the one in December 2017, has achieved very early completion of and has exceeded the funding plan for the next financial year.

RISK MANAGEMENT

Objectives and policies on risk taking, management and hedging

1. SUMMARY OF THE SYSTEM, PERIMETER AND ROLES

The Crédit Agricole Italia Banking Group attaches great importance to the measurement, management and control of risks, in order to achieve sustainable growth in a political-economic scenario, such as the present one, featuring high complexity and evolving rapidly.

Within the Crédit Agricole Italia Banking Group, the Parent Company Crédit Agricole Cariparma is responsible for overall steering, managing and controlling risks at a Group level, triggering operational action plans that allow reliable control on all risk situations. In turn, the system set by Crédit Agricole Cariparma is based on the Supervisory regulations and on the directions issued by Crédit Agricole S.A. concerning its subsidiaries. The Risk Management and Permanent Controls Department performs risk management and control activities for all the Companies of the Crédit Agricole Italia Banking Group.

The founding principles informing all activities for risk management and control are the following:
- Clear identification of risk-taking responsibilities;
- Measurement and control systems that are compliant with the Supervisory guidelines and consistent with the solutions more frequently adopted at an international level;
- Organizational separation between operating and control functions.

The perimeter of detected, monitored and integrated risks (taking account of diversification advantages) in the economic capital includes:
- Credit and counterparty risks; this category also includes concentration risk;
- Market risk of the Trading Book;
- Price risk of the Banking Book;
- Interest rate risk of the Banking Book;
- Liquidity risk;
- Exchange rate risk of the Banking Book;
- Operational risk.

The Crédit Agricole Italia Banking Group updates, normally on a yearly basis, its Risk Strategy, which sets the levels of risk (credit, financial, market and operational risks) which the Group deems adequate to its development strategy. Based on the Strategy, which is submitted to the Risk Committee of Crédit Agricole S.A. for its approval, global limits are set (alert thresholds) and are appropriately integrated with operational limits that are specific to each single Entity in the Group. This system, setting limits and/or alert thresholds, is submitted to the Boards of Directors of the Parent Company Crédit Agricole Cariparma and of the single Entities of the Group for their approval.

The Risk Appetite Framework plays a pivotal role in the definition of the Governance framework, since, consistently with the Group's risk capacity, i.e. the maximum risk that can be taken, it includes the business model and the strategic plan, the risk appetite, tolerance thresholds, risk limits, risk governance policies and the reference processes required to define and implement them.

Moreover, in 2017, the Risk Appetite Framework was further strengthened with the renewal of the Policies on the RAF and on the Most Relevant Transactions (*Operazioni di Maggior Rilievo* – MRT or with the Italian acronym OMR), as well as with the Risk Appetite Statement (RAS). The Risk Appetite Statement reports the risk management and governance process, identifying the roles of the management and control bodies within the Group for proper monitoring of risks and proper design of the RAF. Moreover, it reports material quantitative and qualitative risks: for the former, the Group's set of quantitative ratios/indicators is given, along with the logics for adapting the RAF thresholds, whereas, for the latter, it reports the controls and mitigation tools implemented by the Group.

In 2017, the Group revised its process for the identification of material risks, based on the new system proposed by the Controlling Company Crédit Agricole S.A.; this process was performed as reported in the ICAAP document and in the Internal Control Annual Report (ICAR).

The Group's main Committee in charge of the specific risk scopes is the Risk and Internal Control Committee that performs coordination of roles and departments engaged in control functions, i.e. control function holders (Internal Audit, Compliance, Risk Management and Permanent Controls), as well as the internal control system as a whole, in accordance with the procedures implemented by Crédit Agricole at Group level; it examines and approves risk management guidelines, expresses opinions on the specific Risk Policies submitted to the Board of Directors for approval and resolves on any proposals made by the operational working groups, which all matters that are specific to the different risks are referred to.

In accordance with their respective responsibilities, the holders of control functions sit also on other management Committees, including the New Activities and New Products Committee (Italian acronym NAP), the ALM Committee, the Investment Committee, the Loan Committee and the Loan Monitoring Committee.

Finally, the Departments engaged in control functions participate in and report to the Audit Committee for Internal Control; this is a Board Committee set up by the Board of Directors in order to have support in ensuring the effectiveness of the internal control system, pursuant to the "Supervisory provisions concerning banks' organization and corporate governance" issued by the Bank of Italy on 4 March 2008, which recommend that Board Committees be set up within entities that are large-sized or feature high complexity.

The Audit Committee for Internal Control also verifies whether the incentive system implemented by the Bank is consistent with the applicable regulatory provisions.

2. RISK MANAGEMENT AND HEDGING

Credit Risk

In the Crédit Agricole Italia Banking Group, the lending process (strategies, decision-making powers, rules for the authorization and management of loans) has been developed in accordance with the guidelines issued by the Parent Company Crédit Agricole S.A and aims at:

- Achieving an objective that is sustainable and consistent with its risk appetite and with the creation of value of the Group, ensuring and improving the quality of lending assets;
- Diversifying the portfolio, by limiting the concentration of exposures by counterparty/group, economic activity sector or geographical area;
- Efficiently selecting the economic groups and single borrowers, by means of thorough analysis of creditworthiness in order to mitigate the risk of default;
- Favouring, in the present economic situation that shows signs of improvement, lending actions that support households, the real economy and the productive system, steering appropriate lending measures aimed at selectively developing and supporting business with the worthiest Customers.
- Constant control of business accounts and relating exposures, both through IT procedures and through systemic monitoring of less than fully performing positions, in order to promptly detect and manage any signs of impairment.

This process is regulated based on different phases, in order to identify the risk management standards, the actions to implement for the proper application of such standards, the units responsible for carrying out the above activities and the procedures supporting them. The subdivision into phases and the assignment of tasks to the different organizational structures are made focussing on the process operativeness, that is to say its fitness to achieve the set objectives (effectiveness) and its ability to achieve then at consistent costs (efficiency).

In the present economic situation that shows some signs of improvement but a still weak growth trend, the Crédit Agricole Italia Banking Group has reasserted its systematic control on the developments in the quality of the Loans-to Customers Portfolio, with the objective of making the monitoring on riskiest exposures even more selective, from early warnings on, to promptly detect any sign of their being non-performing, and to take more and more effective action to control credit risk.

Also in 2017, the constant monitoring of the loan portfolio quality was pursued by adopting precise operating procedures in all phases of the loan position management, in order to ensure preventive management of default risk. The stock of loans is subject to thorough and constant monitoring by means of a pre-set control system based on rating, performance monitoring, and early warning indicators that allow prompt management of positions at the very earliest warning and interact with the processes and procedures for loans management and control.

The organizational structure, the procedures and tool supporting the system for the management of problem loans ensure prompt triggering of the actions and measures required to restore the position of a performing status, or of recovery actions where the conditions rule out the continuance of the business relation.

The Group has implemented a wide set of tools for the measurement and management of credit risks, which can ensure control on an individual basis of the quality of its loan portfolio; in 2017, the efficiency of such tools was further increased.

The Group pursues the mitigation of credit risk by entering into ancillary agreements or by adopting tools and techniques that ensure actual mitigation of this risk. In this regard, particular care is placed in securing and managing guarantees through the definition of and compliance with general and specific requirements, and to updating the value of the guarantees.

