ANNUAL REPORT AND FINANCIAL STATEMENTS

2018

CRÉDIT AGRICOLE
FRIULADRIA

Crédit Agricole FriulAdria

Annual report and Financial Statements

2018

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Letter from the Chairwoman

2018 featured hopes and slowdowns. After a phase of recovery, which seemed firmly going on, in the last two quarters the Italian economy did not grow as expected. It was impacted by international instability factors, such as Brexit and trade tensions between the USA and China. These international factors, along with the domestic political turmoil, caused the volatility scenario to continue in the first months of 2019. Even though the fundamental trend remained positive, several analysts revised the estimated Italian growth downwards.

In this scenario, Crédit Agricole FriulAdria has continued to stand out as one of the healthiest and best performing banks in Northeast Italy. Our Bank proved once again a reliable partner for the local economy, to which it can offer also additional advantages generated by its belonging to a group that is a world player.

2018 was no exception and the Bank's development was further strengthened. Net income came to Euro 61.4 million, increasing by almost 23% vs. the already good figure for the previous year and posting one of the best performances of the Bank in its century-old history.

This is a reason for great satisfaction rewarding the work of our over 1,400 staff members and giving evidence of the effectiveness of the business strategies implemented by the Top Officers and by the Management as a whole.
Having achieved this performance through the traditional funding and lending business is further evidence of the effectiveness of the proximity bank model, with Customers' needs constantly at the center while continuing with the required organizational and technological evolution.

Today, being a Customer-focused proximity bank means exactly this: putting the Bank's strength and efficiency at the service of the community and of the economy. With over one billion Euro worth of new loans given in the year to individuals and businesses of the Friuli Venezia Giulia and Veneto Regions, we supported the productive fabric and financed the dream of a home of over 5 thousand households, while improving credit quality. At the same time, we continued to invest in innovation, specialization and initiatives arising from economic, social and environmental sustainability policies. We do believe that these are the scopes where the competitiveness challenge and the very future of our planet will be at stake.

Chiara Mio
Chairwoman
Crédit Agricole FriulAdria

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

Robert Marcel Conti(1)

Gianpietro Benedetti(°)(2)

Michela Cattaruzza(°)

Jean-Louis Delorme(3)

Mariacristina Gribaudi(°)

Olivier Guilhamon(*)

Jean-Philippe Laval(*)

Giampiero Maioli(*)

Marco Stevanato(°)

(*) Members of the Executive Committee
(°) Independent
(1) In office since 26 July 2018
(2) In office until 13 December 2018
(3) In office until 3 April 2018

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

Roberto Ghisellini[a]

Carlo Piana[b]

DEPUTY GENERAL MANAGER

Cesare Cucci

INDEPENDENT AUDITORS

EY S.p.A.

(a) In office until 28 February 2018
(b) In office since 1 March 2018

Key figures

As set forth in the “Statement of compliance with the International Accounting Standards”, Crédit Agricole FriulAdria, consistently with the choices made by the Crédit Agricole Group, has excercised the option envisaged in the IFRS 9 and IFRS 1, not to restate the comparison figures of the IFRS 9 first-time adoption financial statements.

Income Statement data (thousands of Euro)	2018	2017	2016
Net operating income	324,297	315,473	305,729
Operating margin	129,762	126,127	110,734
Net profit	61,416	50,131	37,000

Balance Sheet data (thousands of Euro)	2018	2017	2016
Loans to Customers (*)	8,258,428	7,187,346	6,817,046
Of which securities measured at amortized cost	747,491		
Funding from Customers	7,953,265	8,041,479	7,054,795
Indirect funding from Customers	7,459,877	7,413,550	6,926,288

Operating structure	2018	2017	2016
Number of employees	1,436	1,461	1,477
Average number of employees	1,263	1,270	1,309
Number of branches	174	174	182

Profitability, efficiency and credit quality ratios	2018	2017	2016
Cost (*) /income ratio	58.0%	57.9%	58.8%
Net profit/Average equity (ROE)	9.0%	6.9%	5.1%
Net profit/Average Tangible Equity (ROTE)	10.9%	8.3%	6.2%
Net non-performing loans/Net loans to Customers	2.3%	5.6%	7.2%
Total adjustments of non-performing loans/Gross non-performing loans	62.5%	47.6%	42.9%

Capital ratios	2018	2017	2016
Common Equity Tier 1 ratio	10.6%	12.6%	12.3%
Tier 1 ratio	10.6%	12.6%	12.3%
Total capital ratio	10.6%	12.6%	12.3%

(*) This item reports debt securities and loans in the amortized cost portfolio. Previously, this item reported financial assets that were not listed on an active market (Level 2 and Level 3) to Banks and Customers

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

Significant events

FEBRUARY

For the 10th year in a row, the Crédit Agricole Italia Banking Group was awarded the Top Employers certification.

On 1 March 2018 Carlo Piana took office as the general Manager of Crédit Agricole FriulAdria.

MARCH

The Crédit Agricole Italia Banking Group won the title of "Highest Climber" for having climbed up the highest number of positions in the Potential-Park 2018 list on Digital Talent Communication, which assessed the ability and effectiveness of companies in communicating and proving attractive on the web to look for candidates and to attract young talents.

APRIL

Crédit Agricole FriulAdria and the Foundation for Financial Education and Saving of the Italian Banking Association (ABI) organized the "Economic Citizenship Days" aimed at fostering aware use of money by young people, also considering the new technologies.

JUNE

Crédit Agricole Green Life - the new headquarters of the Group - opened, which embody an innovative approach to worklife and to welcoming its stakeholders.
The complex is environmentally sustainable and technologically advanced at the highest standard and it can house approximately 1,500 employees.

The Crédit Agricole Italia Banking Group won a prize within the Private Banking and Wealth Management Award, the annual event organized by AIFin in order to analyze the trends and prospects for Private Banking. The Group ranked first for the Private Banking Division of Commercial Banking for "Soluzione Valore Plus", the customized advisory services that have been designed for Private Banking Customers.

At the 16th Milano Finanza Global Awards, dedicated to the Italian lending and financial industry, the Crédit Agricole Italia Banking Group was awarded the Leone d'Oro Prize for the Best Institutional Campaign. The Group also performed very well in the Value Creators category, where Crédit Agricole FriulAdria was elected the Best Bank in the Friuli Venezia Giulia Region and Crédit Agricole Carispezia the Best Bank in the Liguria Region.

The shares issued by Crédit Agricole FriulAdria S.p.A. were admitted for trading on the "Order Driven" segment of the multilateral trading facility called "Hi-mtf", which is organized and operated by Hi-Mtf SIM S.p.A.

JULY

The Crédit Agricole Italia Banking Group became the Official Bank and Top Partner of F.C. Internazionale Milano.

SEPTEMBER

Giampiero Maioli, the CEO of the Crédit Agricole Italia Banking Group and Chief Country Officer of Crédit Agricole in Italy, was invested with the title of Chevalier dans l'ordre de la Légion d'Honneur by Christian Masset, the Ambassador of France to Italy, during a ceremony held at Palazzo Farnese, the seat of the French embassy in Rome.

OCTOBER

An important agreement was signed by and between Crédit Agricole and Barilla, the forerunner in Italy of supply chain agreements for high-quality and sustainable durum wheat. Thanks to its signing, the 5,000 farms supplying this raw material will be able to directly access dedicated banking services and loans.

Crédit Agricole Corporate and Investment Bank launched its first green investment solution for the Customers of the Crédit Agricole Italia Banking Group.

The Crédit Agricole Italia Banking Group launched the new instant payments service, which can be used directly through Internet Banking and with the Mobile Banking app. All holders of current accounts with one of the Banks of the Group can send and receive instant credit transfers directly on their PCs, smartphones and tablets through Nowbanking in its desktop, app and mobile-responsive versions.

NOVEMBER

The fans on Crédit Agricole Italia's Facebook page came to over 100,000.

Crédit Agricole FriulAdria suspended the payment of the instalments of mortgage loans and started work groups in order to respond with actual facts to the specific needs of the areas hit by adverse weather.

DECEMBER

Relying on long-standing experience in France, Le Village by CA opened its doors for the first time in Italy, in Milan, in a bewitching setting, a former convent dating back to 1400. Le Village by Crédit Agricole supports young businesses with high innovation and growth potential through a cooperative system comprising public and private partners. The startups that decide to join the Village can access, at favourable economic terms and conditions, the infrastructure they need for their business operations, state-of-the-art technology environments that include closed offices, co-working areas, meeting and conference rooms.

The Crédit Agricole Group

No.1
BANCASSURER IN EUROPE

No.1
ASSET MANAGER IN EUROPE

No.1
GREEN SOCIAL AND SUSTAINABILITY BOND BOOKRUNNER

KEY FIGURES IN 2018

51 MILLION
CUSTOMERS

47
COUNTRIES

141,000
STAFF MEMBERS

6.8 BLN €
UNDERLYING NET INCOME

106.7 BLN €
EQUITY - GROUP SHARE

15%
FULLY LOADED CET 1 RATIO

RATING

S&P Global Ratings	Moody's	Fitch Ratings	DBRS
A+	A1	A+	AA (low)

The Crédit Agricole Group
in Italy

No. 2
CONSUMER CREDIT PLAYER IN ITALY

No. 3
ASSET MANAGER IN ITALY*

KEY FIGURES IN 2018

4 MILLION
CUSTOMERS

15,000
STAFF MEMBERS

793 MLN €
NET INCOME - GROUP

3,5 BLN €
SHARE NET OPERATING REVENUES

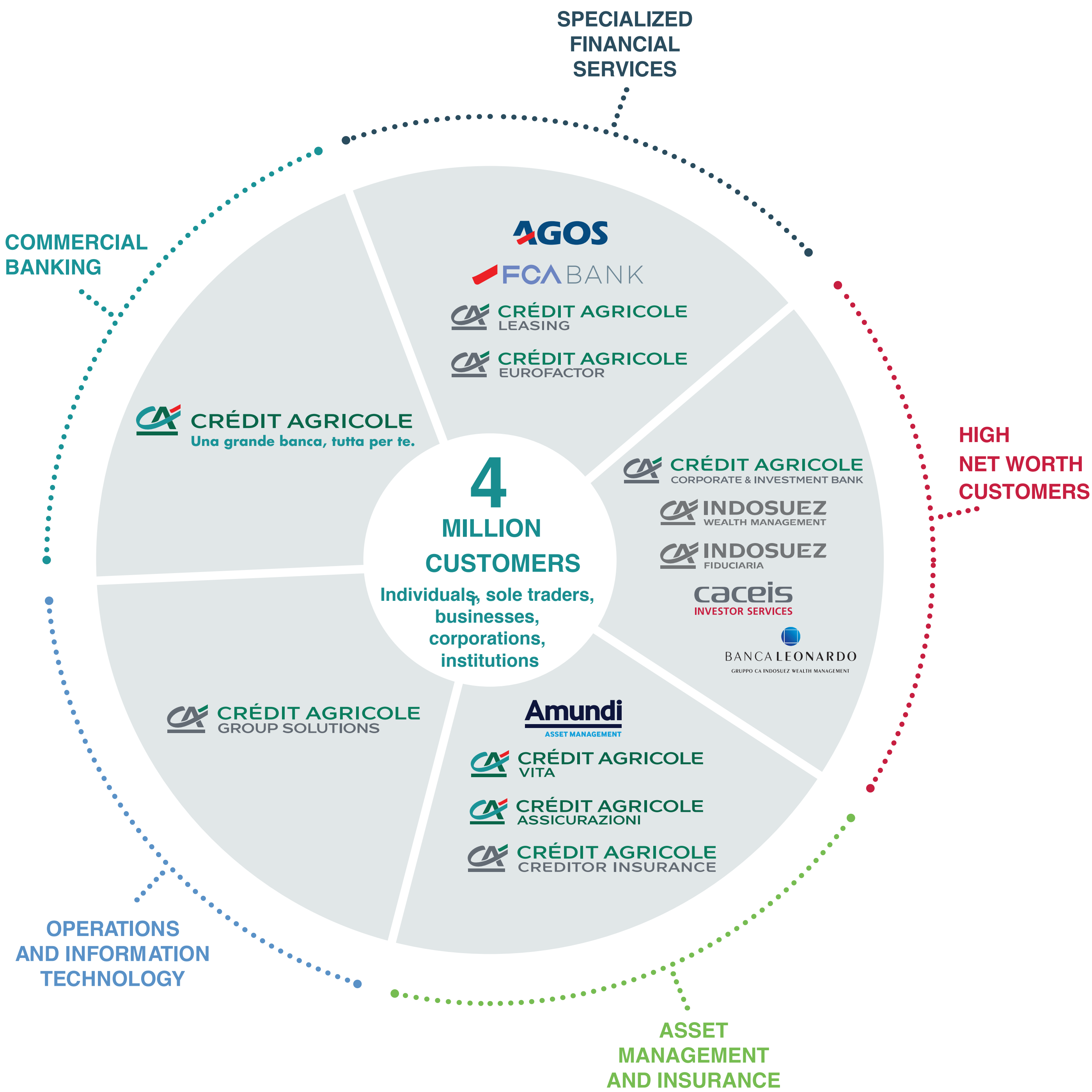
250 BLN €**
CUSTOMERS' DEPOSITS AND FUNDS UNDER MANAGEMENT

67 MLD €
LOANS TO CUSTOMERS

* Source: Assogestioni, "Mappa trimestrale del Risparmio Gestito", 3Q 2018. Data gross of duplications.

** Including "out-of-Group" Amundi AuM, CACEIS Assets under Custody

The Group's operations
in Italy



The Crédit Agricole Italia Banking Group

The **Crédit Agricole Italia Banking Group**, through its commercial banks, is a proximity banking player that covers all market segments, thanks to its distinctive positioning based on Customer centrality.

CRÉDIT AGRICOLE
Una grande banca, tutta per te.

RETAIL BANKING
984 BRANCHES AND
61 SMALL BUSINESS
CENTERS

PRIVATE BANKING
25 MARKETS AND
12 SUB-CENTERS

PRIVATE BANKING
25 MARKETS
AND 14 SUB-CENTERS,
1 LARGE CORPORATE

FINANCIAL ADVISORS
11 MARKETS

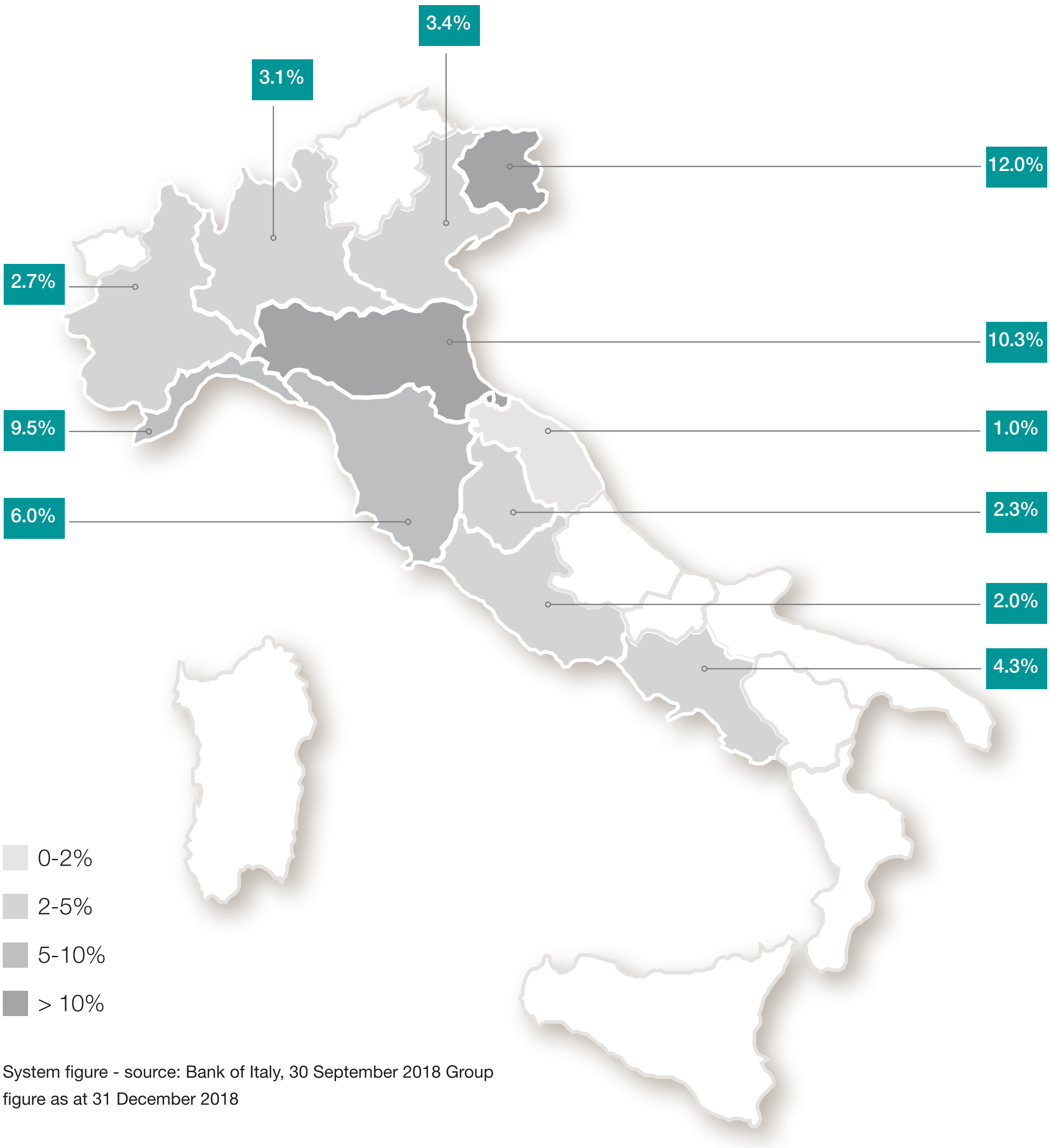
Market shares
by Region

OVER
2 MLN
CUSTOMERS

OVER
1,100
POINT OF SALE

APPROX.
10,000
STAFF MEMBERS

OVER
46 BLN €
TOTAL LOANS



System figure - source: Bank of Italy, 30 September 2018 Group figure as at 31 December 2018

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

827 POINT OF SALE

36.1 bln € WORTH OF LOANS

91.9 bln € 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 **16,000 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**.

207 POINT OF SALE

7.5 bln € WORTH OF LOANS

15.4 bln € 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 its original provinces of operation, La Spezia and Massa Carrara; since 2014 it has been operating also in the provinces of Genoa, Savona and Imperia.

99 POINT OF SALE

2.8 bln € WORTH OF LOANS

6.9 bln € WORTH OF TOTAL FUNDING

CRÉDIT AGRICOLE LEASING

Crédit Agricole Leasing Italia operates in the equipment, seacraft and aircraft, vehicle, renewable energy and real estate leasing segments. **At the end of 2018, the loan portfolio amounted to approximately Euro 2Bln.**

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.

Financial highlights and ratios

As set forth in the "Statement of compliance with the International Accounting Standards", Crédit Agricole FriulAdria, consistently with the choices made by the Crédit Agricole Group, has opted to exercise the option provided for by IFRS 9 and IFRS 1, not to restate the comparative figures of the IFRS 9 first-time adoption financial statements.