After the loan authorization and disbursement, the position is assessed on a time basis (fixed deadlines or set frequency) or upon reporting/initiative of structures engaged in the review of credit lines, also based on any deterioration of performance risk indicators, in order to verify that:

- The borrower and the relevant guarantors remain solvent;
- The requirements of the guarantees remain complied with (legal certainty, prompt realization and value consistency with the exposure).

IRB/Basel II advanced approach

For determining its capital requirement for credit risk, the Crédit Agricole Italia Banking Group has been using (since December 2013) internal ratings with an Internal Rating Based – Advanced approach (PD and LGD internal models) for the Banks Crédit Agricole Cariparma and Crédit Agricole FriulAdria, regarding “Retail Loan Exposures”, the so-called “Retail Portfolio”.

As regards the “Exposures to Corporate Customers” portfolio, in line with the strategic directions issued by the Parent Company Crédit Agricole S.A., the Crédit Agricole Italia Banking Group is implementing the methodological, organizational and technological actions required to obtain the validation also for this exposure class.

The present choice of treating all exposures referring to the subsidiary Crédit Agricole Leasing Italia on a Permanent Partial Use (PPU) basis has been made given the immateriality of the portfolio size and given the specificities of Crédit Agricole Leasing Italia’s core business within the Crédit Agricole Italia Banking Group as a whole.

The risk measurement system is fully integrated in the decision-making processes and in the management of corporate operations: the rating system has long played an essential role in loan authorization, risk management, internal allocation of capital and in the Bank governance functions, as well as in contributing to ensure risk prevention and mitigation. In order to ensure that lending processes and credit risk measurement are homogeneous, the internal models are used by all the Entities of the Crédit Agricole Italia Banking Group (that is to say, Crédit Agricole Cariparma, Crédit Agricole FriulAdria, Crédit Agricole Carispezia and Crédit Agricole Leasing Italia). The use of these models within management processes shall be progressively extended also to the Banks that became part of the Group at the end of December 2017: Cassa di Risparmio di Cesena, Cassa di Risparmio di Rimini and Cassa di Risparmio di San Miniato. Specifically, the lending dossiers of the main counterparties (in terms of revenue) in the Corporate Banking portfolio shall be accompanies by the grading made with the Group rating model, effective on the very date of their acquisition; all internal models shall be fully integrated for the newly-acquired Banks upon their migration to the information systems of Crédit Agricole Group Solutions.

The rating systems are used within the main phases in the lending value chain. With specific reference to loan authorization and monitoring, the management use of the rating system results in:

- Lending policies: the set lending policies govern the procedures through which the Banks and the Companies of the Crédit Agricole Italia Banking Group authorize loans and manage credit risk;
- Loan authorization: creditworthiness assessment upon the first authorization and upon review of/change in credit lines, as well as for determination of decision-making powers in terms of loan authorization;
- Loan monitoring – the use of the performance-measuring PD, combined with other variables, for performance monitoring, in order to detect and correct non-performing positions before they are classified as defaulted;
- Collective write-down: the approach for the collective write-down of Performing Loans implemented by the Bank uses the Basel metrics to determine the amount of the provision (PD and LGD), as well as to identify sensitive loans subject to write-down;
- Reporting: the use of the risk measures produced by the Bank's reporting model.

1 Lending policies → Integrated Rating Systems (PD) to identify policies and development actions for worthy counterparties.

2 Authorization and Renewal → Rating Systems linked to the decision-making powers systems.

3 Management and Monitoring → Performance Monitoring System based on "performance" PD and on a set of additional indicators.

4 Other processes → Loan reporting. Periodic preparation of Reports on Credit Risk performance, using the Basel 2 risk parameters (PD, LGD)
→ Accounting and Financial Reporting. Use of the Basel II Risk parameters for collective writedowns.

Such full integration in the loan management processes allows the creation and development of internal models that support the measurement of creditworthiness and can be used to assess, with statistical objectivity, the probability that (Retail) counterparties default.

The calculation of capital requirements using internal rating-based approaches allows optimal management of the regulatory capital, as it also allows a "weighted" analysis of the loan portfolio, "aware" lending development considering the risks taken and, thus, better planning of loans and of credit risk over the medium-/long-term.

Finally, more effective detection and measurement of risks allows better disclosure and subsequent enhanced transparency in reporting, which is a key element to meet the requirements of the Group's various Stakeholders.

Interest Rate risk and Price risk of the Banking Book

The measurement, management and control of financial balance (ALM) concern both modelled and non-modelled positions of the Banking Book. The Banking Book consists of typical positions in the Group's business operations, which are lending and funding without trading objectives. Therefore, interest rate risk is measured with reference to all on-balance-sheet and off-balance-sheet transactions, excluding the supervisory trading book.

The Governance model adopted by the Crédit Agricole Italia Banking Group assigns the responsibility for the measurement and management of interest rate risk to the CFO, who, through the Finance Department of Crédit Agricole Cariparma, performs centralized management of this risk at Group level and for the single Entities of the Group, in accordance with the guidelines set down by Crédit Agricole S.A.

The Risk and Permanent Controls Department of Crédit Agricole Cariparma is responsible for independent control of the interest rate risk management system, by verifying its compliance with the risk measurement model.

In 2017, the hedging of interest rate risk continued with the purchase of derivatives, namely Interest Rate Swaps and Interest Rate Options. Fixed-rate debentures issued in the first half of 2017 have been hedged (micro-hedging), as have mortgage loans with cap to Customers (macro-hedging) and interest rate gaps detected by the internal model (macro hedging).

The banking book, held for Liquidity Coverage Ratio (LCR) purposes, consists of Italian Government Securities with modest average duration, for amounts that have been set down by the Risk Committee of the Crédit Agricole S.A. Group and approved by the Boards of Directors of the Parent Company and of its Subsidiaries. These securities, which have been recognized in the AFS portfolio, have been hedged against interest rate risk.

In line with the instructions given by the Risk Committee of Crédit Agricole S.A. and with the reporting to the Bank's Board of Directors, in 2017 the banking book was supplemented subscribing fixed-rate Italian Government securities for a total of Euro 400 million; these securities have been recognized in the HTM portfolio and are refinanced at fixed rate.

The limits to the price risk of the Banking Book are defined on the basis of the type of instruments that can be held (Italian, German, and French Government Securities) and are expressed with reference to the maximum nominal value that can be held by every Bank of the Group.

The Group has implemented a stress analysis method to be used on the prices of the assets falling within this scope, setting a system of limits in force at Group level and of alert thresholds that are consistent with the standards set by Crédit Agricole S.A.

The Risk and Permanent Controls Department of Crédit Agricole Cariparma is responsible for independent control of the system for Banking Book price risk management, by verifying its compliance with the stress testing method set down by Crédit Agricole S.A.

Liquidity risk

For Banks, liquidity risk, both short-term and medium-/long-term, is the risk of not being able to promptly meet their payment obligations, due to the fact that they cannot obtain funding on the market (funding liquidity risk) and cannot sell their assets on the market (market liquidity risk).

The Governance model adopted by the Crédit Agricole Italia Banking Group assigns the responsibility for the measurement and management of liquidity risk to the CFO, who, through the Finance Department of Crédit Agricole Cariparma, performs centralized management of this risk at Group level, in accordance with the guidelines set down by Crédit Agricole S.A.