Income Statement highlights (°) (thousands of Euro)	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
Net interest income	176,679	171,422	5,257	3.1
Net fee and commission income	140,965	138,523	2,442	1.8
Dividends	34	198	-164	-82.8
Profit (loss) on banking activities	9,500	6,022	3,478	57.8
Other operating income (expenses)	-2,881	-692	2,189	
Net operating income	324,297	315,473	8,824	2.8
Operating expenses	-194,535	-189,346	5,189	2.7
Operating margin	129,762	126,127	3,635	2.9
Cost of risk (a)	-38,544	-47,719	-9,175	-19.2
Of which net value adjustments of loans	*-34,034*	*-46,040*	*-12,006*	*-26.1*
Net profit for the period	61,416	50,131	11,285	22.5

Balance Sheet highlights (°) (thousands of Euro)	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
Loans to customers (*)	8,258,428	7,187,346	1,071,082	14.9
Of which Securities measured at amortized cost	*747,491*		*n.a*	*n.a*
Net financial assets/liabilities at fair value	17,305		n.a	n.a
Financial assets measured at fair value through other comprehensive income	392,084		n.a	n.a
Financial assets available for sale		690,559	n.a	n.a
Investments held to maturity		442,859	n.a	n.a
Equity investments	3,500	3,500	-	-
Property, plant and equipment and intangible assets	175,397	180,311	-4,914	-2.7
Total net assets	9,214,771	8,867,846	346,925	3.9
Net financial liabilities/assets held for trading		-267	n.a	n.a
Funding from Customers	7,953,265	8,041,479	-88,214	-1.1
Indirect funding from Customers	7,459,877	7,413,550	46,327	0.6
of which: asset management	*5,686,757*	*5,608,466*	*78,291*	*1.4*
Net due to banks (^)	200,275	-273,410	473,685	
Equity	635,444	731,135	-95,691	-13.1

Operating structure	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
Number of employees	1,436	1,461	-25	-1.7
Average number of employees (§)	1,263	1,270	-7	-0.6
Number of branches	174	174	-	-

(°) Income statement and balance sheet data are those restated in the reclassified financial statements shown on pages 27 and 35
(a) The cost of risk includes provisioning for risks and charges, net value adjustments of loans and impairment of securities
(*) This item reports debt securities and loans in the amortized cost portfolio. Previously this item reported financial assets not listed on an active market (Level 2 and Level 3) to Customers
(^) The 2017 "Net due to banks" item was reclassified (asset mismatch) for smoothing with 2018 (liability mismatch)
(§) 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 has been conventionally weighted at 50%

Structure ratios [*]	**31 Dec. 2018**	**31 Dec. 2017**
Loans to customers /Total net assets	81.5%	78.6%
Direct funding from Customers/Total net assets	86.3%	88.0%
Asset management/Total indirect funding from Customers	76.2%	75.7%
Loans to Customers/ Direct funding from Customers	94.4%	89.4%
Total assets/Equity	16.8	14.2

Profitability ratios [*]	**31 Dec. 2018**	**31 Dec. 2017**
Net interest income/Net operating income	54.5%	54.3%
Net fee and commission income/Net operating income	43.5%	43.9%
Cost/income ratio	58.0%	57.9%
Net income/Average equity (ROE) [a]	9.0%	6.9%
Net income/Average Tangible Equity (ROTE)[a]	10.9%	8.3%
Net profit /Total assets (ROA)	0.6%	0.5%
Net profit/Risk-weighted assets	1.5%	1.3%

Risk ratios [*]	**31 Dec. 2018**	**31 Dec. 2017**
Gross bad loans/Gross loans to Customers	4.5%	6.7%
Net bad loans/Net loans to Customers	1.4%	2.9%
Gross non-performing exposures/Gross loans to customers (gross NPE ratio)	6.0%	10.2%
Impairments of loans/Net loans to Customers	0.5%	0.6%
Cost of risk[b]/Operating margin	29.7%	37.8%
Net bad loans/Total Capital [c]	25.0%	42.3%
Net non-performing loans/Net loans to Customers	2.3%	5.6%
Total Impairments of non-performing loans/Gross non-performing loans	62.5%	47.6%

Productivity ratios [*] **(in income terms) (thousands of Euro)**	**31 Dec. 2018**	**31 Dec. 2017**
Operating expenses/No. of Employees (average)	154.0	149.1
Operating income/No. of Employees (average)	256.8	248.4

Productivity ratios [*] **(in financial terms) (thousands of Euro)**	**31 Dec. 2018**	**31 Dec. 2017**
Loans to Customers/No. of Employees (average)	5,946.9	5,659.3
Direct funding from Customers/No. of Employees (average)	6,297.1	6,331.9
Gross banking income(f) /No. of Employees (average)	18,150.5	17,828.6

Capital and liquidity ratios	**31 Dec. 2018**	**31 Dec. 2017**
Common Equity Tier 1 (d) /Risk-weighted assets (CET 1 ratio)	10.6%	12.6%
Tier 1 [e] /Risk-weighted assets (Tier 1 ratio)	10.6%	12.6%
Total Capital [c] /Risk-weighted assets (Total capital ratio)	10.6%	12.6%
Risk-weighted assets (Euro thousands)	4,044,579	3,886,937
Liquidity Coverage Ratio (LCR)	127%	134%

[*] The ratios are based on the balance sheet and income statement data of the reclassified financial statements on pages 27 and 35
[*] Ratio calculated excluding ordinary and extraordinary contributions given to support the banking system
[a] Ratio of net earnings to equity weighted average (for ROTE net of intangibles)
[b] The cost of risk includes provisioning for risks and charges, net value adjustments of loans and impairment of securities
[c] Total Capital: total regulatory own funds
[d] Common Equity Tier 1: CET 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 2018[1]

At the beginning of 2018 the world economy showed momentum and, in the first months of the year, international trade grew vs. the slowdown in 2016 and mid-2017. The **USA budgetary policy and the budgetary and monetary policies of China** were the foundations for the good growth of these economies' GDPs in the summer months.

However, **in the last few months a forthcoming slowdown was increasingly perceived**, although, in the third quarter, the decrease in the GDP growth and in world trade was modest. Many emerging countries involved in the tensions on exchange rates experienced slower activities, contributing to the slowdown in world trade. **This slowdown impacted more on the Euro Area** than on other Countries. The EMU slowed down considerably, with the GDP growing by no more than +1.6% in the third quarter, vs. +2.3% in the first part of the year.

The trade tensions between the USA and China and, in general, the development of the USA trade policy represented one the most material risks in the international scenario. They fuelled uncertainty on businesses' development prospects as the present value chains could change generating negative effects both for the Countries that have considerable trade exchanges with the USA, and for those with modest direct exchanges. Trade tensions went along with political uncertainty caused by Brexit and by the negotiations between the EU and the Italian Government on the budget law.

In 2018, **the world gross world product increased by +3.7%**, remaining stable vs. the previous year. Overall, the world economy is in transition: **the economy is slowing down, but to a modest extent at a global level**.

Monetary policies

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

- the **Federal Reserve** continued with its policy for the increase of interest rates, which started in 2015, with four rate increases in 2018 (March, June, September and December) of 0.25 points each, thus taking the Fed Funds rates within a 2.25%-2.50% range;
- the **European Central Bank** confirmed the Quantitative Easing termination, tapering down the monthly purchases from 30 to 15 billion, effective from October and up to the end of December 2018. Furthermore, in January, it decided to leave interest rates unchanged: on the main refinancing operations at 0.00%, on the marginal lending facility at 0.25% and on the deposit facility at -0.40%;
- the **Bank of England**, subsequent to the increase in uncertainty caused by Brexit, in December 2018, decided to leave the interest rate unchanged at 0.75% and confirmed that the increase in rates will have to be "gradual".

1 Source: Prometeia, Forecast Report (December 2018).

Main economies

The different geographical areas showed different growth rates:

- the **United States** continued to grow, with the GDP coming to +2.9% at the end of the year, increasing from 2.2% of 2017, benefiting from an increase in domestic demand. The labour market improved, with the unemployment rate decreasing vs. 2017. Worth mentioning are the decrease in residential real estate investments and the higher uncertainty regarding trade policies;
- **Japan**: The GDP increased by +0.7%, markedly slowing down vs. +1.9% in 2017, with a general decrease in all demand components, but especially in investment in plants and machinery. This performance was heavily affected by natural disasters, such as the earthquakes in Hokkaido and Osaka, floods and typhoons that interrupted production chains, transports and, consequently, exports;
- despite the slowdown expected at the beginning of the year, **China's** GDP posted a +6.6% increase vs. +6.8% in 2017, thanks to the continuous support of the national economic policy. Investments and production outlook were affected by unclear developments in foreign demand. Exports and imports continued, but it cannot be ruled out that this was the result of strategic choices of purchasing in advance (made both by China and by the USA) in order not to incur impending tariffs. Competitiveness of goods increased along with the progressive depreciation of the Euro against the US Dollar;
- **India's** GDP progressively increased: up by +7.8% vs. +6.4% in 2017. Domestic demand was stable thanks to private investments and to the impressive public expenditure, while real net exports remained negative. Consumption decreased due to the slowdown in agricultural income and acceleration in prices;
- the economy of **Brazil** grew by +1.2%, essentially in line with 2017 (1.1%). Stronger financial stability and lower political uncertainty did not prove sufficient to drive strong economic growth. The unemployment rate continued to progressively decrease and an overall stable inflation rate allowed the Central Bank to keep policy rates at 6.5%;
- **Russia**: The annual GDP grew by +1.6%, in line with 2017. The extension of sanctions affected economic players' confidence, which impacted on investments and caused capital outflows with subsequent depreciation of the Rouble. This fostered exports, with net exports remaining positive;
- the **United Kingdom's** economy grew by +1.3% vs. +1.7% in 2017: both exports and domestic demand decreased vs. the previous year. As regards Brexit, after completing the first negotiation phase, the focus in on a possible deal for the UK exit from the EU.

EURO AREA

In the Euro Area, the slower growth in the **GDP, which, in 2018, came to +1.8%** vs. +2.5% in 2017, was the result of more limited development in demand, both domestic and foreign. The economic scenario was affected by modest international exchanges, political uncertainty, less favourable financial conditions and higher inflation. Although still high, economic players' confidence was affected by the above factors and, thus, resulted in lower spending decisions made by economic players.

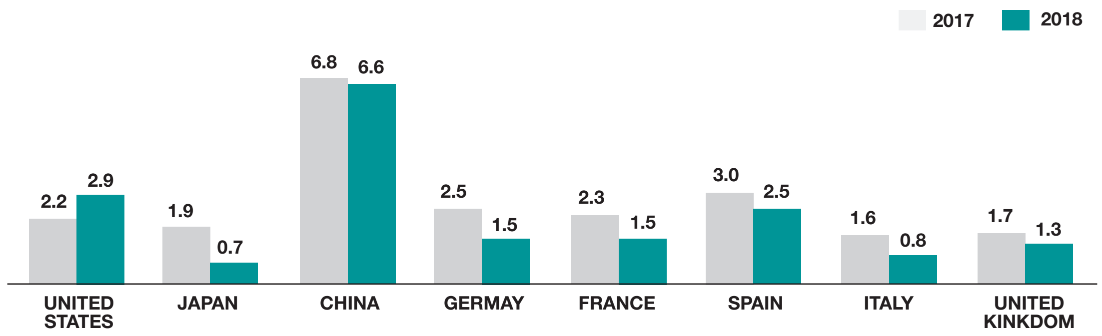
After being at the top between the end of 2017 and the beginning of 2018, business confidence progressively worsened during the year; this was caused, to a large extent, by the more pessimistic assessments of demand. Consumer confidence also decreased, reflecting especially fears about the labour market and economic outlook in the last months of the year.

Germany, after 8 years of continuous growth, slowed its pace in 2018, with the economy growing by +1.5% vs. +2.5% in 2017. This slowdown was caused by temporary factors linked to the automotive market, which weakened exports and private consumption. Investments continued to increase with acceleration in expenditure for capital goods and in residential investments.

In **France**, the GDP grew by **+1.5%** vs. +2.3% in 2017, driven by stable domestic demand and by the positive contribution of net exports. Private consumption was partly affected by the tax reform and by the increase in inflation on purchasing power in the first part of the year, while exports reflected the recovery in deliveries in the sea and air transport sector. The events occurred in the last part of the year, such as the protests against the increase in fuel prices, negatively impacted manufacturing output.

Spain proved again the top performer among the EMU largest economies, with the GDP growing by +2.5% vs. +3.0% in 2017. Domestic demand remained robust thanks to the favourable financial conditions and to the measures provided for by the 2018 Budget Law, which supported consumption and fostered its acceleration, as well as to residential investments that gained momentum. Exports were impacted by modest foreign demand and the contribution of international trade to economic growth remained negative.

GDP: % YOY change



Source: Prometeia - Brief, Italy in the global economy (February 2019).

THE ITALIAN ECONOMY

After closing 2017 with the GDP up by +1.6%, the highest growth in the last seven years, in 2018, within a general slowdown in the world cycle and increasing fears about future prospects, both domestic and foreign, Italy continued to grow, even though at a slower rate, with the **GDP up by +0.8%**. The growth was entirely achieved in the first part of the year, followed by an essentially stable second half.

One of the causes of this slowdown, shown also by the largest economies in the Euro Area, was lower **domestic demand**. Spending decisions of households and businesses were affected by domestic factors, such as the uncertainties on the economic policy of the new government and the subsequent increase in the spread. **Exports** experienced markedly lower growth in extra-EU markets, whereas this decrease was less considerable in EU Countries. The total growth in exports (+1.0%) was lower than in the previous year (+6.0%).

In October, **Moody's** and **Standard & Poor's** assigned their ratings to Italy: the former downgraded its rating from Baa2 to Baa3, while S&P downgraded the outlook from "stable" to "negative"; before these two rating agencies, at the end of August, Fitch had already downgraded the previously "stable" outlook to "negative". Among the various reasons for their ratings, both agencies mentioned the government's economic plan, which could weaken Italy's growth performances, and higher deficit prospects. Financial markets were impacted by these tensions, with the BTP-Bund spread that started to increase in early May and arrived above 300 basis points, reflecting the uncertainties about the budget law. As a direct consequence of Italy downgrading, Moody's assigned lower ratings also to various Italian banking groups.

In the first part of the year, overall **consumer confidence**[2] remained high; however, in last months of 2018, it progressively decreased with all its component worsening: the economic one, the personal one, the current one and the future one.

Also the **Business Confidence Composite Index** started to worsen in July, going back to the 2016 levels. In the manufacturing sector, the decrease in confidence reflects further worsening in demand assessments expecting slight growth and, in terms of sectors, a decrease in intermediate goods. The service sector also worsened with assessment of lower business performances and demand. In the building sector, both assessments on orders and employment expectations worsened.

2 Source: ISTAT (the Italian National Institute of Statistics), Flash press release on Consumer and Business Confidence (December 2018)

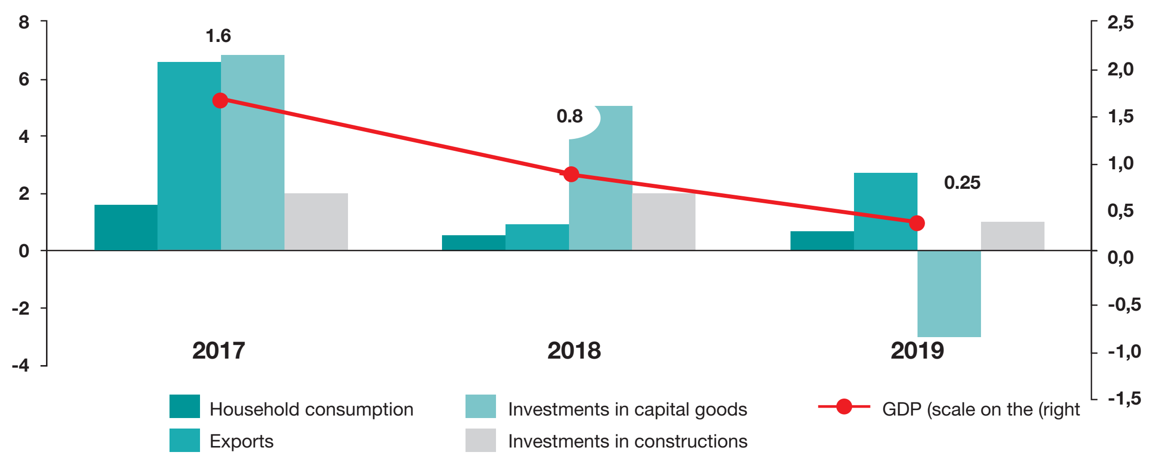
Total **investments** increased by **+4.1%**, essentially stable vs. the previous year. Although tax incentives remained, uncertainty prevailed, also as regards the new government's economic policy, which led to lower spending by businesses in capital goods. Investments in constructions proved again to be progressively increasing.

The annual **industrial output** decreased by 5.5%; as to trends[3], the related indexes reported a marked decrease in consumer goods and intermediate goods; less marked decreases were reported in energy and capital goods.

The **unemployment rate**[4] continued to decrease: in December 2018, it came to 10.3% (youth unemployment to 31.9%); the number of employed persons increased (the employment rate came to 58.8%) thanks to the increase in employees with fixed-term contracts and in self-employed persons; the number of NEETs (young people not in employment, education or training) decreased (rate to 34.3%).

On average, in 2018 **consumer prices**[5] increased by 1.2%, with the same annual performance posted in 2017. "Core inflation", net of energy and fresh food products, was stable at +0.7%. Specifically, non-regulated energy products (home and automotive fuels) affected the performance of consumer prices.

Italy: GDP and its components



Source: Prometeia - Brief, Italy in the global economy (February 2019).

THE BANKING SYSTEM

After the 2017 results in the black, driven also by significant non-recurring components (badwill recognition and State contributions), in 2018 the **banking system** was impacted by the tensions in the market of government securities. Vulnerability, which started to increase in mid-May with the rumours on the government programme and continued to increase at the end of the summer when the cabinet's proposal were defined, **caused an increase in the spread, which negatively impacted the prices of Italian banks' shares**.

Nevertheless, the banking industry is stronger than it used to be, it is more capitalized, the asset quality has improved thanks to the considerable decrease in NPLs, funding is more stable and less expensive and operating costs are decreasing. **Capitalization proved again well above the supervisory and regulatory minimum levels**, but it decreased mostly due to the impacts generated by the first adoption of IFRS 9 and by the higher spread on Italian Government securities, which increased from approximately 130 bp at the beginning of April to over 300 bp in November.

3 Source: ISTAT (the Italian National Institute of Statistics), Flash press release on Industrial Output (February 2019)
4 Source: ISTAT (the Italian National Institute of Statistics), press release on Employed and Unemployed Persons (January 2019)
5 Source: ISTAT (the Italian National Institute of Statistics), Flash press release on Consumer Prices (January 2019).

Furthermore, in November **the EBA published the results of its stress test exercise**, which were very good for Italian banks, giving evidence that the efforts they made in the last few years to improve their capital basis have actually contributed to strengthening their resilience and ability to withstand severe economic shocks and material impacts on capital.

In 2018, there were several developments in the **legislation and regulatory scope**, specifically:

- as regards transparency and consumer protection, one of the most important asset management measures implemented was the entry into force of **MiFID2** (Markets in Financial Instruments Directive) and of the **IDD2** (Insurance Distribution Directive);
- the **PSD2**, which concerns payment services, also entered into force and, among the many innovations introduced, aims at fostering the entry of new players and the development of new business opportunities;
- in order to accelerate the already started reduction in banks' NPL stocks, **calendar provisioning** was implemented, with the statutory prudential backstop, presented in March by the European Commission, which introduced, among the measures for NPL management and reduction, common minimum loss coverage levels (first pillar) that mandatory for all the banks in the European Union;
- the publication by the European Central Bank of the final version of the Addendum to the Guidance to banks on new non-performing loans, whereby banks are required to increase and speed up provisioning for problem loans, up to 100% coverage in two years in case of unsecured positions, in seven years for positions secured by immovable property or other eligible collateral;
- **International Financial Reporting Standard 9 (IFRS9)**, which entered into force on 1 January 2018, entailed material changes in the classification, measurement and estimate of impairment of financial instruments. The First Time adoption of the new standard impacted on banks' equity.