The Risk Management and Permanent Controls Department is tasked with the monitoring of liquidity risk, again in accordance with the guidelines set down by the Crédit Agricole S.A. Group.

The management of short-term liquidity, that is to say, the management of events impacting on the liquidity position of the Crédit Agricole Italia Banking Group in a time horizon from over-night to 12 months, has the main objective of maintaining the Group's ability to meet its recurring and non-recurring payment obligations, minimizing the relevant costs.

In order to monitor short-term liquidity management, the Crédit Agricole Italia Banking Group has implemented a system of limits in accordance with the provisions set down by the Crédit Agricole S.A. Group, which is based on stress scenarios in order to ensure surplus liquidity on various time horizons and in increasingly severe scenarios. The stress assumptions used cover idiosyncratic crises, systemic crises and global crises. Specifically, a short-term interbank refinancing limit (LCT – Limite Court Terme) has been set, which aims at limiting short-term funding on the market over a one-year time horizon in a market featuring stress conditions.

Medium-/long-term liquidity management entails the identification of alert thresholds and limits by determining the Position en Ressources Stables (Stable Resources Position, PRS), the Coefficient en Ressources Stables (Net Stable Funding Ratio CRS) and Concentration des tombées de dette MLT (a concentration limit to MLT maturities). They aim at ensuring the Group's balance between stable resources (medium-/long-term market resources, funding from Customers, own funds) and long-term uses (non-current assets, loans to Customers and liquidity reserves), as well as at limiting concentration of maturities within medium-/long-term funding. Positive levels of the Stable Resources Position (PRS) and of the Net Stable Funding Ratio (CRS) substantiate the Group's ability to support its assets during a crisis and, by monitoring the medium-/long-term due register, a balance can be kept between the maturities of resources and long-term uses.

In 2017, in compliance with the Basel III regulatory framework, the Banks of the Group reported their LCRs (liquidity coverage ratios) and ALMM (Additional Liquidity Monitoring Metrics) to the Supervisory Authorities on a regular basis.

As at 31 December 2017, the Group's Liquidity Coverage Ratio (LCR) was 197%, whereas the LCR of Crédit Agricole FriulAdria was 134%.

Market risk of the Trading Book;

Market risk generated by the positions of the Banks that make up the Crédit Agricole Italia Banking Group results from the exposures on the Supervisory Trading Book. The Group's legal entities do not typically carry out significant proprietary trading activities in financial markets; therefore, the positions reported are exclusively those resulting from placing and trading operations that are performed in order to meet Customers' requirements.

The Banks of the Group are subject to the Volcker Rule and to the "*Loi francaise de séparation et de régulation des activités bancaires*" (LBF), which prohibit any banking entity from engaging in proprietary speculative trading. The Volker Rule and the LBF apply to the Group in its capacity as the sub-consolidating entity of the Controlling Company Crédit Agricole S.A. To control implementation of the aforementioned legislation, a Volcker Rule Local Correspondent has been appointed within the Finance Department, who is responsible for ensuring full compliance of operations.

The sale of "over-the-counter" (OTC) derivatives to ordinary Customers is made through a specialist team, aims at meeting Customers' protection requirements and the Group operates as an intermediary. Intermediated derivatives are hedged back-to-back to be immunized against market risk (matched trading). Moreover, ISDA master agreements have been entered into with the related CSA (credit support annexes) with the Financial Institutions the Group operates with, in order to mitigate the counterparty risk associated with this type of operations.

In accordance with the guidelines issued by Crédit Agricole S.A. and with the applicable prudential regulations, the framework system for market risk is reviewed normally on a yearly basis within the Risk Strategy and is approved by the Board of Directors and by the Risk and Internal Control Committee.

Operational risks

The definition of operational risk adopted by the Group is the one set down in the document "Basel II – International Convergence of Capital Measurement and Capital Standards" prepared by the Basel Committee on Banking Supervision, which reads "*Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events*". This definition includes legal risk, which covers but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

To consolidate and enhance control of operational risks, the Group has set some macro-objectives:
- To maintain constant full compliance of Crédit Agricole Cariparma, Crédit Agricole Carispezia and Crédit Agricole FriulAdria with the regulatory requirements for the use of the Traditional Standardised Approach (TSA) and of the other entities of the Group with the requirements for the use of the Basic indicator approach (BIA) to calculate their supervisory capital.
- Monitoring of risks and losses, in order to allow a management-oriented approach, especially in terms of risk mitigation and prevention initiatives;
- Fine-tuning of the permanent controls systems and extension of the coverage of the same controls within the company perimeter.

The Risk Management and Permanent Controls Department is the reference structure in the management of operational risks at Group level and is responsible for ensuring the existence, completeness and relevance of the permanent controls implemented by the Group, by means of a structured and traceable control plan, as well, consequently, for assuring the General Management and the Boards of Directors that the various types of risks are actually under control.

In this regard, the Risk Management and Permanent Controls Department proactively participates in the most important corporate projects, especially those with high organizational impact, in order to provide its contribution, from the earliest phases, for consistent and complete preparation of the mechanisms for the management of the risks that are inherent in each project.

The management of operational risks requires sharing and proactivity also by all corporate structures; therefore, within the scope of permanent controls and operational risks, in order be at all times fully aware of the risk issues associated with the different corporate processes, both specific control roles within the corporate departments, and mechanisms that are functional to the set targets are operating:
- Operational Risk Manager (ORM or with the Italian acronym MRO), who is responsible for reporting the presence of actual and potential risks in the various corporate structures and for coordinating the implementation of permanent controls;
- Control on Outsourced Important Operational Functions/Provision of Outsourced Essential Services (Italian acronyms FOIE/PSEE) and on Physical Security;
- PRSI (Pilote des Risques SI), in charge of monitoring and control of IT risks on the Information System and on the Business Continuity Plan (BCP or with the Italian acronym PCO);
- CISO (Chief Information Security Officer), who is responsible for the security of corporate information;
- Information Security Manager (ISM): who is responsible for the implementation and management of the Information System operational security;
- Business Continuity Manager (BCM), who is responsible for the Group's Business Continuity Plan;
- Persons in charge of Controls, within the Distribution Network structures, with the task of performing 2nd degree 1st level permanent controls;
- Structures, systems and tools, instrumental for proper risk control and for the management of mitigation/improvement actions, including:
  - The Risk and Internal Control Committee, which is described above;
  - The reporting system in place for permanent controls on the Distribution Network, together with early warning indicators, aimed at detecting any irregular situations;

- Improvement Work Groups, meetings with the Branches that showed problems in the outcomes of permanent controls, of inspections carried out by the Internal Audit Department and in other verifications; during such meetings, together with the heads of the Retail Banking Areas, the problems detected are analyzed and an action plan for improvement is prepared.
- The Interfunctional Unit for the Provision of Outsourced Essential Services (Italian acronyms FOIE/ PSEE), having the task of monitoring and making decisions on any problems regarding the outsourcing of functions that are defined as "essential or important" in accordance with the applicable Supervisory rules;

The activities that are outsourced and contracted out to external providers are always governed by a service agreement that, in addition to regulating the provision of the service, provides for a system of controls on the set qualitative and quantitative levels. In accordance with the various scopes, internal reference roles are identified within the Bank's structures, who report to the competent Departments of the Parent Company on the general reliability of the contract relationship.