In general, the new legislation has strengthened security and protection of investors.

The reform of the Italian cooperative banking system continued, with the definition of a new organizational structure aimed at ensuring higher integration of all the Cooperative Banks operating throughout Italy, which should result, starting from 2019, in the incorporation of three cooperative banking groups, two national ones led by Cassa Centrale Banca and Iccrea, and a provincial one led by Cassa Centrale Raiffesen.

In 2018, **the asset quality continued to improve** thanks to recovery processes and measures aimed at optimizing internal management of non-performing loans. The State Guarantee on Securitisation of Non-Performing Loans (Italian acronym GACS), which was extended to March 2019, made NPL sales easier: in 2018, NPLs were sold for a total gross amount of about Euro 70 billion. The lower numbers of loans becoming non-performing have gradually reduced also the cost of risk.

Adjustments decreased, also subsequent to the adoption of the new IFRS9, which, in accordance with the First Time Adoption (FTA) scheme, allowed higher provisioning on the exposures being sold, through equity rather than through Profit or Loss, with phase-in, where the case, on the supervisory capital ratios.

As at the end of 2018, net **bad loans**[6] had decreased to Euro 29.5 billion, down by 54% vs. the end of the previous year. The weight of net bad loans on total loans came to 1.72%, decreasing from 3.70% recorded at the end of 2017.

Loans to households and businesses increased by +2.2%[7] vs. the previous year. Mortgage loans continued to increase, as did loans to businesses even though to a lesser extent.

Interest rates on loans to Customers in December 2018 were even lower: the average interest rate on total loans was 2.55%, yet another all-time low; interest rates on new home loans were slightly higher (1.94%), while interest rates on loans to business remained at very low levels (1.39%).

At the end of 2018, **direct funding** (deposits from resident customers and bonds) showed a slight decrease of -0.6% YOY. The medium/long-term funding component decreased, with bonds down by -15.4% vs. December 2017, with a concomitant increase in deposits (up by +2.2% YOY) or in asset management products, which proved more profitable for customers in a phase of interest rates at their all-time low.

6 Source: ABI Monthly Outlook (February 2019

7 Source: ABI Monthly Outlook (January 2019).

The **yields** on **direct funding** progressively decreased: the average **interest rate** on funding was 0.66%, vs. 0.76% in 2017.

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 2018 it came to 189 basis points slightly increasing vs. 180 basis points in December 2017.

As regards the **asset management industry**[8] , in 2018, a year featuring market uncertainty, total net funding came to Euro 7 billion. The assets under management in this industry totalled Euro 2,002 billion.

The banking system remained **profitable**, despite interest rates at their all-time low (average 3-month **Euribor** in December 2018 was -0.31%). Also in 2018 non-recurring income was recognized, albeit for a lower amount, mainly from disposal of problem loans management platforms, agreements for the distribution of insurance products and asset management, capital gains from the sale of owned property and other business units. **Operating expenses continued to decrease**, albeit at a slower pace than in 2017, subsequent to staff reduction and rationalization of physical structures. Conversely, regulatory and technology factors have been requiring higher investments and controls as regards digital operations.

The banking system's **net income** came to approximately Euro 10 billion, decreasing vs. 2017, when non-recurring revenues gave a considerable contribution to profits.

THE ECONOMY IN NORTHEAST ITALY[9]

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 production chains that have always been able to adapt and respond to the requirements of international markets.

In this area, economic growth continued albeit slightly decreasing vs. 2017, with the GDP expected to increase by +1.3% in 2018 vs. +1.9% in the previous year. The drivers of growth will be gross fixed investments increasing by +4.4% and household consumption (up by +1.1%). Both Friuli Venezia Giulia and Veneto are expected to increase, by +1.4% and by +1.2%, respectively.

The area proved once again able to perform well in **exports**, which increased at a rate by +2.6% higher than the Italian average (vs. +4.9% in 2017). Europe continues to be by far the target market for businesses based in the Northeast Italy.

The unemployment rate continued to improve and remained lower than the national average: for 2018 it has been estimated at 5.7%, vs. a national average of 10.5%.

In **Friuli Venezia Giulia**, economic growth was achieved in all sectors, especially as regards industrial output. In the manufacturing industry, sales increased thanks to exports, which, in their turn, markedly increased driven by the shipyard segment.

Also in **Veneto**, industrial output continued to grow across all sectors, even though slowing down. While proving once again able to perform well in exports, the Region's exports grew unevenly across sectors and at a slower pace than in 2017.

8 Source: Assogestioni (the Italian National Association of Asset Management Firms), Asset Management Monthly Map (January 2019)
9 Source: Prometeia, Scenarios for Local Economies (October 2018); Bank of Italy, Regional Economies (November 2018).

PERFORMANCE OF OPERATIONS

In a quite complex economic and regulatory scenario, affected by several uncertainty factors, in 2018, Crédit Agricole FriulAdria proved once again able to achieve significant business performances and to maintain high profitability and constant growth, with net income coming to Euro 61.4 million (vs. Euro 50.1 million in 2017, up by +22.5% YOY).

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 at fair value 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.

As set forth in the "Statement of compliance with the International Accounting Standards", Crédit Agricole FriulAdria, consistently with the choices made by the Crédit Agricole Group, has opted to exercise the option provided for by IFRS 9 and IFRS 1, not to restate the comparative figures included in the IFRS 9 first-time adoption annual report.

Reclassified Balance Sheet

Assets	31 Dec. 2018	31 Dec. 2017 (*)	Changes	
			Absolute	%
Net financial Assets/Liabilities at fair value	17,305		n.a.	n.a.
Net financial Liabilities/Assets held for trading		-267	n.a.	n.a.
Financial assets measured at fair value through other comprehensive	392,084		n.a.	n.a.
Financial assets available for sale		690,559	n.a.	n.a.
Investments held to maturity		442,859	n.a.	n.a.
Loans to Customers (°)	8,258,428	7,187,346	1,071,082	14,9
Equity investments	3,500	3,500	-	-
Property, plant and equipment and intangible assets	175,397	180,311	-4,914	-2.7
Tax assets	154,508	107,458	47,050	43.8
Other assets	213,549	256,080	-42,531	-16.6
TOTAL NET ASSETS	**9,214,771**	**8,867,846**	**346,925**	**3.9**

Liabilities	31 Dec. 2018	31 Dec. 2017 (*)	Changes	
			Absolute	%
Net due to banks	200,275	-273,410	473,685	
Funding from Customers	7,953,265	8,041,479	-88,214	-1.1
Tax liabilities	37,322	33,916	3,406	10.0
Other liabilities	346,245	296,826	49,419	16.6
Specific-purpose provisions (§)	42,220	37,900	4,320	11.4
Capital	120,689	120,689	-	-
Reserves (net of treasury shares)	473,119	557,878	-84,759	-15.2
Valuation reserves	-19,780	2,437	-22,217	
Profit (Loss) for the period	61,416	50,131	11,285	22.5
TOTAL EQUITY AND NET LIABILITIES	**9,214,771**	**8,867,846**	**346,925**	**3.9**

(*) The 2017 figures of "Net financial Liabilities/Assets" and "Net due from banks" were reclassified to be comparable with 2018 figures
(°) This item reports debt securities and loans in the amortized cost portfolio. Previously, this item reported financial assets that were not listed on an active market (Level 2 and Level 3) to Customers
(§) The "Specific-purpose provisions" item shall report credit risk allowances resulting from commitments to disburse funds and financial guarantees given, which were previously reported under Other Liabilities

Reconciliation of the Official Balance Sheet and reclassified Balance Sheet

Attività	31.12.2018	31.12.2017 (*)
Net financial Assets/Liabilities at fair value	**17,305**	
20 a. Financial assets held for trading	10,511	
20 b. Financial assets designated at fair value	-	
Financial assets mandatorily measured at fair value	17,906	
20 Financial liabilities held for trading	-11,112	
30. Financial liabilities designated at fair value	-	
Net financial Liabilities/Assets held for trading		**-267**
20. Financial assets held for trading		7,469
40. Financial liabilities held for trading		-7,736
Financial assets measured at fair value through other comprehensive income	**392,084**	
30. Financial assets measured at fair value through other comprehensive income	392,084	
Financial assets available for sale		**690,559**
40. Financial assets available for sale		690,559
Investments held to maturity		**442,859**
50. Investments held to maturity		442,859
Loans to Customers	**8,258,428**	**7,187,346**
40 b. Loans to Customers	8,258,428	7,187,346
Equity investments	**3,500**	**3,500**
70 Equity investments	3,500	3,500
Property, plant and equipment and intangible assets	**175,397**	**180,311**
80 Property, Plant and Equipment	57,504	60,206
90. Intangible assets	117,893	120,105
Tax assets	**154,508**	**107,458**
100. Tax assets	154,508	107,458
Other assets	**213,549**	**256,080**
10. Cash and cash equivalents	42.424s	43,843
50. Hedging derivatives (Assets)	99,481	112,241
60. Fair value change of financial assets in macro-hedge portfolios	8,180	5,579
120. Other assets	63,464	94,417
TOTAL NET ASSETS	**9,214,771**	**8,867,846**

Liabilities	31 Dec. 2018	31 Dec. 2017 (*)
Net due to banks	**200,275**	**-273,410**
10 a. Due to banks	2,932,511	2,384,665
of which: Group Covered Bond: the Bank' s contribution	*-1,273,973*	*-1,162,939*
40 a. Due from banks	-1,458,263	-1,495,136
Funding from Customers	**7,953,265**	**8,041,479**
12. Due to Customers	6,529,009	6,458,457
13. Debt securities issued	150,283	420,083
of which: Group Covered Bond: the Bank' s contribution	*1,273,973*	*1,162,939*
Tax liabilities	**37,322**	**33,916**
60. Tax liabilities	37,322	33,916
Other liabilities	**346,245**	**296,826**
40. Hedging derivatives (Liabilities)	100,491	78,348
50. Fair value change of financial liabilities in macro-hedge portfolios	72,089	78,475
80. Other liabilities	173,665	140,003
Specific-purpose provisions	**42,220**	**37,900**
90. Employee severance benefits	19,371	20,380
100. Provisions for risks and charges	22,849	17,520
Capital	**120,689**	**120,689**
160. Capital	120,689	120,689
Reserves (net of treasury shares)	**473,119**	**557,878**
140. Reserves	6,362	91,121
150. Share premium reserve	471,757	471,757
170. Treasury shares (+/-)	-5,000	-5,000
Valuation reserves	**-19,780**	**2,437**
110. Valuation reserves	-19,780	2,437
Profit (Loss) for the period	**61,416**	**50,131**
180. Profit (Loss) for the period	61,416	50,131
TOTAL EQUITY AND NET LIABILITIES	**9,214,771**	**8,867,846**

(*) The 2017 figures of "Net financial Liabilities/Assets" and "Net due from banks" were reclassified to be comparable with 2018 figures

Loans to Customers

Items	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
- Current accounts	451,102	445,987	5,115	1.1
- Mortgage loans	5,256,945	4,968,169	288,776	5.8
- Advances and credit facilities	1,627,086	1,367,619	259,467	19.0
- Non-performing loans	175,804	405,571	-229,767	-56.7
Loans to Customers	**7,510,937**	**7,187,346**	**323,591**	**4.5**
Securities measured at amortized cost	747,491		n.a	n.a
TOTAL LOANS TO CUSTOMERS	**8,258,428**	**7,187,346**	**1,071,082**	**14.9**

As at 31 December 2018, loans to Customers, net of securities, came to Euro 7,511 million, increasing by 5% year on year.

Non-performing loans decreased (down by -57%) subsequent to the disposals finalized in the reporting year (amounting to approximately Euro 271 million). Performing loans increased by 8%, giving evidence on the constant support that the Bank provides to the real economy: indeed, mortgage loans (especially home loans to households) increased by as much as 5.8% vs. 31 December 2017 (coming to Euro 5,257 million), accounting for 70% of loans to Customers; advances and credit facilities also increased, by Euro 259 million vs. the previous year (up by +19.0%).

Credit quality

Items	31 Dec. 2018			31 Dec. 2017		
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure
- Bad debts	352,644	245,433	107,211	510,712	302,906	207,806
- Unlikely to Pay	113,360	46,826	66,534	258,221	64,585	193,636
- Past-due/overlimit loans	2,307	248	2,059	4,593	464	4,129
Non-performing loans	**468,311**	**292,507**	**175,804**	**773,526**	**367,955**	**405,571**
- Performing loans - stage 2	426,117	29,385	396,732			
- Performing loans - stage 1	6,950,013	11,612	6,938,401			
Performing loans	**7,376,130**	**40,997**	**7,335,133**	**6,802,668**	**20,893**	**6,781,775**
Loans to Customers	**7,844,441**	**333,504**	**7,510,937**	**7,576,194**	**388,848**	**7,187,346**
Securities measured at amortized cost	748,231	740	747,491			
TOTAL LOANS TO CUSTOMERS	**8,592,672**	**334,244**	**8,258,428**	**7,576,194**	**388,848**	**7,187,346**

Items	31 Dec. 2018			31 Dec. 2017		
	Gross/total exposure	Net/total exposure	Coverage ratio	Gross/total exposure	Net/total exposure	Coverage ratio
- Bad debts	4.5%	1.4%	69.6%	6.7%	2.9%	59.3%
- Unlikely to Pay	1.4%	0.9%	41.3%	3.4%	2.7%	25.0%
- Past-due/overlimit loans	0.0%	0.0%	10.7%	0.1%	0.1%	10.1%
Non-performing loans	**6.0%**	**2.3%**	**62.5%**	**10.2%**	**5.6%**	**47.6%**
- Performing loans - stage 2	5.4%	5.3%	6.9%			
- Performing loans - stage 1	88.6%	92.4%	0.2%			
Performing loans	**94.0%**	**97.7%**	**0.6%**	**89.8%**	**94.4%**	**0.3%**
TOTAL	**100.0%**	**100.0%**	**4.3%**	**100.0%**	**100.0%**	**5.1%**

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 10.2% to 6.0%, especially bad loans and unlikely-to-pay) and, concomitantly, a markedly increased coverage ratio (up from 47.6% to 62.5%).

The NPL stock could be controlled with effective actions aimed at decreasing the number of positions becoming non-performing and also with the sale of NPLs for a gross amount of approximately Euro 271 million. Again in terms of prudential management, the coverage ratio of bad loans improved, from 59.3% at the end of 2017 to 69.6%, as did the coverage ratio of unlikely-to-pay, up from 25.0% in 2017 to 41.3%.

Funding from Customers

Items	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
- Deposits	274,235	295,534	-21,299	-7.2
- Current and other accounts	6,180,605	6,101,518	79,087	1.3
- Other items	74,169	61,405	12,764	20.8
- Repurchase agreements	-	-	-	-
Due to Customers	**6,529,009**	**6,458,457**	**70,552**	**1.1**
Debt securities issued	**1,424,256**	**1,583,022**	**-158,766**	**-10.0**
Total direct funding	**7,953,265**	**8,041,479**	**-88,214**	**-1.1**
Indirect funding	7,459,877	7,413,550	46,327	0.6
TOTAL FUNDING	**15,413,142**	**15,455,029**	**-41,887**	**-0.3**

As at 31 December 2018 total funding from Customers came to Euro 15,4 billion, essentially in line with the previous year. The slight decrease in direct funding was offset by the increase in indirect funding.

As at the reporting date, direct funding from the banking business came close to Euro 8 billion: as a whole, this aggregate decreased by Euro 88 million (down by -1.1%) vs. 31 December 2017, with different performances of the main technical forms. Specifically, bonds decreased by Euro 159 million (down by -10.0%) and deposits by Euro 21 million. Conversely, current accounts increased (up by Euro +79 million, i.e. +1.3%) as did the other funding items (up by Euro +13 million).

Indirect funding

Items	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
- Asset management products	2,483,754	2,814,205	-330,451	-11.7
- Insurance products	3,203,003	2,794,261	408,742	14.6
Total assets under management	**5,686,757**	**5,608,466**	**78,291**	**1.4**
Assets under administration	**1,773,120**	**1,805,084**	**-31,964**	**-1.8**
INDIRECT FUNDING	**7,459,877**	**7,413,550**	**46,327**	**0.6**

Indirect funding (which, as at 31 December 2018, came to Euro 7.5 billion) slightly increased YOY (up by Euro +46 million, i.e. +0.6%). Asset management, which accounts for 76% of the total aggregate, increased by Euro 78 million (up by +1.4%) thanks to the products placed by the distribution networks, which more than offset the impairment losses caused by the negative performance of markets in the second half of 2018. Market volatility caused assets under management to decrease in value (down by -11.7%), while bancassurance increased (+14.6%). Assets under administration decreased slightly (down by -1.8%), subsequent to the performance of the market values of the assets held in Customers' portfolios.

Net interbank position

As at 31 December 2018, the net interbank position on demand of Crédit Agricole FriulAdria was positive for Euro 297 million. Taking into account also interbank funding time forms, the net interbank position is negative by Euro 200 million. The interbank position mainly refers to transactions with the Parent Company, which performs central Treasury functions. Indeed, as at the reporting date, the loans to Crédit Agricole Italia amounted to Euro 1,374 million, whereas funding came to Euro 1,596 million.

Financial assets and liabilities measured at fair value

Item	31 Dec. 2018
Financial assets and liabilities measured at fair value through profit or loss	
- Debt securities	-
- Equity securities and units of collective investment undertakings	18,037
- Loans	-
- Derivative financial instruments with positive FV	10,380
Total assets	**28,417**
- Derivative financial instruments with negative FV	11,112
Total liabilities	**11,112**
NET TOTAL	**17,305**
Financial assets measured at fair value through other comprehensive income	
- Debt securities	389,449
- Equity securities	2,635
- Loans	-
TOTAL	**392,084**

As at 31 December 2018, the balance of Assets and Liabilities measured at fair value came to Euro 392 million; the component "through Equity" was approximately 96%. These assets consisted of debt securities worth Euro 389 million (Italian Government securities) and, for a residual part, of equity securities. Among Financial Assets measured at amortized cost, government securities were recognized amounting to Euro 747 million (so classified in order to mitigate equity volatility): this allocation is consistent with the management approach adopted by the Crédit Agricole Italia Banking Group to invest liquidity, which gives preference to High Quality Liquidity Assets, thus optimizing their contribution to net interest income and generating positive impacts on liquidity ratios.

Government securities held

	31 Dec. 2018		
	Nominal value	Book value	Valuation reserve
Financial assets held for trading			
Argentinian Government securities	21	-	X
Financial assets through other comprehensive income			
Italian Government securities	353,000	389,449	-14,819
Financial assets measured at amortized cost			
Italian Government securities	672,000	747,978	X
TOTAL	**1,025,021**	**1,137,427**	**-14,819**

The valuation reserve regarding held Government securities decreased subsequent to the increase in the BTP-SWAP spread occurred in 2018. The duration of the Government securities portfolio is 3.52.

Equity investments

Items	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
- Subsidiaries	-	-	-	-
- Joint ventures	-	-	-	-
- Companies subject to significant influence	3,500	3,500	-	-
TOTAL	**3,500**	**3,500**	**-**	**-**

The Bank's "Equity investments" item did not change vs. 31 December 2017 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 2018, property, plant and equipment and intangible assets came to Euro 175 million, decreasing vs. 2017 by depreciation and amortization for the period.