Finally, special controls are triggered where the activities outsourced can be defined as "important/ essential operational functions" (Italian acronym FOI), pursuant to Bank of Italy–CONSOB (Italian Securities and Exchange Commission) joint regulation and to Bank of Italy Circular No. 285/2013; in this regard, the main corporate regulatory reference framework is a specific Regulation that implements the Group policy, implements the applicable Supervisory provisions and organically defines the system of controls as required in case of outsourcing of important operational functions.

3. INTERNAL CONTROL SYSTEM

The Crédit Agricole Italia Banking Group has progressively upgraded its internal control system to the applicable Supervisory provisions (Bank of Italy Circular No. 285/2013) and to the model implemented by the Controlling Company Crédit Agricole S.A.; therefore, it implements a system aimed at:

- Constant control of risks;
- Adequacy of the control activities to its organizational structure;
- Ensuring reliability, accuracy and promptness of reporting.

The internal control system provides for the involvement of the Collective Bodies, of the Departments engaged in control functions, of the "Organismo di vigilanza" (Body in charge of offence prevention -AML, Terrorism Financing, etc. – provided for by the Italian Law), of the Independent Auditors, of the Top Management of the Group' Companies and of all Staff members.

Risks are analyzed and monitored based on Group references, which provide for verification of abidance by the regulatory terms, of the reliability of process and their exercise, security and compliance.

The control system provides also for the implementation of a mechanism of:

- Permanent control, which comprises:
  - 1st-degree controls, exercised on a continuous basis, at the start-up of a transaction and during the process for its validation, by the employees performing it, by the persons they report to on solid line, or executed by the automated systems for transaction processing; the activities for the production of accounting data and for the preparation of the Annual Report and Financial Statements are subject to specific first-degree controls that are carried out within the accounting units;
  - 2nd-degree/1st-level (2.1) controls, which are carried out by persons engaged in operating tasks, but other than those directly involved in making the decisions on the transaction subject to control; specifically, within the central administrative structures, controls are performed to monitor all departments and roles that can access the accounting information system;
  - 2nd degree/2nd level (2.2) controls, which are carried out by staff who is engaged in specialist functions for top level permanent controls and is not authorized to take risks, i.e. staff engaged in Compliance, Risk Management and Permanent Controls functions.
- Periodic control, consisting of a 3rd degree control, which is performed by the Internal Audit Department on a periodic basis through remote verifications, on-site inspections and audits of documents.

The updating of the regulatory system is also constantly focused on and, in addition to the upgrading to the regulations already implemented, also entails coverage extension through specific policies that are in force for the Group as a whole.

The Departments, Divisions and Services engaged in 2^{nd}-degree/2^{nd}-level (2.2) and 3rd-degree controls report to the Boards of Directors of the single Companies on:

- Activities carried out;
- Main risks detected;
- Identification and implementation of the mitigation mechanisms and the effects of their implementation.

Activities of the Validation Unit

The activities of the Validation Function holder structure are governed by the specific Policy that was approved by the Board of Directors of Crédit Agricole Cariparma in February 2017 and by the guidelines issued in March 2016 by the Direction des Risques du Groupe of Crédit Agricole S.A. This document sets down the relevant work approaches, scopes of action, controls and tolerance thresholds, as well as the rules governing the reporting process and the follow-up of recommendations.

The structure engaged in the Validation Function, in accordance with the supervisory regulations, is responsible for verifying:

- The accuracy, predictivity and stability of the internal estimates of risk parameters;
- The completeness, accuracy, consistency and integrity of the information used within the process for estimating and producing risk parameters;
- Proper use of the internally estimated risk parameters within management processes;
- Compliance with regulatory provisions of the governance model and of the features of the internal rating system;
- Compliance with the regulatory standards governing the architecture and operation of the information systems supporting the risk measurement process;

In the Crédit Agricole Italia Banking Group, the Validation Function is performed by the Validation Service that reports on a solid line to the Executive at the head of the Risk Management and Permanent Controls Department of Crédit Agricole Cariparma and is part of the validation business line coordinated by the "Validation des Modèles" Unit of Crédit Agricole S.A. In performing its mission, the Validation Service is independent of the structures and roles engaged in rating assignment and loan authorization, in compliance with the applicable regulatory provisions. All validation activities are certified on a yearly basis by the Internal Audit Department.

OTHER INFORMATION

NATIONAL TAX CONSOLIDATION REGIME

In March 2016, the national tax consolidation scheme was adopted, with effects since the 2015 tax period, by the Crédit Agricole S.A. Group in Italy; such scheme was introduced with Article 6 of Italian Legislative Decree No. 147 of 14 September 2015, according to which also the Italian "sister" companies, whose controlling Company is resident in a EU Member State, may exercise the option for consolidated taxation.

18 Companies of the Group opted to join the tax consolidation scheme and, having been designated by Crédit Agricole S.A., Crédit Agricole Cariparma has undertaken the role of Consolidating Entity.

This regime provides for the consolidated companies to transfer their taxable income (or their tax loss) to the Controlling Company Crédit Agricole Cariparma, which calculates a single taxable income or a single tax loss for the Group, as the algebraic sum of the income and/or losses of the single Companies, and recognizes a single tax account payable to or receivable from the Italian Inland revenue Service.

However, it is to be pointed out that the Italian corporate income tax (IRES) due on the income of Crédit Agricole FriulAdria is paid to the Friuli Venezia Giulia Region, thus ensuring that the Region shares the wealth produced and confirming in actual fact, the Group's strong and tangible bond to its community.

RESEARCH AND DEVELOPMENT

No research and development activities were performed in the year.

RISKS AND UNCERTAINTIES

The policies for the monitoring, management and control of risks remain key and priority pillars based of which the Banks will have to measure, both against one another and against domestic and international markets.

Reference is made to other sections of the Note to the Financial Statements for exhaustive reporting on the risks and uncertainties which Crédit Agricole Cariparma is exposed to (and on the techniques implemented for their mitigation), while it cannot but be emphasized once more the constant focus that Crédit Agricole FriulAdria and its Management have kept on the monitoring of risks and uncertainties, also to comply with the countless recommendations that the national and international Authorities have been issuing on this topic

Indeed, the governance bodies of Crédit Agricole FriulAdria are fully aware that sustainable development and growth absolutely require also an effective analysis of the risks which Crédit Agricole FriulAdria is exposed to and of the relating uncertainties, in terms of impacts that these risks could have on Crédit Agricole FriulAdria's financial position, cash flows and performance. Effective management and mitigation of the same risks to acceptably low levels are another crucial requirement for sustainable growth, also in order to protect savings (and, with them, Customers' confidence) on the one hand, and loans (healthy and drivers of growth) on the other.

The Management believes that the present overall performance of the domestic and international economies (financial and real) is such as to require, in addition to monetary and real policy measures to be adopted by supranational and national bodies (with the purpose of boosting the present weak recovery), also appropriate policies for constant enhancement of the monitoring of risks and uncertainties by financial players, such as the ones implemented by Crédit Agricole FriulAdria.

The Management is indeed fully aware that financial players must constantly implement growth and development policies that, at the same time, focus on the safeguarding and protection of the interests of all Stakeholders, without shirking, because of this very reason, the institutional role that Crédit Agricole FriulAdria as such plays both in terms of support to the economic and social fabric of its Customer Enterprises, and in terms of enhancement of that key factor for development and success which consists in effective and prudential management of savings.