Specific-purpose provisions

Specific-purpose provisions (covering personnel expenses, operational risks and legal disputes) came to Euro 42 million, increasing by Euro 4 million (up by +11.4%) vs. 2017. This change mainly concerned the “Provisions for risks and charges” item, which reports, subsequent to the IFRS 9 adoption, the expected loss on the “commitments and guarantees given” item previously recognized under “other liabilities”.

Equity

Items	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
Share capital	120,689	120,689	-	-
Share premium reserve	471,757	471,757	-	-
Income reserves	5,623	90,386	-84,763	-93.8
Other reserves	739	735	4	0.5
Reserve for valuation of financial assets through other comprehensive income	-14,809		n.a	n.a
Reserves from valuation of available-for-sale financial assets		7,450	n.a	n.a
Reserves from valuation of actuarial gains (losses) relating to defined-benefit pension plans	-4,971	-5,013	-42	-0.8
Treasury shares	-5,000	-5,000	-	-
Net profit for the period	61,416	50,131	11,285	22.5
TOTAL (BOOK) EQUITY	**635,444**	**731,135**	**-95,691**	**-13.1**

As at the reporting date, equity, including the profit for the year, came to Euro 635 million; it decreased vs. 2017 because of lower retained earnings reserves subsequent to the IFRS 9 adoption (a FTA negative reserve was recognized amounting to Euro 90 million net of tax effects), as well as because of lower reserve for valuation of financial assets through other comprehensive income (due to the decrease in market prices of securities caused by the widening of the BTP-SWAP spread. The profit for the period was good increasing by Euro 11.3 million vs. the previous year.

As regards treasury shares, please refer to Part B, Section 12 - Shareholders’ equity.

Own Funds and capital ratios

Categories/Values	31 Dec. 2018	31 Dec. 2017
A. Common Equity Tier 1 - CET1 prior to the application of prudential filters	579,812	686,425
of which CET1 instruments subject to transitional arrangements	-	-
B. CET1(+/-) prudential filters	-366	-186
C. CET1 including deductible elements and the effects of the transitional regime (A+/-B)	579,446	686,239
D. Elements to be deducted from CET1	150,088	209,608
E. Transitional regime - Impact on CET1 (+/-)	-	14,269
F. Total Common Equity Tier 1 - CET1 (C-D+/-E)	429,358	490,900
G. Additional Tier 1 - AT1 including deductible elements and the effects of the transitional regimeo	-	-
of which AT1 instruments subject to transitional arrangements	-	-
H. Elements to be deducted from AT1	-	7,343
E. Transitional regime- Impact on AT1 (+/-)	-	-8,381
L. Total Additional Tier 1 - AT1 (G-H+/-I)	-	-
M. Tier 2 - T2 including deductible elements and the effects of the transitional regime	-	-
of which T2 instruments subject to transitional arrangements	-	-
N. Elements to be deducted from T2	-	-
O. Transitional regime- Impact on T2 (+/-)	-	-7,343
P. Total Tier 2 -T2 (M-N+/-O)	-	-
Q. Total own funds (F+L+P)	429,358	490,900

Categories/Values	Non-weighted amounts		Weighted amounts/requirements	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
A. EXPOSURES				
A.1 Credit and counterparty risks	13,329,054	13,025,624	3,557,085	3,414,645
1. Standardized Approach	9,116,082	8,931,182	2,923,505	2,799,070
2. IRB approach	4,212,972	4,094,442	633,580	615,575
2.1 Foundation	-	-	-	-
2.2 Advanced	4,212,972	4,094,442	633,580	615,575
3. Asset-backed securities	-	-	-	-
B. SUPERVISORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risks			284,567	273,172
B.2 Risk of value adjustments of loans			837	570
B.3 Regulatory risk			-	-
B.2 Market risks			**69**	**27**
1. Standardized Approach			69	27
2. Internal models			-	-
3. Concentration risk			-	-
B.3 Operational risk			**38,093**	**37,186**
1. Basic indicator approach			-	-
2. Standardized approach			38,093	37,186
3. Advanced approach			-	-
B.5 Other measurement elements			-	-
B.6 Total prudential requirements (*)			323,566	310,955
C. EXPOSURES AND CAPITAL ADEQUACY RATIOS				
C.1 Risk-weighted assets			4,044,575	3,886,938
C.2 Common Equity Tier 1/Risk-weighted assets (CET 1 capital ratio)			10.6%	12,6%
C.3 Tier 1/Risk-weighted assets (Tier 1 capital ratio)			10.6%	12.6%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			10.6%	12.6%

The CET 1, TIER 1 and Total Capital ratios came to Euro 429 million, decreasing by Euro -62 million vs. 31 December 2017, mainly subsequent to the IFRS 9 adoption, as well as to the decrease in the relevant equity reserve due to the lower fair value of the Government security portfolio. On the other hand, risk-weighted assets increased by approximately Euro 158 million (up by +4.1%) vs. the previous year, because mainly of the performance of loans to Customers. As at 31 December 2018, the Common Equity Tier 1 Ratio, the Tier 1 Ratio and the Total Capital Ratio came to 10.6%, giving once again evidence of the Bank's capital strength well above the adequacy thresholds of 6.38%, 7.88% and 9.88%, respectively.

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 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 measured at fair value through profit or loss have been reported under Profit (Loss) from Banking Activities;
- gains and losses on disposal or repurchase of securities classified as financial assets measured at amortized cost and measured at fair value through other comprehensive income and of financial liabilities have been reported under Profit (Loss) from 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/expenses”;
- net provisions for risks and charges regarding commitments and guarantees given have been reclassified under “Net value adjustments of loans”.
- net value adjustments for credit risk of securities classified as financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income have been restated under the “Impairment of securities” item.

Reclassified income statement

	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
Net interest income	176,679	171,422	5,257	3.1
Net fee and commission income	140,965	138,523	2,442	1.8
Dividend income	34	198	-164	-82.8
Net income from banking activities	9,500	6,022	3,478	57.8
Other operating income (expenses)	-2,881	-692	2,189	
Net operating income	**324,297**	**315,473**	**8,824**	**2.8**
Personnel expenses	-101,604	-97,029	4,575	4.7
Administrative expenses	-85,657	-85,197	460	0.5
Depreciation of property, plant and equipment and amortization of intangible assets	-7,274	-7,120	154	2.2
Operating expenses	**-194,535**	**-189,346**	**5,189**	**2.7**
Operating margin	**129,762**	**126,127**	**3,635**	**2.9**
Net provisions for risks and charges	-4,130	-1,679	2,451	
Net impairments of loans	-34,034	-46,040	-12,006	-26.1
Impairment of securities	-380		n.a	n.a
Profit (loss) on other investments	65	84	-19	-22.6
Profit (loss) on continuing operations before taxes	**91,283**	**78,492**	**12,791**	**16.3**
Taxes on income from continuing operations	-29,867	-28,361	1,506	5.3
PROFIT (LOSS) FOR THE YEAR	**61,416**	**50,131**	**11,285**	**22.5**

Reconciliation between the Official and the Reclassified Income Statements

	31 Dec. 2018	31 Dec. 2017
Net interest income	**176,679**	**171,422**
30. Net interest income	177,408	162,643
90. Net profit (loss) on hedging activities: of which amortized cost effect of hedging of debt instruments	-729	-1,186
130. Net losses on impairment of: a) loans of which time value on non-performing loans (*)		9,965
Net fee and commission income	**140,965**	**138,523**
60. Net fee and commission income	140,862	136,261
190. Other operating expenses/income: of which Commission income from Fast Loan Application Processing	103	2,262
Dividends and similar income = item 70	**34**	**198**
Net income from banking activities	**9,500**	**6,022**
80. Net profit (loss) on trading activities	2,337	3,530
90. Net profit (loss) on hedging activities	-2,639	-2,748
90. Net profit (loss) on hedging activities: of which amortized cost effect of hedging of debt instruments	729	1,186
100. Profit (loss) on disposal or repurchase of: a) securities classified as financial assets measured at amortized cost	-	
100. Profit (loss) on disposal or repurchase of: b) financial assets measured at fair value through other comprehensive income	9,186	
100. Profit (loss) on disposal or repurchase of: d) financial liabilities	-113	
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
100. Profit (loss) on disposal or repurchase of: d) financial liabilities		-398
110. Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	-	
110. Net profit (loss) on financial assets and liabilities measured at fair value		-
Other operating income (expenses)	**-2,881**	**-692**
200. Other operating expenses/income	45,058	50,341
To deduct: expenses recovered	-46,741	-43,436
To deduct: recovered expenses for the management of non-performing loans	-1,095	-1,186
To deduct: Commission income from Fast Loan Application Processing	-103	-2,262
130. Net losses on impairment of: b) financial assets available for sale		-4,149
NET OPERATING INCOME	**324,297**	**315,473**
Personnel expenses = item 160 a)	**-101,604**	**-97,029**
Administrative expenses	**-85,657**	**-85,197**
160. Administrative expenses: b) other administrative expenses	-137,168	-132,376
200. Other operating expenses/income: of which expenses recovered	46,741	43,436
160. Administrative expenses: b) other administrative expenses: of which expenses for the management of non-performing loans	4,770	3,743
Depreciation of property, plant and equipment and amortization of intangible assets	**-7,274**	**-7,120**
180. Net adjustments of/recoveries on property, plant and equipment	-5,061	-4,907
190. Net adjustments of/recoveries on intangible assets	-2,213	-2,213
OPERATING EXPENSES	**-194,535**	**-189,346**
OPERATING MARGIN	**129,762**	**126,127**
Net provisioning for risks and charges = Item 170 b) other net provisioning	**-4,130**	
Net provisioning for risks and charges = Item 160		-1,679
Net impairments of loans	**-34,034**	**-46,040**
100. Profit (loss) on disposal or repurchase of: a) financial assets measured at amortized cost	11,022	
To deduct profit (loss) on disposal or repurchase of: a) securities classified as financial assets measured at amortized cost	-	
100. Profit (loss) on disposal of: a) loans		-2,270
to deduct: profit (loss) on disposal or repurchase of debt securities classified as loans		-
130. Net adjustments for credit risk of: a) financial assets measured at amortized cost	-40,464	
To deduct: net adjustments for credit risk of: a) securities classified as financial assets measured at amortized cost	139	
130. Net losses on impairment of: a) loans		-30,555
130. Net losses on impairment of: a) loans of which time value on non-performing loans (*)		-9,965
130. Net losses on impairment of: d) other financial transactions		-693
140. Profits/Losses on contract modifications without derecognition	-33	
160. Administrative expenses: b) other administrative expenses: of which expenses for the management of non-performing loans	-4,770	-3,743
To deduct: recovered expenses for the management of non-performing loans	1,095	1,186
170. Net provisioning for risks and charges: a) commitments and guarantees given	-1,023	
Impairment of securities	**-380**	
130. Net adjustments for credit risk of: a) securities classified as financial assets measured at amortized cost	-139	
130. Net adjustments for credit risk of:: b) financial assets measured at fair value through other comprehensive income	-241	
Profit (loss) on other investments	**65**	**84**
220. Profit (losses) on equity investments	-	-
230. Profit (losses) from property, plant and equipment and intangible assets measured at fair value	-	-
250. Profit (losses) on disposals of investments	65	84
PROFIT (LOSS) ON CONTINUING OPERATIONS BEFORE TAXES	**91,283**	**78,492**
Taxes on income from continuing operations = item 270	**-29,867**	**-28,361**
NET PROFIT FOR THE PERIOD	**61,416**	**50,131**

(*) The 5th update of Bank of Italy Circular 262 requires interest with time value effects, determined on impaired financial assets, to be recognized in net interest income, management reclassification made in 2017

Net operating income

Net operating income came to Euro 324.3 million, increasing vs. the previous year (up by Euro +8.8 million, i.e. +2.8% YOY). The increase in net interest income, fee and commission income and profit (loss) from banking activities offset the decrease in the “other operating income (expenses)” item.

Net interest income

Items	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
Business with Customers	131,810	133,196	-1,386	-1.0
Business with banks	8,126	3,124	5,002	
Debt securities issued	-4,069	-8,350	-4,281	-51.3
Differentials on hedging derivatives	19,110	22,575	-3,465	-15.3
Financial assets held for trading	1	-	1	
Assets measured at fair value	-		n.a	n.a
Securities measured at amortized cost	12,378		n.a	n.a
Securities through other comprehensive income	9,325		n.a	n.a
Other net interest income	-2	-1	1	
Investments held to maturity		2,405	n.a	n.a
Financial assets available for sale		18,473	n.a	n.a
Net interest income	**176,679**	**171,422**	**5,257**	**3.1**

In a scenario featuring still modest economic growth and interest rates continuing at their all-time low, Crédit Agricole FriulAdria’s net interest income came to Euro 176.7 million, increasing vs. 2017 (up by Euro +5.3 million, i.e. +3.1% YOY). The performance of intermediation with Customers was driven by intermediation volumes, specifically loans, and by the lower cost of funding. A positive contribution to the operating margin came from intra-group interbank deposits accordingly with the Bank’s contribution to the Group’s covered bond issue programme, whereas the contribution of hedge differentials decreased (down by Euro -3.5 million), subsequent to the maturity of derivatives that had been taken out at more favourable market conditions.

Dividend income

Dividends from shareholdings and equity investments decreased, coming to Euro a 0.03 million vs. Euro 0.2 million in 2017.

Net fee and commission income

Items	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
- guarantees given	2,263	2,241	22	1.0
- collection and payment services	8,539	8,082	457	5.7
- current accounts	32,100	33,094	-994	-3.0
- debit and credit card services	5,713	5,259	454	8.6
Commercial banking business	**48,615**	**48,676**	**-61**	**-0.1**
- securities intermediation and placement	30,480	32,189	-1,709	-5.3
- intermediation in foreign currencies	752	724	28	3.9
- asset management	1,324	1,832	-508	-27.7
- distribution of insurance products	44,698	40,428	4,270	10.6
- other intermediation/management fee and commission income	5,788	5,724	64	1.1
Management, intermediation and advisory services	**83,042**	**80,897**	**2,145**	**2.7**
Other net fee and commission income	**9,308**	**8,950**	**358**	**4.0**
TOTAL NET FEE AND COMMISSION INCOME	**140,965**	**138,523**	**2,442**	**1.8**

Net fee and commission income came to Euro 141.0 million, increasing by Euro 2.4 million (up by +1.8%) vs. 2017. This performance was driven by fee and commission income from management, intermediation and advisory services (up by +2.7%), especially from distribution of insurance products (up by +10.6%), 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 performed in line with the previous year, even though with opposite specific performances of decreasing fees and commissions on current accounts and increasing fee and commission income from e-money and collection and payment services.

Net income from banking activities

Items	31.12.2018	31.12.2017	Changes	
			Absolute	%
Interest rates	1,706	2,398	-692	-28.9
Stocks	-189	55	244	
Foreign exchange	707	679	28	4.1
Total profit (losses) on financial assets held for trading	**2,224**	**3,132**	**-908**	**-29.0**
Total profit (losses) on assets held for hedging	**-1,910**	**-1,562**	**348**	**22.3**
Total profit (losses) on securities measured at amortized cost	**-**		**n.a**	**n.a**
Total profit (losses) on securities through other comprehensive income	**9,186**		**n.a**	**n.a**
Profit (losses) on disposal of financial assets available for sale		**4,452**	**n.a**	**n.a**
PROFIT (LOSS) ON BANKING ACTIVITIES	**9,500**	**6,022**	**3,478**	**57.8**

The profit from banking activities gave a positive contribution to the income statement, increasing by Euro 3.5 million vs. 2017, thanks to higher capital gains on government securities in the first part of the reporting year.

Other operating income (expenses)

Other operating expenses came to Euro -2.9 million (-0.7 million in 2017), decreasing vs. the previous period essentially because non-recurring components that had been recognized in 2017 no longer applied in the reporting period (reference is made to the income component from the conclusion of a settlement with Intesa Sanpaolo concerning the transfers of branches made in the previous years).

Operating expenses

Items	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
- wages and salaries	-75,510	-74,465	1,045	1.4
- social security contributions	-19,715	-19,757	-42	-0.2
- other personnel expenses	-6,379	-2,807	3,572	
Personnel expenses	**-101,604**	**-97,029**	**4,575**	**4.7**
- general operating expenses	-5,843	-7,334	-1,491	-20.3
- IT services	-27,082	-22,327	4,755	21.3
- direct and indirect taxes	-18,404	-18,482	-78	-0.4
- real estate property management	-6,923	-7,648	-725	-9.5
- legal and other professional services	-2,059	-1,601	458	28.6
- advertising and promotion expenses	-3,215	-2,256	959	42.5
- indirect personnel expenses	-2,100	-1,827	273	14.9
- contributions to support the banking system	-6,398	-6,588	-190	-2.9
- other expenses	-60,374	-60,570	-196	-0.3
- expenses and charges recovered	46,741	43,436	3,305	7.6
Administrative expenses	**-85,657**	**-85,197**	**460**	**0.5**
- intangible assets	-2,213	-2,213	-	-
- property, plant and equipment	-5,061	-4,907	154	3.1
Depreciation and amortization	**-7,274**	**-7,120**	**154**	**2.2**
OPERATING EXPENSES	**-194,535**	**-189,346**	**5,189**	**2.7**

Operating expenses came to Euro 194.5 million, increasing by Euro 5.2 million (+2.7%) vs. the previous period. This increase essentially regarded personnel expenses up by Euro 4.6 million (+4.7%).

Personnel expenses were mostly impacted by the pay increases provided for by the applicable Italian national bargaining agreement and higher expenses for Euro 2.5 million allocated to the Voluntary Redundancy (Solidarity) Fund, subsequent to the signing of the relevant agreement with the Trade Unions.

Administrative expenses posted a slight increase vs. the previous year (+0.5%), which resulted mainly from higher expenses for services provided by Crédit Agricole Group Solutions S.C.p.A., the Consortium Company of the Crédit Agricole Italia Banking Group, for higher project costs within the 2016-2020 Medium Term Plan.

Depreciation and amortization came to Euro 7.3 million, increasing subsequent to the investments made for the Group's Business Plan.

The cost/income ratio came to 58.0%, in line with 2017.

Net Provisions for risks and charges

In 2018 provisions came to Euro 4.1 million, increasing vs. 2017 (up by Euro +2.5 million) for risks on revocatory actions and lawsuits with the Bank as defendant, as well as for contractual risks resulting from the disposal of loans.

Net impairments of loans

Items	31 Dec. 2018	31 Dec. 2017	Changes	
			Absolute	%
- Bad loans	-17,561	-22,276	-4,715	-21.2
- Unlikely to Pay	-11,456	-20,914	-9,458	-45.2
- Past-due loans	-181	-319	-138	-43.3
Non-performing loans	**-29,198**	**-43,509**	**-14,311**	**-32.9**
- Performing loans - stage 2	-2,044		n.a	n.a
- Performing loans - stage 1	1,939		n.a	n.a
Performing loans	**-105**	**718**	**-823**	
Net losses on impairment of loans	**-29,303**	**-42,791**	**-13,488**	**-31.5**
Profits/Losses on contract modifications without derecognition	-33		-2,523	-98.7
Expenses/recovered expenses for loan management	-3,675	-2,556	1,119	43.8
Net losses on impairments of guarantees and commitments	-1,023	-693	330	47.6
NET IMPAIRMENTS OF LOANS	**-34,034**	**-46,040**	**-12,006**	**-26.1**

The continuous decrease in the cost of credit was one of the key factors for the Bank's good performance again in 2018: indeed, net value adjustments of loans came to Euro 34.0 million, down by -26% vs. 2017. In percentage terms, 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 as at the reporting date) decreased to 45 bps vs. 64 bps in the previous year, while achieving the objective of increasing the average coverage ratios.