RELATIONSHIPS AND TRANSACTION WITH GROUP COMPANIES

Within the wider organizational model of the Crédit Agricole Italia Banking Group, the Parent Company Crédit Agricole Cariparma is engaged in strategic management, direction and control functions, i.e. Governance functions, as well as in activities directly or indirectly supporting the business (Service).

Crédit Agricole Group Solutions is also a service provider and a consortium company that was incorporated in order for the Group to benefit from scale economies; all the activities regarding operations and information technology of the Banking Group and of some Italian companies directly or indirectly controlled by Crédit Agricole S.A. were transferred to Crédit Agricole Group Solutions.

The relations and transactions with the Parent Company and with the other companies of the Group, given the reciprocal advantage and concrete interest of the parties, are governed by specific service agreements, in accordance with the international accounting standards and with the tax regulations, ensuring the protection of minority interests and combining effectiveness and efficiency in the synergic governance of intra-group relations.

The provision of the single services is governed by “Service Level Agreements” (SLAs), which set down the general principles and regulate the provision of “services” and the relevant transactions in terms of prices. All such relations and transactions have been assessed also in terms of potential conflicts of interest. The prices applied for such transactions are set through a specific procedure that calculates the relevant values based on the costs of the resources used, on ancillary costs and such values are always comparable to market standards, in accordance with the range, nature, promptness and quality of the overall services provided.

The Bank has also cooperation relations with Crédit Agricole product companies in the fields of insurance, asset management, specialized financial services, lending and corporate and investment banking services.

The qualitative and quantitative analysis of the transactions carried out in the period with the Companies of the Group, as parties falling within the definition of related party, in accordance with the definition of related parties set down by the Regulation for the management of transactions with Related Parties of Crédit Agricole FriulAdria and Associated Persons of the Crédit Agricole Italia Banking Group, is reported in Part H of the Note to the Financial Statements, to which reference is made.

In the year, no atypical or unusual transactions were carried out having atypical or unusual features and size/materiality that might jeopardize or affect the protection of corporate assets and the interests of minority shareholders.

APPROACH TO SUSTAINABILITY AND OTHER NON-FINANCIAL ASPECTS

Crédit Agricole FriulAdria, in its capacity as a Public Interest Entity (pursuant to Article 16, paragraph 1, of Italian Legislative Decree No. 39 of 27 January 2010) having sizes – in terms of employees, balance sheet and net revenues – exceeding the thresholds laid down in Article 2 paragraph 1, is subject to Italian Legislative Decree No. 254 of 30 December 2016 (hereinafter referred to as Decree 254) “Implementation of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups”.

Complying with such obligations, the Crédit Agricole Italia Banking Group has prepared its consolidated Non-Financial Statement (NFS) as at 31 December 2017, in accordance with Decree 254, which is separate from the Management Report but an integral part of the documentation regarding the 2017 Annual Report and Financial Statements. As required by the applicable legislation, the NFS reports information relating to environmental matters, social and employee-related matters, respect for human rights, anti-corruption and anti-bribery matters, as relevant in accordance with the features of the Group’s Banks, for full disclosure and reporting on them and on the resulting impacts.

OUTLOOK

SIGNIFICANT EVENTS OCCURRED AFTER THE REPORTING DATE

As regards Crédit Agricole FriulAdria, it is reported that, from 31 December 2017 to the date of approval of this Report, no events occurred which could generate significant changes in the Bank’s structure and in its profit (loss) for 2017.

As regards the Crédit Agricole Italia Banking Group, it is reported that on 8 February 2018, the Boards of Directors of Crédit Agricole Cariparma (the Parent Company), Cassa di Risparmio di Cesena (“CRC”), Cassa di Risparmio di Rimini (“CARIM”) and Cassa di Risparmio di San Miniato (“CARISMI”) approved the project for the merger by absorption of CRC, CARIM and CARISMI into Crédit Agricole Cariparma.

MACROECONOMIC AND BANKING OUTLOOK FOR 2018

MACROECONOMIC SCENARIO(12)

The strengthening of the global economy in 2017 will allow **2018** to be **another positive year**, with growth that may exceed expectations. According to forecasts:

- The **United States GDP** is forecast to **increase** by +2.8% thanks to expansionary budget measures. Moreover, the tax reform, the US tax reform, entailing a lower tax burden on income from work, will contribute to increase labour supply with consequent positive effects on disposable income and consumption of households. Indeed, consumption has been forecast to increase by +2.5%. Some reasons for concern remain regarding possible increase in inflation and protectionist policies with restrictions to trade and immigration, especially for Countries that rely on international resources to grow;
- In order to mitigate the negative effects caused by Brexit, the UK Government has asked for a two-year **transition period**. Therefore, modest growth has been forecast, coming to approximately 1.6% in 2018 and +1.4% in 2019;
- For **emerging Countries**, economic recovery is expected at a **relatively low expansionary** pace, especially due to political uncertainty in Brazil and to the unstable situation of the banking and tax system in Russia. Despite the announced important reforms to open Chinese markets to foreign players and to limit the role of shadow banking in the economy, China's GDP is expected to increase (+6.3%) but at a lower rate than in 2017 (+6.8%).

However, from 2019, forecasts for the world economy show the possibility of some slowdown due to less expansionary policies implemented in advanced economies and to more neutral policies implemented in emerging Countries.

As regards the **financial system and monetary policies**, in March 2018 the Federal Reserve increased its interest rate by 0.25 points, hinting at another two/three increases that should take place in the year, followed by another increase in 2019. The increase in yields in the Unites States will extend only partially to the other advanced economies; indeed, the non-standard monetary policy measures in force in the Euro Area will limit the impact on European interest rates.

In March, the ECB announced that its policy rates will remain unchanged and that its asset purchase programme will continue at a monthly pace of Euro 30 billion until September 2018, or beyond if necessary. However, the **recent climate of mutual distrust** between the EU Member States could slow down the completion of the banking union project. Finally, short-term reference **rates** are expected to remain constantly negative and at their all-time low (3M Euribor -0.33% in 2018).

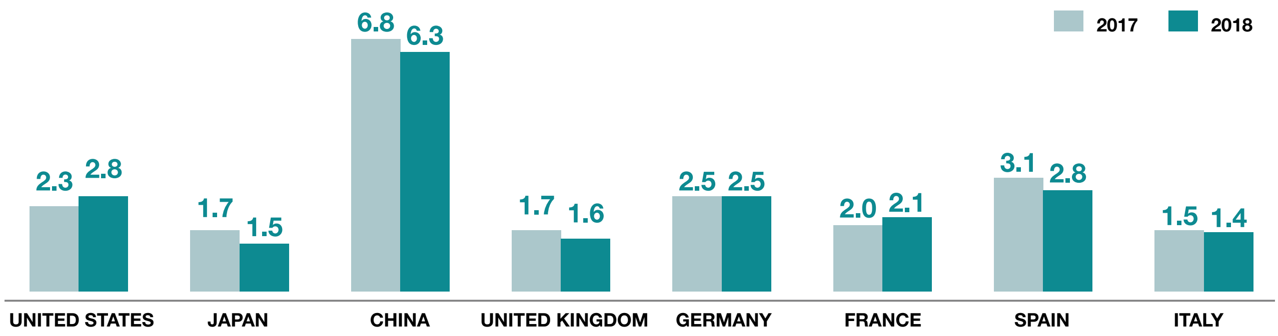
EURO AREA

In 2018, the risk of deflation in **Europe** is expected to be staved off, also thanks to the increase in commodity prices. Such increase will limit the purchasing power of households, causing consumption to decrease, but will give businesses the possibility for higher margins and investments. Overall, **in 2018 stable growth in the GDP has been estimated of +2.3%.** Having regard to key Countries:

- In **Germany**, exports, consumption and investments will lead to further **growth** of the German economy (GDP up by +2.5%) but some slowdown is expected in 2019 (GDP up by +2%), in line with the world economic cycle;
- In **France, growth will strengthen** (GDP up by +2.1%) thanks to high production investments, including real estate investments, the new labour code and the new Budget Law;
- In **Spain, the GDP growth will slow down** (up by +2.6%), while the unemployment rate will continue to decrease coming to 15%.

(12) Source: Prometeia, Forecast Report (March 2018)

GDP: % YOY change



Source: Prometeia, Forecast Report – March 2018.

THE ITALIAN ECONOMY

In an overall favourable global scenario, **in 2017 Italy progressively bridged the gap vs. Europe**: with exports accounting for 32% of the GDP and industrial added value for 17%, in Europe we rank second after Germany.

The years of favourable economic conditions are an opportunity to regain momentum and, in **2018**, the implemented **budgetary measures**, with extensions and new bonuses, such as **Industry 4.0 and hyper-amortization**, will continue to support growth consistently with progressive decrease in the public deficit. **Concerns** remain **regarding the outcome of the political elections** held in spring and **high Government debt**, but forecasts expect the ratio of government debt to GDP to decrease coming to 128.7% in 2020.

- In 2018, the outlook for the **manufacturing industry** remains good. In January, the output of Italian manufacturing companies came at its highest since 2011;
- **Exports**, a key factor for the generation of added value in 2017, are expected positive again and will come to 4.1% in 2018[(13)];
- The investment cycle continues in all European Countries and, in Italy, forecasts have been revised upwards as regards **investments in capital equipment** for 2018 (up by +5.7%) while forecasts of investments in construction have been revised downward for 2018-2020;
- **Consumption expenditure** is expected to grow at a stable pace in 2018, and to slow down slightly in the 2019-2020 two-year period;
- **Employment** is expected to continue to grow, with further increases in labour demand. However, the rate of growth will slow down starting from 2019, also due to the termination of contribution reliefs that drove the labour market recovery in 2015 and partially in 2016. **The unemployment rate is expected to come to 10.6% at the end of 2020;**
- After the 2017 GDP coming to +1.5%, **the 2018 GDP** is expected to come to **+1.4%** .

BANKING SCENARIO[(14)]

From 2018 on, the progressive **improvement in profit margins**, the effective actions implemented **to rationalize costs** and further **decrease in the cost of risk** will be the drivers consolidating the banking sector recovery. Leveraging **new drivers**, such as asset management, multichannel and digital modes, efficiency, proactive management of loans, banks will renew their business model in order to meet future challenges and to maintain high profitability. Indeed, the following are expected:

- The implementation of **recovery and capital strengthening plans** by some important Banking Groups;
- Continuation in **decreasing the stock of Non-Performing Loans** through sale transactions. In order to comply with the ECB guidance, and especially with the Addendum supplementing the NPL Guidance, provisions may have to be increased, especially by banks with high weight of non-performing loans;

(13) Source: Prometeia, Forecast Report (March 2018): chained value, % change
(14) Source: Prometeia Bank Financial Statement Forecast (January 2018)

- The **streamlining of the corporate structure** of some important Banking Groups by reducing the number of legal entities;
- Continuation in the process **to increase structure efficiency and geographical rationalization of distribution networks**, in addition to a change in service models with concomitant investments in process digitalization.

IAll the above will be combined with legislation and regulatory developments, any further extraordinary contributions to the banking system and the effects of the ECB monetary policy that will continue, at least until September 2018, to support the system's liquidity needs.

Based on these elements, for 2018 the expected performances of the **main balance sheet aggregates** are given below:

- Loans: increasing at modest paces. Lending to households will increase at a sustained pace, driven by mortgage loans that will continue to grow thanks to still low interest rates and to the improvement in the real estate market and by consumer credit. Lending to businesses will return to growth driven by the consolidation in the economic cycle and by investments;
- Funding from Customers: slightly decreasing due to the reduction in the bond component, only partially offset by the increase in deposits;
- Indirect funding: increasing by +4% YOY according to the estimates, thanks to the growth (+5% YOY) in asset management products (funds, insurance and wealth management), partially offset by a decrease in assets under administration (-1% YOY).

The quality of the **loan portfolio** is expected to further improve subsequent to the development in the market of sales of Non-Performing Loans. Gross bad loans are expected to decrease by 24%, with a stock that is expected to amount, at the end of 2018, to Euro 126 billion (vs. Euro 166 billion at the end of 2017).

Profitability is expected to decrease slightly vs. 2017, a year that benefited from the recognition of non-recurring income (state grants, badwill, gains from asset disposal). **Net of such non-recurring income, the net profit is expected to increase**, thanks to contribution of the following areas:

- Income increasing by +1.7%, after two years on the decrease, thanks to higher net interest income and higher net fee and commission income. Gradual recovery in lending volumes and the expansive monetary policy constantly implemented by the ECB, which will maintain the average cost of bank funding low, will all contribute to stop the decrease in net interest income that, from 2018, is expected to return to increase (up +3.7% YOY). Revenues from trading are expected to decrease, since gains on proprietary securities will no longer be made, whereas fee and commission income is expected to increase even though it may slow down due to the new regulatory developments (MIFiD2, PRIIPs) that could limit the growth of revenues from distribution of asset management and insurance savings products;
- Improvement of operational efficiency, with expenses estimated to decrease by 4.4% in 2018, continuing with the actions started in the last two years and aimed at the rationalization of staff and structures, as well as at **enhancing IT and organizational efficiency** supported by process digitalization;
- Reduction in the cost of risk, through several transactions for the sale of bad loans, as well as thanks to a reduction in the number of positions becoming non-performing and to faster and more efficient loan recovery processes.

THE ECONOMY IN NORTHEAST ITALY(15)

The latest estimates regarding Northeast Italy show **stable growth in the GDP** for 2018, expected at +1.5% as in 2017 and higher than that of the other Italian statistical regions. Specifically, Friuli Venezia Giulia is expected to grow by +1.4% and Veneto by +1.6%.

In 2018, the **export** business in Northeast Italy is expected grow, with exports increasing by +4.1%. Growth is expected also in investment plans that are forecast up by +3.3%. Both components of demand are expected to increase at a higher pace than the Italian average one.

The labour market is expected to progressively improve; the unemployment rate in Northeast Italy in 2018 has been estimated at +5.6% vs. a national average of +11.1%.

(15) Source: Prometeia, Scenarios for Local Economies (October 2017). Bank of Italy, Regional Economies (November 2017)

Proposal to the General Meeting of Shareholders

Dear Shareholders,

The Annual Report and Financial Statements for the financial year from 1 January to 31 December 2017, submitted for your examination, consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows, the Note to the Financial Statements, as well as of the Annexes, and are accompanied by the Management Report.