Profit (loss) on continuing operations before taxes

The profit before taxes on continuing operations came to Euro 91.3 million, increasing by Euro 12.8 million (up by +16.3%) vs. the previous year.

Taxes on income from continuing operations

Current taxes and deferred tax liabilities came to Euro 29.9 million, increasing by Euro +1.5 million vs. the previous year. The tax burden was favourably impacted by non-recurring positive components. Net of these changes, the tax burden expresses a 34.4% percentage, slightly decreasing vs. the previous period figure calculated net of the non-recurring components for that period (34.7%), among which a non-deductible significant impairment loss on equity investments.

Net profit

The profit for the period (coming to Euro 61.4 million) markedly increased vs. the previous year (up by Euro +11.3 million, i.e. +22.5%).

Comprehensive income

Items			31 Dec. 2018	31 Dec. 2017
10.	10.	Net Profit (Loss) for the period	61,416	50,131
		Other comprehensive income net of tax not reclassified to profit or loss		
20.		Equity securities designated at fair value through other comprehensive income	6	
30.		Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	
40.		Hedging of equity securities designated at fair value through other comprehensive income	-	
50.	20.	Property, Plant and Equipment	-	-
60.	30.	Intangible assets	-	-
70.	40.	Defined-benefit plans	42	64
80.	50.	Non-current assets held for sale and discontinued operations	-	-
90.	60.	Share of Valuation Reserves on equity investments measured using the equity method	-	-
		Other comprehensive income after tax reclassified to profit or loss		
100.	70.	Hedges of investments in foreign operations	-	-
110.	80.	Foreign exchange differences	-	-
120.	90.	Cash flow hedges	-	-
	100.	**Financial assets available for sale**		2,235
130.		Hedging instruments (non-designated elements)	-	
140.		Financial assets (other than equity securities) measured at fair value through other comprehensive income	-22,376	
150.	110.	Non-current assets held for sale and discontinued operations	-	-
160.	120.	Share of Valuation Reserves on equity investments measured using the equity method	-	-
170.	**130.**	**Total other comprehensive income after taxes**	**-22,328**	**2,299**
180.	**140.**	**COMPREHENSIVE INCOME (ITEM 10+170)**	**39,088**	**52,430**

Comprehensive income consists of the profit for the period and of the changes in assets directly recognized in equity reserves; in 2018 equity reserves decreased in value by Euro 22.4 million resulting from the drop in prices of Italian Government securities recognized as “Financial assets measured at fair value through other comprehensive income”, which was partly offset by the higher profit for the period (up by Euro +11.3 million). It is pointed out that the inclusion in comprehensive income of the item reporting “Financial assets measured at fair value through other comprehensive income” entails strong volatility that must be taken into account when analyzing the table.

STRATEGIC PLAN AND CORPORATE DEVELOPMENT LINES

STRATEGIC PLAN

In 2018, the Crédit Agricole Italia Banking Group continued to implement its "Ambizione Italia 2020" Strategic Plan, which started in 2016, consistently with the Medium Term Plan to 2020 prepared by the Parent Company Crédit Agricole S.A.

The Plan ambition is to continue **to strengthen the Group's leading place as a Customer-focused proximity bank, thanks to a distinctive positioning in the Italian banking scenario, ensuring Customer centrality, using digital innovation to support a multichannel model, investing in people and talents as a key driver of growth, leveraging on its belonging to the Crédit Agricole Group and on its strength in order to continue in its organic growth on key segments and to achieve sustainable increase in profitability.**

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

In 2018, Customer Satisfaction initiatives continued, in order to:
- establish and keep a high-quality relationship with Customers, by providing high-value advisory services and constantly high service level;
- improve Customer Experience, which is more and more shifting to a multichannel approach.

Specifically, in the reporting year the following actions were implemented:
- extending the Listening-to-Customers system, with surveys of Customers of all the business channels;
- 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 face the sudden changes that technological innovation constantly brings to the market and to Customers' behaviour, the Crédit Agricole Italia Banking Group has implemented a multichannel/digital transformation programme, which has comprised the launch of new innovative tools and portals/App. Such programme is based on the following strategic directions:

- **innovation of digital platforms**, in terms of evolution of the existing platforms and launch of innovative ones. Among these, the implementation of the "Touch ID" biometric recognition system for Nowbanking, the Nowbanking App designed for Small and Medium Enterprises and the Fastcash App for cardless cash withdrawals at ATMs using a smartphone;
- **branch-Digital integration**: tools have been implemented for contact with Customers using advanced techniques, also remotely (chat/ audio/ video), asset management platforms/processes have been developed (PFP, new sale process with remote assistance for wealth management products) with the possibility for Customers to make remote transactions;
- **evolution in Banca Telefonica (Phone Bank) role** from Customer assistance center to Customer Experience core element. 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. To 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 is now available.

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 OF EXCELLENCE

new channels driving growth

As one of the channels driving the Group's growth, the Financial Advisors new channel continued to be strengthened, which now consists of about 200 Advisors. Moreover, important cooperation activities within the Crédit Agricole Italia Group started on the Mid-Corporate segment, on Bancassurance and on Consumer Credit.

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**: the application of the new distribution model continued, with the setting up of specialist hubs (over 60 at the end of 2018) and with the signing of supply chain agreements with some Italian leading Companies;
- **mortgage loans**: in order to retain a leading position in the mortgage loan sector, a process was started to streamline loan disbursement activities and to optimize the supporting methods and tools, driven by the will to excel also in digital evolution;
- **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 2018.

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 Group's transformation. In the reporting year, some important strategic activities were started:

- **recruitment plan**, supporting the projects provided for in the "Ambizione Italia 2020" Strategic Plan;
- **generational Turnover**: 20 staff members exited after joining the Solidarity Fund for voluntary early termination, with concomitant entry of about 20 young people;
- **continuous development of our staff**, 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;
- corporate welfare and **gender and diversity policies** have been strengthened even further, along with a Smartworking ambitious programme, which was joined by over 1,000 people in one year.

Operational Machine renewal plan

The enhancement of the Operational Machine is being pursued through some key initiatives:

- focus on several "**Big Real Estate Projects**": completion and opening, in the first half of 2018, of the New Management Headquarters in Parma (**Crédit Agricole Green Life**), a sustainable complex that allows the Group to advocate environmentally friendly behaviours to the outside and that has been designed and built to foster new methods of work (co-working, co-creation and smartworking) and exchange with colleagues; the Milan Office on Via Armorari was also renovated.
- the **services provided by Crédit Agricole Group Solutions have continued to be extended to other Crédit Agricole companies in Italy** (for example, the Group's Insurance Companies 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 before-Fellini Network operates with a counter-free logic, as per the new "*Agenzia Per Te*" format, which was implemented also for some branches of the three newly-acquired banks, 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

Also in 2018, the Group was engaged in reducing the cost of credit, also thanks to the sale of a tranche of non-performing loans. A new procedure stated to be developed, which aims at improving, in efficiency and effectiveness terms, loan authorization processes, as well as at reviewing the related ones.

Enhancement of the efficiency of processes

The Group has continued to focus on the projects for the streamlining and digitalization of operations and processes, in order to constantly improve the Group's efficiency: some key processes were upgraded in this perspective, such as current account opening, mortgage loan contract finalization and successions.

5. REBRANDING

In 2018, the brand positioning activities, which started in 2016 with the rebranding, continued, focusing on enhancing the brand distinctiveness, with advertising campaigns on the most impacting media and on digital and social media, in a business and sustainability perspective (especially centred on mortgage loans and savings/investments), thus increasing people's awareness of the Crédit Agricole Group throughout Italy and their perception of the Brand's internationality and strength.

Moreover, new strategic partnerships started with market leading brands, which are key drivers to trigger business opportunities and accelerate brand awareness (such as the partnership with FC Internazionale Milano).

STRATEGIC TRANSACTIONS: absorption 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. (the "Fellini Combination")

After the acquisition, which was finalized on 21 December 2017, in the reporting period Crédit Agricole Italia completed the merger by absorption 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., which ended with the migration of information systems and was carried out in three steps, from June to September.

CORPORATE DEVELOPMENT LINES

Commercial operations are reported below, along with the impacts of the above-described Plan.

RETAIL BANKING DISTRIBUTION CHANNELS

In 2018, Crédit Agricole FriulAdria further strengthened its universal customer-focused proximity banking model, always faithful to local commitment and attentive to the communities' needs with special care for the satisfaction of its customers, responding to their needs by developing dedicated products and services.

As regards the Individuals sub-segment, the Bank once again achieved strong positioning on the market, thanks to a constantly updated and high-value range of products and services, as well as to several commercial initiatives designed and implemented starting from the analysis of needs as detected within relations with Customers and from the requirements and suggestions expressed by the Distribution Network.

Mortgage and other loans

As regards home loans, Crédit Agricole FriulAdria aimed at customization and digitalization of the products and services it provides, cooperation and partnerships with leading companies and promotion of *Green Economy*, in order to stand by its Customers in their important projects, such as home purchase or renovation, with solutions that are good value for money, simple and affordable.

In 2018, also thanks to stronger partnerships with loan brokerage companies (generally subsidiaries of the main national real estate networks) and to the full establishment of the digital platform, business operations posted a +16.9% YOY increase (up by +9.9% when considering the 2017 perimeter), considerably higher both than the system figure of outstanding loans (closing forecast +3.5%) and then the expected increase in residential real estate sales and purchases (+ 5.5%).

As regards digitalization, **Mutuo Adesso**, the online platform for mortgage loans became fully operational; it gives a quote of the range of products and provides Customers with all the necessary "educational" information for full understanding of the products.

In the reporting year, the Bank developed **Mutuo Crédit Agricole**, a mortgage loan that can be fully adjusted and customized in accordance with Customers' requirements, thus providing a high-quality product in compliance with the affordability and green innovation standards that are at the basis of the Bank's responsibility policy.

In order to be perceived as highly innovative and advantageous as it is, this mortgage loan has been designed to allow Customers to choose:

- Type of rate: fixed, to know, from the very beginning, the instalment amount throughout the loan duration; floating rate, which changes in accordance with market rates, with the option for a fixed rate; floating rate with cap, which gives the flexibility of a floating rate along with a rate cap;
- The "*Skip instalment*" or "*Suspend instalment*" flexibility options in order to handle small contingencies, skipping payment of one instalment a year at no additional cost, or suspending payment of the instalments up to a maximum period of 12 months;
- The benefits, which may be combined, of a free e-bike of the renowned make Atala; no payment of the first instalment or the "ZeroPensieri" (no worries) service for free collection and certification of the required documents.

Within the well-established partnership with Agos, the leading player in the Italian consumer credit industry, in order to ensure easy access to credit - the product range includes a personal loan for amounts up to €10,000 to be used, for instance, to pay for energy efficiency enhancement expenses, as well as a spread discount for all Customers that buy a property in the A/B energy class or renovate their home making it more energy efficient and upgrading it to a A/B class.

In this scope, the adoption of the ABI/MEF "First Home Guarantee Fund" protocol was confirmed, which favours access to credit by Customers, giving also priority to young people, including workers with atypical contracts.

As regards measures supporting access to credit, thanks to its cooperation with Agos, Crédit Agricole FriulAdria has increased its support to households, seizing market opportunities and leveraging on the recovery in consumption.

E-money

In terms of e-money, the number of debit cards increased considerably, coming to more than 230,000 pieces.

The range of products supplied by the Group was extended with a new platform for the EasyPlus evolved debit card, "**Vesti la tua Carta**" which meets the multitask and flexibility requirements expressed by Customers. With this card, Customers can make purchases on the Internet safely, can customize their PIN, make contact-less transactions at enabled points of sale; moreover, thanks to the dedicated platform, the card can be further enriched and customized, with the services that best meet the holder's requirements:

- "Security Package", at no additional cost: in addition to the Security elements, such as SMS text message service, Zero Liability, Opzione Internet (Internet Option), 3D Secure and Opzione Mondo (World Option) services, Customers can activate, free of charge, also the Identity Protection service, which monitors the Web and informs the holder in case his/her personal data are found in environments that are deemed high risk;
- Other benefits included in various packages (for example: Travel Package - Comfort Package, etc.).

Moreover, the Group has implemented the Apple/Google/Samsung 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.

In the reporting year, the cooperation with **Telepass** was strengthened in order to further promote the product use, in a perspective of service to Customers consisting of time optimization and payment experience. In this scope, also other important commercial initiatives started, for promotion, subsidized fees and giving the possibility to Inter FC fans to have the Telepass device in their team's colours, i.e. blue and black, within the partnership with F.C. Internazionale.

Prepaid card also continued to perform well, posting considerable growth, with a 24% increase in all the products of the **CartaConto** "family" (CartaConto, CartaConto Paysmart and CartaConto Personalizzata); this range combines the main services of a current account with the functions of a prepaid payment card.

In line with the strong focus that the Group has always been putting on the creation and spreading of a range of social products and services, in 2018 the partnership with the **University of Venice was further developed**, aimed at fostering the link between university and the world of work and, thus, becoming a true value proposal to the community, through the improvement and integration of training and the adoption of innovative approaches. The project core product is **CartaConto Cà Foscari**, the multiservice Card that, along with the typical banking functions, also comprises the functions of a Student Card, i.e. identification, recognition and access to university services.

In the reporting year, the Crédit Agricole Italia Banking Group became the Official Bank and Top Partner of **F.C. Internazionale Milano**, once again substantiating its support to the Italian world of sport and closeness to the values it represents, such as pursuance of excellence and development of young people's potential. One of the first significant initiatives was the start of the **CartaConto Inter**, the Inter-branded payment card. This important partnership between the Bank and a world famous football club is going to bring about new products over time, such as the payment cards **Nexi Classic Inter** and **EasyPlus Inter**, as well as joint initiatives in the solidarity, business and people's growth scopes.

Evidence of the success of these initiatives is that solidarity, university and sport-sponsorship-related CartaConto cards came to over 15,000 pieces.

Other commercial initiatives were started regarding credit cards.

Subsequent to the regulatory developments that have made fuel paper receipts no longer usable, a commercial initiative was implemented to provide businesses with adequate payment instruments.

As regards the Individuals segment, the implemented commercial initiatives aimed at increasing penetration and use of cards, especially in their most evolved versions, also through awards and competitions.

Current Accounts and Bancassurance

IDD (Insurance Distribution Directive)

In 2018, the Crédit Agricole Italia Banking Group designed and developed its operations for the distribution of insurance products in full compliance with the new EU legislation (Directive (EU) 2016/97 of 20 January 2016 - IDD) on insurance distribution, which entered into force on 1 October 2018. The project's main objective was developing a Customer-Centric approach, seizing opportunities and providing services that meet Customers' expectations, in order to:

- Detect the needs of Customers, helping them in decoding such needs and ensuring that product are consistent with the evolutions in Customers' needs;
- Improve the distribution process through higher commitment to advisory services in insurance matters, with the development of a new dedicated tool;
- Ensure higher disclosure, with more transparent communication tools.

Non-Life

In 2018, the Non-Life Strategic Project was started, which is a business plan prepared in cooperation with Crédit Agricole Assicurazioni and aimed at making the Group a **leading player in the Italian bancassurance market in the next few years**.

The ambition is to have the Company ranking at the top of the Non-Life Bancassurance market, following the successful path of Crédit Agricole in France, by developing innovation in terms of products, services and use of digital channels. To this end, dedicated projects were started involving several structures of the Bank and of the Company.

The first multichannel implementation within the Project was the possibility to renew the Protezione Guida MV insurance policy through Nowbanking.

In cooperation with Crédit Agricole Assicurazioni, a portal was also developed in the corporate Intranet through which Branch staff members can enter online the registration number of the Customer's car/motorbike. This tool was developed in order to increase the **opportunities for contact with Customers and for distribution of the Protezione Guida products**. The Customer's Nowbanking comprises a similar function. Thanks also to these new media, in 2018 MV liability insurance quotations increased by 8% YOY.

Creditor Protection

In 2018, the Life and Multirisk Protezione Finanziamento Business creditor protection products, with annual premium that can be paid in monthly instalments, were added to the product catalogue. 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. This extension in the product catalogue allows Small Business Customers to choose, with the same coverage and benefits, the insurance package that best fits their requirements in terms of premium type.

In 2018, there was another new entry in the range of insurance products dedicated to Individuals, namely the Protezione Domani product with annual premium. It is a stand-alone insurance product that can be underwritten by all Customers that attach importance to protection and that want to protect themselves or others. Indeed, the policy provides full protection and benefits in favour of the insured party or his/her beneficiaries in case of adverse events that may occur during the policy term of validity.

In 2018, production increased by 12.1%.

Wealth Management

In 2018, the effort for innovation in the Wealth Management segment increased even further, across the scopes listed below.

Service innovation and supporting tools

In 2018, the foundations were laid for the development of the WM 2.0. Project, which is intended for the evolution of the present service model towards excellence in advisory services, in order to be able to drive growth

that is organic and sustainable over time. The Project guidelines are the following:
- **Specialization and enhancement of the supply chains with higher added value** (Private banking, Financial Advisors, Affluent segments) with the creation of structures in order to better manage the conveyance of the guidelines from the center to the network, for instance by setting up an Investment Center for all the channels providing full-range advisory services on assets under management and under administration;
- **Cost-to-serve optimization** with industrialization and digitalization of supply, especially as regards Households and Millennials, also thanks to the Group Best Practices (cooperation with Amundi);
- **Extension of the tools supporting the quality of services to Customers**, with the evolution of digital platforms (e.g. Nowbanking, the new Hub App), in order to improve the quality of reporting and alerting services; actions have been planned for the upgrading of the service model in order to ensure global and tailor-made advisory services with a full-range scope (not only financial), designed on the Customers' needs and life projects;
- **Continuous enhancement of People and skills** through dedicated training, especially on Behavioural Finance, aimed at better and better ability to listen to our Customers and to analyze their needs and objectives, as well as on Regulatory scopes, in order to ensure that the services provided meet high quality standards.

Moreover, since September 2018 a **Newsletter is sent every two weeks via e-mail to the Group's Customers called Sguardi su "Risparmio e Investimenti"** - (A look at Savings and Investments), the New Financial Education and Communication Service, aimed at conveying the value of advice and skills, as well as at briefing Customers on matters regarding savings and financial culture.

Product innovation

Again in 2018, the commitment to innovate the range of products and services was constant:
- In the insurance scope, the main new development was the launch, in May, of the new **Unit Global Solution of Crédit Agricole Vita**, which provides Customers with a service able to meet their needs over time as well as to follow market evolution, with 17 different investment solutions in one single product. This new Unit-linked product has allowed higher diversification, thanks to the wide choice of funds - 5 internal insurance funds of Crédit Agricole Vita and 12 external funds from among Amundi best selections, can be tailor-made on the Customer's risk profile, is more responsive thanks to daily measurement and ensures more flexibility and more protection as it provides for the possibility, in case of death, of cashing in at least the premium paid;
- The new developments in asset management were the launch of the new **Amundi Accumulazione Italia PIR** Fund, which is the first PIR-compliant fund with a pre-set subscription window in the Italian market and which is intended to provide, in one single product, the advantages resulting from investment in Italian Individual Saving Plans (Italian acronym PIR) and from the mechanism of gradual investment in stocks; the extension in the range of funds with a pre-set subscription window thanks to the inclusion of **Disruption** funds focusing on very attractive companies and industries able to create or benefit from innovative business models, **Amundi Selezione Benessere** fund, which aims at seizing the return potential generated by socio-environmental changes linked to consumers' search for wellbeing and with the design of specific funds for the Customers of the private banking and financial advisors channels, such as **Amundi Mega Trend** fund;
- In October, a new result of the synergy with the product company CACIB was the launch of the "**Climate Action Green Notes**" structured bonds, the first total green bond issued by Crédit Agricole Corporate and Investment Bank and reserved to our Group's Customers investing, and therefore supporting, companies and projects with strong environmental, social and governance performances and operating in an industry that is key for the transition to an economy that is more respectful of climate and of the environment in general. This initiative is consistent with the Group commitment to sustainability and to "ESG" (Environmental, Social and Governance) matters;
- **Extension of the range of products and services thanks to the integration of the three Fellini Banks** with new product houses on the catalogue (for example: Nordea, Columbia, Pramerica, Soprarno).