The proposal for the allocation of the net profit amounting to Euro 50,131,194 is as follows:

To the fund for charity and support to social and cultural initiatives	600,000
To the shareholders in the amount of Euro 1.836 to each of the 24,025,498 outstanding ordinary shares	44,110,814
To extraordinary reserve	5,420,380

It is proposed that no distribution be made to the treasury shares that Crédit Agricole FriulAdria may hold as at the ex-coupon date, allocating the relevant portion proportionally to the shareholders. In accordance with the applicable legislation, the dividend shall be payable effective from 30 April 2018 and with ex-coupon date on 24 April 2018.

Pordenone, Italy, 21 March 2018

The Chairwoman of the Board of Directors
Chiara Mio

Financial Statements

BALANCE SHEET

Assets		31.12.2017	31.12.2016
10.	Cash and cash equivalents	43,843,200	42,447,703
20.	Financial assets held for trading	7,469,458	8,135,751
30.	Financial assets designated at fair value	-	-
40.	Financial assets available for sale	690,558,895	884,373,667
50.	Investments held to maturity	442,859,100	-
60.	Loans To Banks	1,495,136,074	662,580,794
70.	Loans to Customers	7,187,345,534	6,817,045,718
80.	Hedging derivatives	112,240,987	142,736,124
90.	Fair value change of financial assets in macro-hedge portfolios (+/-)	5,578,756	1,993,520
100.	Equity investments	3,500,000	3,500,000
110.	Property, Plant and Equipment	60,205,835	60,721,729
120.	Intangible Assets	120,105,190	122,317,837
	of which: goodwill	106,075,104	106,075,104
130.	Tax assets	107,458,016	118,661,565
	(a) current	40,336,077	42,020,425
	(b) deferred	67,121,939	76,641,140
	b1) pursuant to Italian Law No. 214/2011	56,869,139	64,188,539
140.	Non-current assets held for sale and discontinued operations	-	-
150.	Other assets	94,416,555	75,374,673
Total assets		**10,370,717,600**	**8,939,889,081**

Liabilities and Equity		**31.12.2017**	**31.12.2016**
10.	Due to banks	2,384,664,511	1,405,908,869
20.	Due to customers	6,458,457,360	5,629,347,079
30.	Debt securities issued	420,082,593	733,834,702
40.	Financial liabilities held for trading	7,735,996	8,657,121
50.	*Financial liabilities designated at fair value*	-	-
60.	Hedging derivatives	78,347,985	121,323,375
70.	Fair value change of financial liabilities in macro-hedge portfolios (+/-)	78,474,720	112,539,897
80.	Tax liabilities	33,915,870	29,080,743
	(a) current	24,634,939	20,149,574
	b) deferred	9,280,931	8,931,169
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
100.	Other liabilities	140,002,643	137,737,499
110.	Employee severance benefits	20,379,869	21,933,702
120.	Provisions for risks and charges	17,520,095	26,902,869
	(a) Post-employment benefits	-	-
	b) other provisions	17,520,095	26,902,869
130.	Valuation reserves	2,436,713	137,862
140.	Redeemable shares	-	-
150.	Equity instruments	-	-
160.	Reserves	91,121,445	88,038,392
170.	Share premium reserve	471,757,296	471,757,296
180.	Capital	120,689,285	120,689,285
190.	Treasury shares (+/-)	-4,999,975	-4,999,975
200.	Profit (Loss) for the year	50,131,194	37,000,365
Total liabilities and equity		**10,370,717,600**	**8,939,889,081**

INCOME STATEMENT

Items		31.12.2017	31.12.2016
10.	Interest and similar income	180,766,633	184,499,492
20.	Interest and similar expenses	(18,124,350)	(29,002,159)
30.	**Net interest income**	**162,642,283**	**155,497,333**
40.	Fee and commission income	140,838,064	128,599,320
50.	Fee and commission expense	(4,577,490)	(4,045,392)
60.	**Net fee and commission income**	**136,260,574**	**124,553,928**
70.	Dividends and similar income	198,385	220,961
80.	Net profit (losses) on trading activities	3,530,401	4,609,399
90.	Net profit (loss) on hedging activities	(2,747,585)	(866,000)
100.	Profit (losses) on disposal or repurchase of:	1,784,225	7,459,185
	a) loans	(2,269,716)	(538,368)
	b) financial assets available for sale	4,451,920	8,481,475
	c) investments held to maturity	-	-
	d) financial liabilities	(397,979)	(483,922)
110.	*Profit (losses) on financial assets and liabilities designated at fair value*	-	-
120.	**Net interest and other banking income**	**301,668,283**	**291,474,806**
130.	Net losses/recoveries on impairment of:	(35,396,951)	(37,713,903)
	a) loans	(30,555,496)	(37,349,765)
	b) financial assets available for sale	(4,148,952)	(615,401)
	c) investments held to maturity	-	-
	d) other financial transactions	(692,503)	251,263
140.	**Net income from banking activities**	**266,271,332**	**253,760,903**
150.	Administrative expenses:	(229,404,787)	(237,625,252)
	a) Personnel expenses	(97,028,746)	(104,829,321)
	b) other administrative expenses	(132,376,041)	(132,795,931)
160.	Net provisions for risks and charges	(1,679,161)	(3,515,579)
170.	Net adjustments of/recoveries on property, plant and equipment	(4,906,938)	(4,517,595)
180.	Net adjustments of/recoveries on intangible assets	(2,212,646)	(2,212,646)
190.	Other operating expenses/income	50,340,397	49,615,190
200.	**Operating costs**	**(187,863,135)**	**(198,255,882)**
210.	Profit (losses) on equity investments	-	-
220.	Profit (losses) from property, plant and equipment and intangible assets designated at fair value	-	-
230.	Impairment on goodwill	-	-
240.	Profit (losses) on disposals of investments	84,168	(21,061)
250.	**Profit (loss) on continuing operations before taxes**	**78,492,365**	**55,483,960**
260.	Taxes on income from continuing operations	(28,361,171)	(18,483,595)
270.	**Profit (loss) from continuing operations, net of taxes**	**50,131,194**	**37,000,365**
280.	Profit (loss) on discontinuing operations net of taxes	-	-
290.	**Profit (Loss) for the year**	**50,131,194**	**37,000,365**

STATEMENT OF COMPREHENSIVE INCOME

Items		31.12.2017	31.12.2016
10.	**Net Profit (Loss) for the FY**	**50,131,194**	**37,000,365**
	Other comprehensive income after taxes not reversed in profit or loss		
20.	Property, Plant and Equipment	-	-
30.	Intangible Assets	-	-
40.	Defined-benefit plans	63,764	(609,753)
50.	Non-current assets held for sale	-	-
60.	Share of Valuation Reserves on equity investments measured using the equity method	-	-
	Other comprehensive income after taxes reversed in profit or loss	-	
70.	Hedges of investments in foreign operations	-	-
80.	Exchange rate differences	-	-
90.	Cash flow hedges	-	-
100.	Financial assets available for sale	2,235,087	(14,901,021)
110.	Non-current assets held for sale	-	-
120.	Share of Valuation Reserves on equity investments measured using the equity method	-	-
130.	**Total other comprehensive income after taxes**	**2,298,851**	**(15,510,774)**
140.	**Comprehensive income (Item 10+130)**	**52,430,045**	**21,489,591**