Regulatory upgrading

Upgrading continued as required for full compliance with all the new developments in the EU legislation in the following scopes:

- **IDD**, on insurance distribution providing for consumer protection, as exhaustively described in the "Current Accounts and Bancassurance" paragraph;
- **Mifid II** on investments with the main achievements given below:
  - Higher quality of services to Customers also in the after-sale stage, through the implementation of costs/benefits assessments, ensuring consistent increase in benefits in case of any potential increase in costs;
  - Optimization of the product catalogue with new testing on the efficiency of the products in the catalogue;
  - Upgrading of contracts and of the internal normative instruments for their full compliance with the legislation and preparation for the activity to implement the period Reporting ex-post to Customers, clearly and transparently setting forth the costs and expenses regarding the portfolio, as well as the related impacts on returns.

Small Business

In 2018, a highly-specialized distribution model was established with the full operation of 14 Small Business Centers, in order to provide Customers with more specialist advisory services, with a "Customer centrality" approach.

In the reporting year, Crédit Agricole FriulAdria developed important initiatives aimed at providing support to the businesses based in the communities it operates in and to local economies, fostering growth and access to credit, while proving once again able to work in synergy with the main Local Public Institutions:

- It paid contributions **in favour of Customers hit by natural disasters** for a total amount of Euro 1.4 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**;
- It took part in several **subsidized financing regional initiatives aimed at supporting new entrepreneurial projects and investments in production**;
- It promoted the use of the Guarantee Fund for SMEs, aimed at **fostering access to financial sources by small and medium enterprises** by giving a state guarantee that is added to and often replaces the collaterals pledged by SMEs. In the reporting year, 35 loans were disbursed totalling Euro 3.6 million;
- It enhanced lending to Local Public Institutions, in order to **support the implementation of actions in the public interest, investments aimed at improving the existing infrastructure and services or at enhancing the Institution's efficiency.**

In 2018, the POS product range was extended with the launch, in cooperation with the provider Nexi, of two new important solutions:

- **SmartPOS PAX**: a new terminal, with innovative design and touchscreen colour display, that can be used to download the Apps dedicated to one's business;
- **XPay easy, XPay pro, XPay 360**: innovative solutions to activate the payment gateway that allows Customers to accept payments also remotely: the activation process is fully online, simple and with short activation time.

To provide incentives for acceptance by stores of card payments also for small amounts, the "Micropayments" campaign was launched, which provides for the refund of the commissions calculated on e-payments of small amounts made with Visa, Master- card and PagoBANCOMAT® payment cards.

Agri Agro

In 2018, Crédit Agricole FriulAdria provided considerable support to the Agri Agro (Agri-food) sector, as substantiated by new long-term loans worth over Euro 197 million and by total loans to the sector increasing by 7.6%.

In the reporting year, a service model that is highly specialized for the sector became fully operational, with 11 advisors that work exclusively in this sector, coordinated by 4 specialists throughout the network and by a dedicated Service within the Central Department.

Relying on the expertise of its French Parent Company, the Group has placed the Agri-food sector at the center of its strategy developing an approach able to combine innovation and proximity to the communities it operates with the following initiatives:

- lLaunch of Agriadvisor, an Android tablet app that has been designed to assist account managers in acquiring full knowledge of farms, analyzing their financial requirements and the specificities to prepare a loan proposal that is tailor-made on the Customer's actual needs;
- Signing of important agreements aimed at supporting businesses that operate within the supply chain of leading players in the Italian agri-food sector, such as Barilla, Orogel and TOF – The Organic factory;
- Development of ranges of products and services designed to provide support to target Customers that are strategic for the agri-food system as a whole, such as young farmers ("Orizzonte Giovani") and the organic sector ("Orizzonte Bio");
- Further strengthening of the partnership with Coldiretti - the main Trade Association in the sector - and the related Loan Guarantee Consortium (CreditAgri Italia) through specific joint initiatives, such as advanced payment of the subsidies pursuant to the EU's common agricultural policy or the participation in the XVII International Forum on Agriculture and Food, which was held in Cernobbio.

PRIVATE BANKING DISTRIBUTION CHANNEL

In 2018, the Group was engaged in implementing the plan for the integration of the Fellini Banks. The combination falls within the scope of the «Ambizione Italia 2020» strategic plan and is intended to contribute to the increase in the operations of the Crédit Agricole Group in Italy.

Thanks to the integration of the three Banks, the Private Banking channel could strengthen its Customer-focused Proximity Bank Model, posting growth and increased competitiveness in its long-standing areas of operations. This led to the setting up of **3 new Private Banking Markets and to the strengthening of the team of Private Bankers in the area**.

Therefore, considerable effort was lavished in the reporting year on their business and behavioural integration, in order to harmonize the existing expertise and best practices.

As to development of products and services, the highlights are:

- The advisory service scope was further strengthened: indeed, in the reporting year, **Soluzione Valore Plus**, the explicit remuneration advisory service was further boosted, with a significant increase in AUM and in the number of mandates. In 2018, the service won the **AIFIN "Private Banking e Wealth Management Award" first prize in the Private Banking Division of Commercial Banks**. Evidence of the increasing importance of advanced advisory services in a MiFID II perspective;
- Dedicated issues of target maturity funds made by Amundi SGR for Private Banking Customers (**Amundi Private Stars 2023 and Amundi Private Megatrend**);
- Continuous maintenance of the CaVita Private Multiselection Unit-linked and CaVita Private Multistrategy Multiline insurance policies, extending the investable universe of funds and SICAVs;
- The extension of the **Multi-manager UCITS catalogue** with the addition of new international fund management houses.

In 2018, the **Financial Advisory team was strengthened** also with resources coming from the Fellini Banks. This has generated a strong **increase in the level of service provided by the Private Banking Network**, with ad-hoc analysis on portfolios, monitoring and dedicated reporting.

In terms of loans, the interaction with the Corporate Banking channel proved once more constant and fruitful in the management of specific requirements of Customers that are also entrepreneurs, thanks to the Credit **Advisory team that works alongside the Private Banking Network**. This cooperation yielded an increase in transactions made in synergy with the Corporate Banking channel.

As done in the previous year, also in 2018 the Private Banking channel constructed **digital innovation and multichannel access to the service as an integral part of the business**.

The strong commitment to accelerating the technological evolution of the services (remote advisory services, integrated reporting, financial communication) comprised two key drivers:

1. **Improved Customer Journey**, also thanks to larger and larger use of the digital tools made available to private bankers, which make it easier for the bankers providing advisory services and keeping in contact with their Customers (tablets, Web Collaboration, remote sale, digital signature);
2. **Enhanced efficiency of the account managers' activities,** through better planning, and the support of the **CRM platform (Nowdesk)** in order to have more time to dedicate to business and development.

Other significant initiatives in the year concerned:
- **Important training provided to the entire Private Banking Network** that was required to support the cultural change generated by continuous evolution in the competition scenario;
    1. The training had a behavioural and commercial focus, in order to strengthen the relationship of Market Heads with the Central Department and with the Bankers, thanks to higher awareness of their **managerial role**; the training also aimed at enhancing the Private Bankers' skills in order to foster the transformation of their role from "account manager" to "**portfolio manager and developer**", as well as to promote a **corporate culture** - based on sense of identity, vision of the future, mutual trust - fit to ensure an unequalled, distinctive and attractive "managerial and commercial style";
    2. The training had also a technical-specialist focus on product and services, financial markets and succession planning. In **cooperation with the Italian Private Banking Association (AIPB) and in accordance with the MiFID 2 requirements**, the entire staff of the Private Banking Network was provided dedicated training that will end with the issue of the **AIPB certificate in 2019**;
    3. **Interaction and exchanges with the AIPB** were once again constant and allowed effective analysis of the main trends in the sector, also with benchmarking among the main competitors;
- DOXA-certified survey of **Customer satisfaction** with excellent results achieved by the Private Banking channel. In this regard, **contact proactivity** was boosted through the development of an approach for continuous contact between the Banker and his/her Customers, also thanks to the organization of **dedicated events in the communities**.

The Communication activity considerably increased in 2018, both to colleagues with dedicated calls and workshops, and to Customers with the implementation of "***Scenari***", the monthly newsletter on financial topics for the Private Banking Customers. At the end of the year, the Private Banking Channel played a leading role in the **Savings Campaign**, highlighting the specialist channels within the Group on the industry press and on digital media.

FINANCIAL ADVISORS

In 2018 the Financial Advisors channel **enhanced its operations in geographical terms**, giving Crédit Agricole FriulAdria's Customers the possibility of receiving the services of 33 Financial Advisors.

Consistently with its mission – i.e. creating value through the development of assets and high-potential Customers – in 2018 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.

In addition to the increase in total funding, evidence of the attention paid to Customers' needs, in 2018 loans to Individuals came to over Euro 50 million.

Within the evolution and extension of the services to Customers, in 2018 the actions to improve Customer experience and the service model effectiveness continued through higher and higher use, by Financial Advisors, of "Assisted Sale" and "Web Collaboration".

In 2018, the raking in the Net Promoter or Net Promoter Score (NPS) or Customer Recommendation Index (CRI) proved again at absolutely excellent levels. Customers especially appreciated elements such as: skills and professionalism, but also proactivity and the ability to provide bespoke services.
Special attention was place on training, which, again in the reporting year, had a core position and focused especially on developing distinctive behavioural skills. In 2018m all Financial Advisors received training on technical-specialist topics, on strengthening behavioural skills and on regulatory matters.

CORPORATE BANKING DISTRIBUTION CHANNEL

In 2018, the Corporate Banking channel proved again the preferred financial partner of Corporate Banking Customers, providing strong support to their business activities and high-end specialist advisory services. In the reporting year, the Corporate Banking channel fostered growth and investments of its customer companies providing products and services tailored made for the needs and behaviours of the various customer segments in scope.

In the year, the Corporate Banking channel increased its range of products and services and structured its business based on a coordinated set of activities and actions, such as:

- Significant development in structured finance, thanks to distinctive range of products and services and the as distinctive service model, placing the Crédit Agricole Italia Banking Group among the top players in the sector;
- Support to exports and internationalization, thanks to specialist advisory services, to the International Desk to assist foreign companies in Italy and through business agreements relying on the international operations of Crédit Agricole - in the services provided to Italian companies that want to become international players;
- The design and development, in synergy with the companies of the Group, of innovative products and joint initiatives aimed at strengthening the relationship with Customers;
- The organization of specific initiatives in the communities (e.g. “Coffee with Enterprises”), which involve Customers in a perspective of retention and exchange on interesting topics, such as the management of financial risks, internationalization, leasing and liquidity management solutions;
- The “Preauthorized loans” initiative, which is dedicated to Customer enterprises that are worthy players in strategic sectors and which can quickly provide them with the liquidity they need to make investments and to finance growth plans;
- The use of instruments and agreements with financial institutions in order to develop products fostering access to credit by SMEs (EIB, 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);
- The support provided to Customers that were hit by the earthquake with an allocation for subsidized loans (Disasters), to be used to repair the damage suffered by Individuals and Businesses.

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, also supplying Investment Banking products through synergies inside the Group;
- The “File Act Project”, a solution that Customers can use to exchange flows with the Bank, through Swift, in the formats provided by the Italian Legislation (Interbank Corporate Banking - CBI) or in the Swift formats, ensuring a new and fast way for the Bank and its Customers to communicate.

DIRECT CHANNELS AND DIGITAL TRANSFORMATION

For the Crédit Agricole Italia Banking Group, 2018 was an important year within its Digital Transformation, which has been carried out always keeping Customers and human relationships at the center.

Our ambition is to continue to listen to our Customers, through a Customer journey based on different touch points, both Physical and Digital, ensuring multichannel integration “around the Branch”; in this way, Customers can choose at any time the method of interacting with their Bank, while Crédit Agricole FriulAdria can meet the needs of a diverse target that comprises various socio-demographic features.

As regards the Digital World, several initiatives and projects were launched in 2018 in order to continue on the road to the Group Digital Transformation, which is based especially on strategies for online acquisition, cross-selling of products that can be 100% sold online, innovative educational initiatives with strong focus on the young people target, considerable investments in digital platforms with innovative elements within the Internet and Mobile Banking channel.

1. *Online acquisition strategies*

The online acquisition activities posted good progress, with Current Accounts opened on the Web increasing by +39% YOY. The sales of this product could be increased thanks to the strengthening of valuable partnerships with native digital companies, but also thanks to initiatives for the sale of Current Accounts with new physical players.

In addition to the good performance of Current Accounts, the sales of Mortgage Loans acquired online also increased: indeed, they were up by +447% YOY, thanks to the activities implemented for the enhancement and promotion of the www.ca-mutuoadesso.it portal and for the establishment of valuable Partnerships with websites for real estate ads, such as Immobiliare.it, the Italian leading player in this sector.

On both Current Accounts and Mortgage Loans, 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:

- Increased online visibility with Google, in terms of constant presence in the sponsored results of the search engine, and improved positioning of the Group's websites in the organic results page through Search Engine Optimization (SEO) 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 main performance advertisement channels and activities: the most widely used search engines in the Italian scenario (Google, Yahoo, Bing and Virgilio), online comparison websites, bannering on the leading Italian websites, Direct Email Marketing (DEM), Retargeting (Criteo) and Social (Facebook) activities.

2. *Cross selling of products that can be 100% sold online*

In synergy with CA Assicurazioni, MV Insurance (Protezione Guida) and Travel Insurance (Protezione Vacanza) can now be renewed through the Individuals Internet Banking. These two products substantiate the will to increase the potential of digital channels (in this case Internet banking) as a fully-fledged sale channel with a wider and wider product catalogue.

3. *Innovative education with strong focus on the young people target*

In 2018, the Group was quite involved also in Innovative Education initiatives, strengthening its various partnerships with Institutions and Universities in its communities of operations.

An event held in the summer is worth mentioning, i.e. the Active Learning Lab "Social Innovation in Finance", an educational programme that CA' Foscari University launched with Crédit Agricole. A six-week programme of classes strongly focusing on the topic of innovation in Financial Services, with specific regard to social inclusion and to the communities.
In addition to the aforementioned programme, a "Hackathon" weekend was also held at H-Farm, during which the students engaged in the design of a winning project on one of four topics of their choice:

- Payment accessibility;
- Sharing economy;
- Financial education;
- Finance for disadvantaged categories.

The main set objectives of this first educational initiative were:

- Enhancing awareness of the Crédit Agricole brand in the areas where the Group has its physical network;
- Stronger and stronger positioning as an Innovative Bank close to the world of young people/Millennials;
- Creating a new direct Communication channel between the Bank and the young people target;
- Acquisition of new young people base;
- Creation of interesting entrepreneurial ideas thanks to new initiatives (open innovation).

4. *Considerable investments in the digital platforms with innovative elements within the Internet and Mobile Banking channels*

The Group's Internet and Mobile Banking scope underwent considerable developments, aiming at improved positioning in the competition scenario, bridging the market gap and contributing to the growth of the Group's

Customer base with a more attractive range of digital products and services:

- New Internet Banking for Individuals and Small/Medium Enterprises. The platform has new usability and graphics in line with the current market trends; it allows higher customization, as the "most frequent transactions" can be set and used simply with a click, the widgets to be displayed in the Home Page can be set to taste, the account names can be changed and much more. Moreover, the new Nowbanking is mobile-responsive and bank accounts can be consulted at any time and using any type of device;
- The Nowbanking App for Small/Medium Enterprises. In addition to the Internet Banking platform, our Enterprises will be able to access their accounts with an App and to have everything just one tap away, including the payment of electronic bank receipts (RIBA) and BILLS.
- FASTCASH, the cardless cash withdrawal app, with which Customers can withdraw cash at ATMs, leaving their debit cards at home;
- Instant Payments, highly innovative function, with which Customers can make a Credit Transfer with the amount credited to the Payee in 10 seconds only.

Awards

The Group's experience, expertise and commitment were again acknowledged in 2018 with important awards:
2018 - The "**Vesti la tua Carta**" **Digital Platform** obtained a mention of merit and was nominated for the prizes in the "*Financial Innovation - Italian Awards*" category

2018 - **Agos Ducato**, the consumer finance company of Crédit Agricole in Italy, was awarded the Value Creator Prize as *The best Company for Credit to Households and Loans against transfer of one fifth of salary/ pension with deduction of payment* (in terms of profitability).

2018 - **Awards to Mutuo Crédit Agricole**

- 5 seals of the *Institut für Vermögensaufbau* (IVA, a quality assessment independent corporation):
    - Excellent Flexibility,
    - Top Product Range,
    - Top Re-Mortgage,
    - Top Conditions,
    - TOP in the final indicator "Mortgage loans of Banks with Branches"
- Awarded by *OF Osservatorio Finanziario* as the best fixed-rate mortgage loan.

THE WORKFORCE

As at 31 December 2018, the Bank's Employees on staff were 1,436 (of whom 105 seconded to the Parent Company and to the Consortium), with an average age of 48 years and 2 months, average seniority in service of 22 years and women accounting for 44.4% of total Employees, in line with the previous year. 98.7% of the Bank's staff consists of employees with a permanent employment contract and 26.4% of the manager positions is held by women. 16.5% of the Bank's staff has a part-time job.

In 2018, 16 resources were recruited vs. 42 terminations, 20 of whom through the Solidarity Fund.

In 2018, 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 2018, training was focused on, with 9,052 days of training provided, involving 98% 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. Specific focus was placed on the training needs resulting from the entry into force of "MiFID II".

As regards the actions aimed at the growth and enhancement of people, initiatives continued in order to ensure especially crosswise and interfunctional development of the Bank's young talents.

Alongside the High Flyers Project, which was implemented for the third time, a one-to-one mentoring programme was also provided to a selected group of high-potential under 35 resources. Each participant in this programme was assigned to an in-house mentor that had been specifically trained to analyze professional experiences, enhance strong points, identify any room for improvement and design a bespoke plan of actions consistently with the professional development of the specific employee.

In the reporting year, some internal communication initiatives continued, both within the Bank and within the Group, aimed at fostering open and direct discussion and interaction, as well as at promoting awareness and change, also as regards gender.

In 2018, Crédit Agricole FriulAdria provided support to the IT "migrations" of the San Miniato, Cesena and Rimini Savings Banks, making available, in the weeks following the change procedures phase, expert resources working in operating and commercial structures, who coached the colleagues of the three Banks. The resources made available were about thirty for each one of the three "migrations".

In 2018, a new agreement was signed with the Trade Unions at the Group level regarding the use of the non-recurring benefits of the Voluntary Redundancy (Solidarity) fund for banking sector employees, whereby 200 applications for access to the fund at the Group level, which had been submitted in 2016 within the previous agreements, could be accepted. For Crédit Agricole FriulAdria, the employees concerned were a total of 20.

As regards Corporate Social Responsibility, in 2018 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). In terms of work-life-balance, the "smart working" scheme was further promoted and enhanced, whereby the resources on staff at central structures can work, two days a week, from home or from a corporate hub nearby, with important advantages, for both individuals and for the community, on mobility-related charges. The "Volontari di Valore" (Worthy Volunteers) initiative was implemented throughout the Group - which had already been started at Crédit Agricole FriulAdria - in cooperation with Legambiente, aimed at cleaning and regenerating some sites to the benefit of the community.

Internal Customer Satisfaction

In 2018, within the Internal Customer Satisfaction (ICS) process, which has been going on for several years, the survey process has been redesigned and upgraded in cooperation with the Doxa Company, as for the Customer Recommendation Index (CRI).

The ICS is a tool designed to detect, verify and measure the perception by the different Group departments, in their capacity as Internal Customers, of the services they receive from other internal departments.

The process key targets are:

- To increase the Group's ability to generate effective team work between its various teams;
- To contribute to the creation of a corporate culture that increasingly focuses on the requirements of Customers, also internal ones;
- To make processes and relationships between the various structures more flowing and efficient.

Assessments are performed on a six-month basis and the results have both an absolute and relative value, as a measurement of the improvement/worsening rate of internal customer satisfaction in the following half years.

After the assessment, the Human Resources Department communicates the overall and specific results to the single structures involved in the process, thus fostering comparison and exchange between the various structures in order to pursue continuous improvement in customers/suppliers relations and to strengthen the sense of responsibility towards the Company.

FINANCE

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

- The management of interest rate risk;
- The management of liquidity risk;
- Capital management.

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 2018, by the contributions to the Income Statement of the stock of existing hedges.

As regards liquidity, the implemented refinancing strategies continued to pursue source diversification, with alternative funding sources found in the Covered Bonds market and access to EIB funds.

Specifically, in 2018 a new issue of Covered Bonds in the market was carried out: in January 2018 the Group placed Covered Bonds for Euro 500 million with 20-year maturity. This issue, along with the one of December 2017 for Euro 750 million worth of Covered Bonds with 8-year maturity, achieved, well ahead of schedule, the objectives of the 2018 funding plan. Thanks to those issues, funding could be further stabilized at reasonable costs diversifying maturities over time.

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 Italia 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 Italia is based on the Supervisory regulations and on the directions issued by Credit Agricole S.A. concerning its subsidiaries. The Risk Management and Permanent Controls Department (Italian acronym DRPC) 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 instructions and in line 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 Italia S.p.A. 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 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.

In 2018, the set of documents regarding the Group's Risk Appetite Framework was updated; specifically, in terms of Governance, the following items were revised:

- The RAF Policy, which defines the RAF scope of application, the process to determine the thresholds and the mapping of material risks, in order to ensure consistency between the Group's operations, complexity and sizes;
- The Policy on the Most Relevant Transactions ("*Operazioni di Maggior Rilievo*", MRT or with the Italian acronym OMR), which sets forth the methodological approach and the operational aspects of the MRT management process, including the related identification criteria in order to ensure full compliance with the applicable legislation;

- The Stress Test Policy in accordance with the guidelines set by Crédit Agricole S.A. The Policy sets forth the annual Stress Test programme of the Group, the Governance and the responsibilities of the various players involved and any improvement areas/points scheduled in the year;
- The Risk Appetite Statement ("RAS"), which sets forth the Risk Management and Governance process and the roles played by the Group's bodies engaged in management and control functions. This document also reports the quantitative ratios/indicators expressing the main risks the Group is exposed to, along with exhaustive description of the logic behind the determination of RAF thresholds and limits. For qualitative risks, the document sets forth the control processes and mitigation tools implemented by the Group.

In 2018, the Group revised its process for the identification of material risks, based on the system received from the Controlling Company Crédit Agricole S.A. and consistently with the information given 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 structures engaged in control functions (Internal Audit, Compliance, Risk Management and Permanent Controls), and supervises the internal control system as a whole, in accordance with the procedures implemented by Crédit Agricole S.A. 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 roles and department engaged in 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 Parent Company's Board of Directors, responsible for 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

To ensure adequate control of Credit Risk, in accordance with the guidelines issued by the Parent Company Crédit Agricole S.A., the Crédit Agricole Italia Banking Group's internal lending processes are defined and set towards:

- The achievement of sustainable objectives that are consistent with its risk appetite and with the Group's value creation expectations, while ensuring support and proximity to the needs of the productive system, households and of the real economy;
- Portfolio diversification, by limiting and constantly monitoring the concentration of exposures by counterparty/group, economic activity sector or geographical area;
- Adequate selection of the borrower economic groups and single borrowers, through in-depth creditworthiness analyses, aimed at developing and drive business with the most creditworthy Customers, as well as to anticipate and curb insolvency risks.

Lending processes are designed and regulated in order to identify the criteria for risk taking and management, the activities to implement for the proper application of such criteria, the units responsible for carrying out the above activities and the procedures and tools supporting them. The process steps are structured and the responsibilities are assigned in order to pursue set objectives in terms of overall effectiveness and efficiency.

The quality of the loan portfolio is subject to systematic monitoring, both in terms of the portfolio as a whole, i.e. its composition, in accordance with the adopted risk measurement parameters (internal rating system, early warning indicators, other performance-monitoring indicators), and in terms of single positions, designing and applying the operational processes and procedures that regulate all steps in the management of the single lending accounts, in order to ensure preventive management of any default risk.

The organizational structure, procedures and tools supporting the processes for the management of exposures showing anomalies ensure prompt triggering of appropriate actions to restore them to performing or, should the circumstances require termination of the business relation, to collect the credit claim.

The mitigation of credit risk is pursued by entering into ancillary agreements or by adopting adequate tools and techniques designed to mitigate this risk. In this scope, special attention is paid to obtaining and managing guarantees, with the definition of general and specific requirements, with special regard to the rules and procedure to monitor that 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 Italia and Crédit Agricole FriulAdria, regarding “Retail Loan Exposures”, the so-called “Retail Portfolio”.

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 Italia, Crédit Agricole FriulAdria, Crédit Agricole Carispezia and Crédit Agricole Leasing Italia). The use of these models within management processes was progressively extended also to the Banks that became part of the Group at the end of December 2017 (within the “Fellini” combination): 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 have been accompanied by the grading made with the Group rating model, since the very date of their acquisition; all internal models were fully integrated for the newly-acquired Banks upon their migration to the information systems of Crédit Agricole Group Solutions.

The Crédit Agricole Italia Banking Group was authorized by the Regulator to extend its IRB models and to implement the related advanced approach to the former-Fellini exposures, which were integrated into Crèdit Agricole Italia in the “Retail” Exposures class, for the calculation of capital requirements effective as of December 2018, subsequent to the submittal of a “ex ante notification” specific application.

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 impairment - the new IFRS9 entered into force on 1 January 2018 and introduced a new approach to calculate collective impairment of performing loans, using appropriately adjusted Basel metrics (PD and “point in time” LGD) to determine the provisioning value (ECL - Expected Credit Loss);
- Reporting: the use of the risk measures produced by the Bank’s reporting model.

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 the (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 Italia, 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 Italia is responsible for independent control of the interest rate risk management system, by verifying its compliance with the risk measurement model.

In 2018, the hedging of interest rate risk continued with the trading of derivatives, namely Interest Rate Swaps and Interest Rate Options. Fixed-rate securities recognized as assets have been hedged (micro-hedging), mortgage loans with cap to Customers (macro-hedging) and interest rate gaps detected by the internal model, which have been subject to macro hedging.

The investment portfolio, comprising the HTC and HTCS business models and held for Liquidity Coverage Ratio (LCR) purposes and to support net interest income, consists of Italian Government Securities with modest average duration, for amounts that have been set down by the Risk Committee of the Crédit Agricole Group and approved by the Boards of Directors of the Parent Company and of its Subsidiaries. The securities that have been classified as HTCS have been hedged against interest rate risk.

Assets at fair value comprise securities and fund units having immaterial book value and recognized based on a held-to-sell management model.

The limits to the price risk of the investment portfolio 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 Italia 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 Italia, 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 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.

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 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 2018, 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 2018, the Group's Liquidity Coverage Ratio (LCR) was 148%, whereas the LCR of Crédit Agricole FriulAdria was 127%.

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 Local "Correspondant Volcker Rule" (the Local Officer in charge of the Volcker Rule) has been appointed within the Finance Department, who is responsible for ensuring full compliance of operations with the rules set by the Controlling Company.

The sale of "over-the-counter" (OTC) derivatives to ordinary Customers is made through a specialist team and aims at meeting Customers' operational requirements. 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 leading 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 Group Risk Strategy, is submitted to the Group Risk and Internal Control Committee and is approved by the Boards of Directors of the single legal entities of the Group.

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.

The Risk Management and Permanent Controls Department is the holder of the operational risk management function for the Group as a whole and is responsible for ensuring that an overall framework for the management of this risk is in place, is complete and consistent. Through prompt perception of information, collection of operational events and implementation of mitigation actions, it ensures to General Management and to the Boards of Directors that regulatory and organizational control, as required by this type or risk, is in place and effective.

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 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 specialist control roles operate within the Risk Management and Permanent Controls Department and specific roles engaged in internal control operate within all corporate structures; moreover, mechanisms that are functional to the set targets have also been implemented:

- 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), on Physical Security and on the Business Continuity Plan (BCP or with the Italian acronym PCO);
- PRSI (Pilote des Risques SI), in charge of monitoring and control of IT risks on the Information System;
- 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, as defined in the next page;
- 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.

The analysis and monitoring of risks are carried out 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 a 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/first-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/second 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 structures and roles engaged in 2nd-degree/2nd-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.

VALIDATION FUNCTION ACTIVITIES

The activities within the Validation Function are governed by the specific Policy that was approved by the Board of Directors of Crédit Agricole Italia in October 2018 and by the guidelines issued by Crédit Agricole S.A. on this matter. The Policy 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 directly to the Executive at the head of the Risk Management and Permanent Controls Department of Crédit Agricole Italia and is part of the validation business line that consists of the validation units of the legal entities of the Crédit Agricole Group. 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.

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE – INFORMATION PURSUANT TO ARTICLE 123-BIS PARAGRAPH 2, LETTER B) OF ITALIAN LEGISLATIVE DECREE 58/98 (THE ITALIAN CONSOLIDATED ACT ON FINANCE -TUF)

Within the Parent Company Crédit Agricole Italia, pursuant to the aforementioned Article 154-bis, in a specific document attached to the Annual Report and Financial Statements, to the Annual Report and Consolidated Financial Statements and to the Half-yearly Condensed Financial Report, jointly with the Chief Executive Officer, the Manager in Charge shall state:

- the adequacy and actual application of the administrative and accounting procedures;
- the consistency of the corporate and accounting documents with the records in the corporate boos and with the accounts;
- that the above Reports and Financial Statements are fit to provide a true and correct representation of the financial and cash flow position, as well as of the performance of the Bank and of the Group;.

The Manager in charge shall also state that the Management Report includes a reliable analysis of the performance and profit (loss) from operations, as well as of the situation of the Bank and of the Group, and the description of the main risks and uncertainties to which they are exposed.

The “main features of the existing risk management and internal control systems in force within the Group and regarding the financial reporting process”, with reference to the annual separate and consolidated financial statements and the Parent Company’s half-yearly condensed financial report, are given below, pursuant to Article 123-bis paragraph 2, letter b) of the Italian Consolidated Act on Finance (TUF). The Internal Control System on corporate reporting is the process that, involving several corporate structures, gives reasonable assurance on the reliability of financial reporting, the reliability of accounting documents and of compliance with the applicable legislation. There is close and clear correlation with the risk management process, which is the process for the identification and analysis of the factors that could prejudice the achievement of the set corporate objectives, in order to determine how these risks can be managed. A fit and effective risk management system can indeed mitigate any negative effects on corporate objectives, including reliability, accuracy, trustworthiness and promptness of accounting and financial reporting. Setting up and maintaining in place an adequate system for control on financial reporting and periodically assessing its effectiveness by the Bank require prior identification of a benchmark model for comparison purposes. The benchmark model must be generally accepted, strict and complete and, as such, able to guide proper implementation and correct assessment of the control system. It has been decided to use the “COSO Report” principles and guidelines, a widely used, also internationally, benchmark model for the assessment of internal control systems, limited to the part on financial reporting. Based on the aforementioned model, the control system is set up through the stages of: comparison between the as-is situation and the adopted benchmark model; identification of any shortcomings or needs for improvement; implementation of corrective actions and assessment of the internal control system in order to provide supporting grounds to the statements made by the Manager in charge. The fact that an adequate system of administrative and accounting procedures is in place and properly operating over time is verified in accordance with specific methods set out in an internal methodological framework. The analysis scope takes into account also the components of the structure of the corporate internal controls that are relevant for financial reporting; these controls operate crosswise the single line corporate processes.

Description of the main features of the risk management and internal control systems in place regarding the financial reporting process

A) Steps in the risk management and internal control systems in place regarding the financial reporting process.

Identification of risks on financial reporting

First of all, risk identification is carried out by selecting the relevant entities (companies) within the Group and, afterwards, by analyzing the risks affecting the corporate processes that are the source of financial reporting. This entails the definition of quantitative criteria in accordance with the income and financial contribution given by the single entities in the latest accounts and the definition of selection rules with minimum thresholds of relevance. Qualitative elements may also be taken into account. Once having identified the relevant entities, one of which is Crédit Agricole FriulAdria, significant processes are identified and defined as such if they are associated with material data and information, i.e. accounting items that have a less than remote possibility to contain errors with potential material impact on financial reporting. Within every significant process, the most relevant "assertions" are then identified, again in accordance with assessment based on risk analysis. Assertions are claims regarding the requirements that each financial statement must meet in order to achieve the objective of true and correct representation. Assertions are existence and occurrence, valuation and classification, completeness, rights and obligations. Therefore, risks refer to the possibility that one or more assertions are not correctly represented, with subsequent impact on financial reporting.

Assessment of risks on financial reporting

Risks are assessed both for the company as a whole and for each specific process. In the former case, the assessment aims at verifying actual existence of a corporate setting that is in general fit to mitigate risks of errors and improper conducts as relevant for financial reporting.

In terms of process, the risks associated with financial reporting (operational errors, underestimate or overestimate of items, less than accurate reporting, etc.) are analyzed at the level of the activities making up processes. Risks and the pertinent controls, associated with the critical process of the Manager in charge, are assessed with a risk-based approach, which mandatorily requires prior accurate mapping of all corporate processes. The potential risk index gives a summary evaluation of the single risk event, the occurrence of which could cause direct/indirect damage in terms of income-cash flows, in financial terms, in terms of penalties or of the Group's image. The risk is detected within the process and is irrespective of the existing controls (inherent or potential risk). The risk index is assessed based on the severity of the potential damage.

Identification of controls based on the detected risks

First, the company-wide controls that somehow regard relevant data/information and relevant assertions are focused on; such controls are identified and assessed both through monitoring their effects on processes and at a general level. Company-wide controls can prevent or detect any significant errors, even though they do not operate on the single processes. Having adopted a risk-based approach, the identification of critical processes and, within them, of the accounting risks at process level, guides the analysis activities and entails the subsequent identification and assessment of the relevant controls, which can mitigate inherent risk and ensure that residual risk stays within acceptability thresholds.

Assessment of controls based on the detected risks

The implemented assessment of the control system is based on various elements: time frame and frequency, adequacy, operational compliance. The overall analysis of the controls on each risk is defined as the synthesis of the process to assess the adequacy and compliance grade of such controls. These analyses summarize subjective considerations on the effectiveness and efficiency of the controls on each single risk. The overall assessment of risk management can be broken down into assessment of existence, adequacy and proper operation/effectiveness. The risk assessment process ends with the measurement of residual risk, as the value resulting from the application of the overall assessment of controls to inherent riskiness.

Reporting flows with the information on the activities carried out are sent every six months to the Audit Committee for Internal Control of the Parent Company Crédit Agricole Italia as reports prepared by the Manager in charge giving supporting grounds for the statements/claims on accounting documents. These reports include: the results of the identification of the critical scope of analysis, the identification of accounting risks with the related final measurement scores, focus points on any detected shortcomings and needs for improvement and the related mitigation procedures, along with a summary on the adequacy and proper operation of the controls at a company-wide level.

B) Roles and structures involved

The Manager in Charge is essentially the top role in the system overseeing the Group's financial reporting preparation. In order to perform his mission, the Manager in Charge has the power to set the organizational directions for an adequate structure within his Department; he has the means and tools to perform his activity; he can cooperate with other organizational units. Many corporate roles and structures contribute to feeding income-financial information. Therefore, the Manager in Charge has established a systematic and fruitful relationship with such roles and structures. The roles and structures engaged in control functions provide the Manager in Charge with any elements and information that could contribute to the assessment and governance of any problems, such as anomalies falling under the scope of action of the Manager in Charge. The Organization Division cooperates with the Manager in Charge as regards the documentation on accounting processes and its updating over time. Every six months, the Manager in Charge prepares a report, submits it to the Audit Committee for Internal Control of the Parent Company and sends it to the corporate roles and departments engaged in control functions for their information. The report is the information flow whereby the Manager in Charge reports on the activities performed and on the relevant findings. The Board of Directors of the Parent Company is responsible for supervising and ensuring that the Manager in Charge is vested with adequate powers and has adequate means to perform the tasks assigned to him. The Manager in Charge shall promptly inform the Board of Auditors of the Parent Company of any problems have accounting, financial or cash-flow nature. Thanks to the implemented model, sufficient assurance can be given of proper accounting and financial reporting. However, despite properly set and operating internal control systems, the occurrence of any malfunctioning or anomalies able to impact on the accounting and financial reporting cannot be ruled out.

INTERNAL AUDIT DEPARTMENT

The Internal Audit Department is independent of any and all departments and roles engaged in management and decision-making functions that entail risk-taking: indeed, its organizational placement provides for its reporting on a dotted line directly to the Chief Executive Officer of Crédit Agricole Italia and for its solid-line reporting to the Internal Audit Department of the Controlling Company Crédit Agricole S.A.

In accordance with the supervisory expectations, the Internal Audit Department performs the internal audit and review functions for the Crédit Agricole Italia Banking Group, in order to detect any breaches or violations of procedures and of the applicable legislation and regulations, as well as to periodically assess the completeness, adequacy, proper operation (in terms of efficiency and effectiveness) and the reliability of the internal controls system and of the information system, at frequencies set based on the nature and severity of risks.

Specifically, based on a multiyear work plan, it ensures the performance of controls aimed at verifying:

- proper running of operations by the Group's entities;
- the effectiveness and efficiency of the corporate processes as implemented;
- the protection of the value of Group's assets;
- protection from losses;

- the reliability and integrity of accounting and management data;
- compliance of operations with both the policies set down by the corporate governance bodies and with all applicable internal and external regulations;
- performs periodic review and controls on the processes and on the organizational units of all the Companies of the Crédit Agricole Italia Banking Group, as well as on Outsourced Important Operational Functions, through constant and independent supervision on the regular course of operations, in order to prevent or detect any behaviours or situations that are irregular and/or risky;
- provides the Top Management, the Corporate Bodies and the Controlling Company Crédit Agricole S.A. with prompt and systematic reporting on the conditions of the controls system and on the outcomes of the activities carried out;
- supports the *Organismo di Vigilanza* (body engaged in offence prevention required by Italian Legislative Decree 231/2001) in ensuring constant and independent surveillance action on proper running of operations and processes and in supervising compliance with and adequacy of the rules contained in Model 231.