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2017

	Capital: ordinary shares	Share premium reserve	Reserves:		Valuation reserves	Treasury shares	Profit (Loss) for the year	Equity
			Income reserves	other				
EQUITY AS AT 31 DEC. 2016	120,689,285	471,757,296	87,302,678	735,714	137,862	-4,999,975	37,000,365	712,623,225
ALLOCATION OF NET PROFIT FOR PREVIOUS YEAR								
Reserves	-	-	3,645,814	-	-	-	-3,645,814	-
Dividends and other allocations	-	-	-	-	-	-	-33,354,551	-33,354,551
CHANGES FOR THE YEAR								
Change in reserves	-	-	-562,761	-	-	-	-	-562,761
Transactions on equity	-	-	-	-	-	-	-	-
Issue of new shares	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	-
Extraordinary dividend distribution	-	-	-	-	-	-	-	-
Change in equity instruments	-	-	-	-	-	-	-	-
Derivatives on treasury shares	-	-	-	-	-	-	-	-
Shares and rights on shares of the Parent Company assigned to employees and directors	-	-	-	-	-	-	-	-
Comprehensive income	-	-	-	-	2,298,851	-	50,131,194	52,430,045
EQUITY AS AT 31 DEC. 2017	**120,689,285**	**471,757,296**	**90,385,731**	**735,714**	**2,436,713**	**-4,999,975**	**50,131,194**	**731,135,958**

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2016

	Capital: ordinary shares	Share premium reserve	Reserves:		Valuation reserves	Treasury shares	Profit (Loss) for the year	Equity
			Income reserves	other				
EQUITY AS AT 31 DEC. 2015	120,689,285	471,757,296	83,882,157	660,461	15,648,636	-	34,249,237	726,887,072
ALLOCATION OF NET PROFIT FOR PREVIOUS YEAR								
Reserves	-	-	3,420,521	-	-	-	-3,420,521	-
Dividends and other allocations	-	-	-	-	-	-	-30,828,716	-30,828,716
CHANGES FOR THE YEAR								
Change in reserves	-	-	-	-	-	-	-	-
Transactions on equity	-	-	-	-	-	-	-	-
Issue of new shares	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-4,999,975	-	-4,999,975
Extraordinary dividend distribution	-	-	-	-	-	-	-	-
Change in equity instruments	-	-	-	-	-	-	-	-
Derivatives on treasury shares	-	-	-	-	-	-	-	-
Shares and rights on shares of the Parent Company assigned to employees and directors	-	-	-	75,253	-	-	-	75,253
Comprehensive income	-	-	-	-	-15,510,774	-	37,000,365	21,489,591
EQUITY AS AT 31 DEC. 2016	**120,689,285**	**471,757,296**	**87,302,678**	**735,714**	**137,862**	**-4,999,975**	**37,000,365**	**712,623,225**

STATEMENT OF CASH FLOWS

		31.12.2017	31.12.2016
A.	**OPERATING ACTIVITIES**		
1.	**Cash flows generated/absorbed by operations**	**169,604,581**	**171,901,454**
-	Profit (Loss) for the year (+/-)	50,131,194	37,000,365
-	- profit (losses) on financial assets held for trading and on financial assets/liabilities designated at fair value (-/+)	-1,408,615	-1,629,644
-	profit/losses on hedging activities (-/+)	-69,516	1,903,872
-	Net losses/recoveries on impairment (+/-)	33,940,281	35,892,380
-	net adjustments of/recoveries on property, plant and equipment and intangible assets (+/-)	7,119,584	6,730,241
-	Net provisions for risks and charges and other expenses/revenues (+/-)	1,679,161	3,515,579
-	Unpaid taxes and tax credits (+)	28,361,171	18,483,595
-	Other adjustments (+/-)	49,851,321	70,005,066
2.	**Cash flow generated/absorbed by financial assets**	**-1,001,046,937**	**-335,395,135**
-	financial assets held for trading	2,074,908	1,222,741
-	financial assets available for sale	180,708,556	114,198,420
-	Loans To Banks: on demand	-367,570,429	-85,076,119
-	Loans To Banks: other receivables	-464,984,851	-82,885,593
-	Loans to Customers	-327,834,265	-249,401,131
-	Other assets	-23,440,856	-33,453,453
3.	**Cash flows generated/absorbed by financial liabilities**	**1,313,917,432**	**199,305,119**
-	Due to banks: on demand	-11,628,348	-67,914,543
-	Due to banks: other due and payables	945,212,384	237,383,132
-	Due to Customers	806,348,351	661,827,960
-	Debt securities issued	-311,298,511	-495,470,747
-	Financial liabilities held for trading	-921,125	1,195,923
-	Other liabilities	-113,795,319	-137,716,606
Net cash flow generated/absorbed by operating activities		**482,475,076**	**35,811,438**
B.	**INVESTING ACTIVITIES**		
1.	**Liquidity generated by:**	**295,520**	**220,961**
-	Dividends received on equity investments	198,385	220,961
-	Sales of property, plant and equipment	97,135	-
2.	**Liquidity absorbed by:**	**-448,020,548**	**-4,142,972**
-	Purchases of investments held to maturity	-442,859,100	-
-	Purchases of property, plant and equipment	-4,392,866	-4,142,972
-	Purchases of business units	-768,582	-
Net cash flows generated/absorbed by investing activities		**-447,725,028**	**-3,922,011**
C.	**FUNDING ACTIVITIES**		
-	Issues/purchases of treasury shares	-	-4,999,975
-	Distribution of dividends and other	-33,354,551	-30,828,716
Net cash flows generated/absorbed by financing activities		**-33,354,551**	**-35,828,691**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		**1,395,497**	**-3,939,264**

RECONCILIATION

Financial Statement items	**31.12.2017**	**31.12.2016**
Opening cash and cash equivalents	42,447,703	46,386,967
Total net increase/decrease in cash and cash equivalents for the year	1,395,497	-3,939,264
Closing cash and cash equivalents	**43,843,200**	**42,447,703**

KEY: (+) generated/ from (–) absorbed/used in

Consistently with the amendment to IAS 7, adopted with Commission Regulation (EU) 2017/1990 of 6 November 2017, to be applied as from the commencement date of the first financial year starting on or after 1 January 2017, the disclosures required by paragraph 44 B in order to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

	31.12.2016	Changes from financing cash flows	Changes from obtaining or losing control of subsidiaries or other businesses	Change in fair values	Other changes	31.12.2017
Liabilities arising from financing activities (items 10, 20, 30, 40 and 50 of Liabilities)	7,777,747,771	1,427,893,986	67,933,536	-2,634,833	-	9,270,940,460

CONTACT DATA

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Registered Office Piazza XX Settembre, 2 – 33170 Pordenone, Italy
Phone: +39 0434.233111. Share Capital: Euro 20,689,285.00 fully paid-in
Entry number in the Company Register of Pordenone, Tax ID and VAT No. 01369030935
Italian Banking Association ABI Code 5336 Entered in the Italian Register of Banks at No. 5391.
Member of the Italian Interbank Deposit Protection Fund and of the Italian National Compensation Fund Company
subject to the Management and Coordination of Crédit Agricole Cariparma S.p.A and belonging to the
Crédit Agricole Italia Banking Group, which is on the Italian Register of Banking Groups at entry No. 6230.7

CRÉDIT AGRICOLE
FRIULADRIA