Following its verification and review activities, in case any areas for improvement have been detected, the Internal Audit Department issues recommendations and carries out analyses and monitoring on the identified mitigation actions, with special regard to the RAF, to the risk management process and to the tools to measure and control risks.

The progress in the implementation of any recommendations issued is reported on every six months to the Board of Directors, to the Board of Auditors, to the Audit Committee for Internal Control, to the Top Management and to the Internal Audit Department of the Controlling Company Crédit Agricole S.A.

Finally, on a yearly basis and jointly with the other Corporate Structures engaged in control functions, the Internal Audit Department sends the Report on the activities it carried out in the year to the Supervisory Authority (Integrated Report of the Holders of Control Functions).

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 Italia has undertaken the role of Consolidating Entity. In 2018, this option was exercised again for another three-year period and 5 other companies joined the tax consolidation scheme, which, therefore, now consists of 23 entities.

This regime provides for the consolidated companies to transfer their taxable income (or their tax loss), as regards the Italian corporate income tax (IRES), to the consolidating Entity Crédit Agricole Italia, 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.

OPTION FOR THE VAT GROUP

In November 2018, the option for a VAT Group scheme pursuant to Article 1 paragraph 24 of Italian Law no. 232 of 11 December 2016 was exercised, with effects as of 1 January 2019; the VAT Group includes the subsidiaries of Crédit Agricole Italia having, at the same time, financial, economic and organisational links in force between them, as provided for by Italian Ministerial Decree of 6 April 2018 and by Circular no. 19/2018.

The VAT Group consists of 15 CA entities, including Crédit Agricole FriulAdria, and Crédit Agricole Italia is the VAT Group Representative Member.

Thanks to this scheme, the member entities operate, for VAT purposes, as a single taxable person in their transactions with external companies, with a single VAT registration number. The main advantage generated by the exercise of this option is that, general, the transactions between the Group member entities are not subject to VAT.

VALERY PROJECT

Complying with the recommendations given in the ECB "*Guidance to banks on non-performing loans*" - in the reporting year, the Crédit Agricole Italia Banking Group designed a strategic plan aimed at reducing its NPL stock through market transactions, the "Valery" project.

The plan has been structured as a set of transactions spread over the year, which attracted leading players in the Italian and international markets to the competitive procedure.

Overall, the project resulted in the disposal of NPEs totalling Euro 1,356 million (Euro 271 million for Crédit Agricole FriulAdria) and consisting of Unlikely-to-Pay and bad loans, thus materially contributing to the reduction of the NPE gross rate, which, as at the reporting date, came to 7.63% (net 3.8%) at the Group level, one of the lowest in the market. The NPE ratio of Crédit Agricole FriulAdria came to 5.97% as the gross value and to 2.34% as the net value.

LISTING

In June 2018, Crédit Agricole FriulAdria shares were listed on the Hi-Mtf, a multilateral trading facility (MTF). The admission to trading, which was required by the applicable legislation, gives the Bank the opportunity to present its strength and ability to generate value to a wider number of investors.

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 on which 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 FriulAdria is exposed to (and on the techniques implemented for their mitigation), while it cannot but be emphasized once more the constant focus that the Group, 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 bodies and governments, also appropriate policies for constant enhancement of the monitoring of risks and uncertainties of 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.

DISCLOSURE ON TRANSACTIONS WITH RELATED PARTIES

Within the wider organizational model of the Crédit Agricole Italia Banking Group, the Parent Company Crédit Agricole Italia is engaged in strategic management, direction and control functions, i.e. Governance functions, as well as 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 as defined in the internal Regulation in force, is reported in Part H of the Note to the Financial Statements, to which reference is made.

DISCLOSURE ON ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In the year, no atypical or unusual transactions were carried out whose size or features might have jeopardized or affected 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 2018, in accordance with Decree 254, which is standalone document separate from the Management Report but an integral part of the documentation regarding the 2018 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 2018 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 2018.

In 2019, the rationalization of the Group's physical structures is going to continue with the closure of 14 branches of Crédit Agricole FriulAdria.

As regards the Parent Company, it is reported that it changed its name from Crédit Agricole Cariparma to Crédit Agricole Italia, effective as of 26 February 2019. The 2018 Annual Report and Financial Statements have been prepared using the new name Crédit Agricole Italia.

Crédit Agricole FriulAdria made a new issue of LT2 instruments, for Euro 30 million, fully subscribed by the Parent Company Crédit Agricole Italia.

MACROECONOMIC AND BANKING OUTLOOK FOR 2019

MACROECONOMIC SCENARIO[10]

For 2019, there are more and more signals that the rate of growth of the world economy is slowing down faster than expected, with all the associated forward-looking risks. According to forecasts:

- In the **United States**, GDP is expected **to grow** by +2.2%, vs. +2.9% in 2018, with this slowdown caused by lower domestic demand. The monetary policy is going to remain prudent and the budgetary policy is going to support households and businesses. However, the increasing uncertainty on global growth and the expected high variability on the stock exchanges is going to undermine the confidence of businesses and households, resulting in lower domestic demand;
- In the **Emerging Countries**, economic growth is expected to remain modest. As to Brazil, in addition to a lower contribution of foreign demand resulting from the slowdown in the world economic cycle, it is still not clear whether the new President will have the will and political strength required to pursue the reforms aimed at strengthening government finance. The Chinese economy is continuing to slow down, with the GDP expected to increase by +6.0%, vs. +6.6% in 2018, but without rocking, thanks to the support provided by the economic policy and to the contribution of net exports, which is expected to return positive in 2019;
- In the **United Kingdom**, GDP is expected to continue to grow at a modest rate, up by +1.2%, essentially in line with the previous year (+1.3%), below its potential but without rocking in its trade relations with the EU. The Brexit matter is still open and, for the time being, different possibilities remain on the table, among which a no-deal Brexit is the extreme one.

Trade tensions have generated a material impact on global economy and, until a new stable layout of international trade is reached, uncertainty may continue to hinder growth. On top of the uncertainty factors, such as international trade performance and the future normalization of monetary policies, the devaluation of Asian currencies is also to considered. The result is lower purchasing power in these Countries and, therefore, their lower contribution to international trade growth. Moreover, Europe and the United States would be penalized by the strengthening of their currencies and by the lower increase in foreign demand; however, the EMU is going to be even more affected because of the lower support from budgetary policies vs. those of China and the USA.

10 Source: Prometeia, Forecast Report (December 2018).

As regards the **financial system and monetary policies**, after the fourth increase in interest rates in December and the expected economic slowdown, in January the **Fed** decided to leave interest rates unchanged vs. the end of 2018 at 2.25% - 2.5% and has not said anything about any further increases in 2019.

The **ECB** has **confirmed the end of the Quantitative Easing**, effective as of January 2019, with no more net purchases of government securities. Nevertheless, within the QE scope, the ECB is going to continue to reinvest the principal repaid on maturing securities for an extended period of time. The ECB President Mario Draghi has also mentioned the **possibility** that the ECB may decide to implement yet another long-term liquidity refinancing plan through **a new TLTRO programme**. Moreover, in January 2019, the ECB left interest rates unchanged and confirmed that they are going to remain at the present level at least until the summer of 2019, in order to ensure that inflation steadily continues to go towards the target value close to but lower than 2% in the medium term.

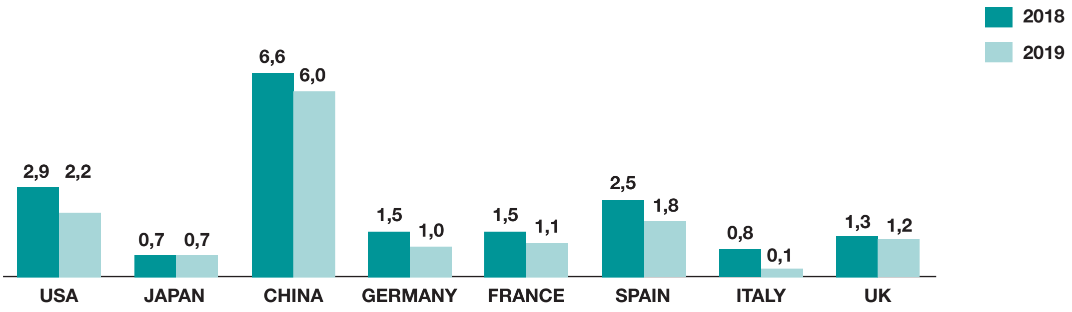
EURO AREA

Europe is expected to continue to grow, albeit at a modest pace because of the uncertainties caused by global factors, both economic and political. Overall, **in 2019 the GDP is expected to grow by +1.0%** vs. +1.8% in 2018. Furthermore, the May 2019 European elections are a key political event, as they may change the political balances.

Having regard to key Countries:

- **Germany** heavily relies on exports and, therefore, it is expected to suffer from the deterioration in the international scenario. In 2019, its GDP is expected to grow by **+1.0%**;
- **France** expects its GDP growth to slow down (+1.1%), affected by the negative effect on confidence caused by the protests against the increase in fuel prices at the end of 2018 and by the uncertainty as regards the forthcoming economic policy choices;
- **Spain**, despite exports being expected stable and domestic demand being expected to decrease, has been forecast as the most lively economy of the Euro Area, with the GDP increasing by +1.8%.

GDP: % YOY change



Source: Prometeia - Brief, Italy in the global economy (February 2019).

THE ITALIAN ECONOMY

In a scenario featuring internal and external risk factors, in 2019 the Italian GDP is expected to grow by +0.1% vs. +0.8% in the previous year. The expected economic growth of Italy is markedly lower than the ones of other EU Member States and mainly due to the lower expansionary drive given by the budgetary law and to the legacy of the second half of 2018.

Overall, **support to households' disposable income has remained the focus of the budget bill** with higher welfare benefits, measures intended to increase the employment rate and pays of public sector employees and with the extension of the flat-rate regime for self-employed workers. However, the termination of the Allowance for Corporate Equity (ACE) benefits and of the incentive for investment on capital goods (known as the 'maxi-amortization'), the downgrading of 4.0 incentive and tax credits on research and development are going to generate a restrictive impact on businesses. The uncertainty and the increase in the average cost of debt are going to cause the debt/GDP ratio to increase to 132.4 with only marginal recovery in the following years.

- starting in 2019, **exports**[11] should return to grow, but at modest rates (+2.4%), despite the expected decrease in oil prices. Exports are going to suffer from modest growth in demand on target markets and from progressively less favourable exchange rates;
- after a slight decrease expected in 2019 (-0.2%) caused by lower investments (-1,0%) in capital goods by businesses, the **investment** cycle is expected to increase in the following years, also thanks to the stabilization in the international economic cycle and to the forecast decrease in spread. However, the growth rates are going to be lower than those posted between 2015 and 2018, also due lower tax benefits;
- in 2019, the **manufacturing industry**[12] is expected to slow down slightly: Up by +1.4% vs. +1.7% in 2018, due to lower foreign demand and to the possible decrease in investments;
- in 2019, the increase in **consumption expenditure** is expected to decrease, despite a progressively higher purchasing power driven, especially in 2019-20, by the budgetary policy mainly through the increase in welfare benefits. In 2019, these trends are expected to be strengthened by the slowdown in inflation;
- the **unemployment rate**, which is going to remain at 10.5% in 2019, is expected to decrease very slowly in the next years, however remaining above 10%. The measures provided for by the Government's economic bill, such as "Quota 100" (possibility to retire for workers at least 62 years old with pension contributions paid for at least 38 years), should increase the demand for workers; nevertheless, the comparison between the features of exiting and entering workers leads to expect worse problems in terms of skills-geographical areas mismatch.

THE BANKING SCENARIO[13]

In its 2018 "Risk assessment of the European banking system" annual report, the European Banking Authority has pointed out that "the resilience of the European Banking System has improved, but clear challenges remain in terms of profitability, funding and operational risks". Specifically:

- banks' **profitability** features: a lower contribution given by net interest income, despite higher loan volumes, by the decrease in non-performing assets and by the increase in net fee and commission income. High costs, especially for investments in Information Technology, and low efficiency are, in the EBA's opinion, the main cause of the weak performance of the European Banking Sector;
- as regards **funding**, banks will have to operate in a scenario featuring lower and lower supportive measures implemented by the European Central Bank, the obligation to comply with the minimum requirements laid down by the EU legislation on bail-in, market volatility and possible increase in interest rates;
- banks will have to **manage higher operational risks**, mainly in terms of cyber-risk and data-security, which are going to require continuous investments.
- the **geopolitical tensions** and the **vulnerability of some economic and financial systems**, especially in emerging markets, may result in banks having to face adverse scenarios with possible impacts on funding, asset quality and profitability.

Italian banks are continuing in the process to align their asset quality parameters to the EU average. This is required by the new regulatory framework, which, with its provisioning calendar, provides for portfolios to be written down in a short time. After the considerable **sales of NPLs** made last year, in 2019 it may be the turn of small-medium size banks to remove non-performing loans from their balance sheets. Gross bad loans are expected to decrease by 34%, with a stock that is expected to amount, at the end of 2019, to Euro 74 billion (vs. Euro 112 billion at the end of 2018).

11 Source: Prometeia, Forecast Report (December 2018): chained value, % change
12 Source: Prometeia, Analysis of Industrial Sectors (October 2018).
13 Source: Prometeia Bank Financial Statement Forecast (January 2019)

The new competition and regulatory scenario has been requiring banks to make important changes, as they have to interpret new strategies and implement new service models in order to reconcile regulatory changes with the need to catch the opportunities given by **digitalization**, trying to meet Customers' new needs and to mitigate the impacts on costs and profitability.

Based on these elements, for 2019 the expected performances of the **main balance sheet aggregates** are given below:

- loans: the economic activity is going to slow down, mainly as regards investments, with the subsequent reduction in businesses' financial needs, while stable household spending is going to support mortgage loans and consumer credit;
- funding from Customers: in the last part of 2019, because of the increase in the policy rate, medium-/long-term funding forms will start to be preferred: the amount of fixed-term deposits should start to stabilize, but the annual net flow will return to be positive not before 2021;
- indirect funding: after the slowdown in 2018, it is expected to increase by +4% YOY according to the estimates, thanks to the growth (+5% YOY) in asset management products (funds, insurance and wealth management) and to assets under administration returning to grow (+2% YOY).

Thanks to their portfolio strategies, Banks' **capitalization** should be more protected from movements in the yield curve of government securities and support is expected to capital ratios from profits for the period and from the decrease in risk-weighted assets (RWA).

In **2019, profits are expected essentially stable** in a scenario featuring higher uncertainty, which emphasized the sensitivity of capital ratios to the widening of the spread between government securities. The funding conditions for the banking sector are a key element for profitability recovery.

Specifically:

- income up by +2.3%, thanks to the steady growth in net interest income that benefited from higher returns on securities and from the increase in Italian Government securities held. Albeit increasing, fee and commission income are expected to be affected, again in 2019, by the risks on financial markets and by lower competitiveness of asset management instruments, while the revenues from asset under administration will continue to decrease. The slower growth in fee and commission income from asset management and intermediation will continue to reflect also the revised pricing policies for the various products in compliance with the development in legislation entered into force in 2018;
- enhanced operational efficiency, with expenses down by 4.0% in 2019. Control of operating costs remains a priority and the rationalization of physical structures is going to continue. The closure of branches and the reduction of employees are going to bridge the gap in terms of productivity and operational efficiency vs. international competitors. The aforementioned elements are countered by mainly regulatory and technological factors requiring **investments and higher resources**;
- additional adjustments of loans are expected vs. 2018, when the benefits from the IFRS9 FTA applied. Specifically, the plans designed by banks to manage non-performing loans may require, especially in 2019, additional adjustments because of sales of NPL portfolios (especially for the sales backed by State guarantees - GACS) made at lower prices than those used in sale simulations for the impairment estimate within the FTA scheme. In early 2019, the ECB published its new supervisory expectations on non-performing loans, according to which every bank shall increase its provisions up to full coverage of its existing NPL stock over a set time horizon; indeed, each bank is going to have its own deadline in accordance with its health and weight of the NPLs in its portfolio.
- in January 2019, the ECB decided to place Banca Carige under temporary administration, after the failed attempt to increase its share capital by Euro 400 million and the following resignation of most members of the Board of Directors. In order to preserve financial stability and in compliance with EU directives, the Italian Government passed measures for State aid: State guarantees on new bond issues, which Carige has already partially applied for, and a State fund to cover the expenses for the bonds and for any subscription of shares of the bank in case of precautionary recapitalisation.

THE ECONOMY IN NORTHEAST ITALY[14]

The Northeast is expected to prove once again the liveliest Italian area also in 2019. Based on the latest available data the **GDP** is expected to grow by **+1.2%** overall in line with 2018 (+1.3%) despite a slowdown in the Country's growth. Specifically, Friuli Venezia Giulia is expected to grow by +1.0% and Veneto by +1.2%.

In 2019, the **export** business in Northeast Italy is expected grow vs. the previous year, with exports further increasing by +3.2%. Investments are expected to further slow down in 2019 (+2.4%), however with a better trend than the Italian average.

The signs regarding the labour market are again positive: the unemployment rate in Northeast Italy is expected to improve in 2019 coming to 5.6% vs. a national average of 10.5%.

14 Fonte: Prometeia, Scenario Economie Locali (ottobre 2018); Banca d'Italia, Economie Regionali (novembre 2018).

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 2018, 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 61,416,156 is as follows:

To the fund for charity and support to social and cultural initiatives	500,000
To the shareholders in the amount of Euro 2.250 to each of the 24,025,498 outstanding ordinary shares	54,057,370
To extraordinary reserve	6,858,786

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 2019 and with ex-coupon date on 24 April 2019.

Pordenone, Italy, 5 March 2019

The Chairwoman of the Board of Directors

Chiara Mio

FINANCIAL STATEMENTS

BALANCE SHEET

Assets			31 Dec. 2018	31 Dec. 2017
10.	10.	Cash and cash equivalents	42,424,462	43,843,200
20.		Financial assets measured at fair value through profit or loss	28,417,463	
		a) financial assets held for trading;	10,511,314	
		b) financial assets designated at fair value;	-	
		c) other financial assets mandatorily measured at fair value	17,906,149	
	20.	Financial assets held for trading		7,469,458
	30.	Financial assets measured at fair value		-
30.		Financial assets measured at fair value through other comprehensive income	392,083,761	
	40.	Financial assets available for sale		690,558,895
	50.	Investments held to maturity		442,859,100
40.		Financial assets measured at amortized cost	9,716,690,973	
	60.	a) due from banks	1,458,263,230	1,495,136,074
	70.	b) loans to customers (*)	8,258,427,743	7,187,345,534
50.	80.	Hedging derivatives	99,480,903	112,240,987
60.	90.	Fair value change of financial assets in macro-hedge portfolios (+/-)	8,180,241	5,578,756
70.	100.	Equity investments	3,500,000	3,500,000
80.	110.	Property, Plant and Equipment	57,504,012	60,205,835
90.	120.	Intangible assets	117,892,544	120,105,190
		- of which goodwill	106,075,104	106,075,104
100.	130.	Tax assets	154,507,959	107,458,016
		(a) current	41,453,855	40,336,077
		(b) deferred	113,054,104	67,121,939
110.	140.	Non-current assets held for sale and discontinued operations	-	-
120.	150.	Other assets	63,463,762	94,416,555
TOTAL ASSETS			**10,684,146,080**	**10,370,717,600**

(*) This item reports debt securities and loans in the amortized cost portfolio. Previously, this item reported financial assets that were not listed on an active market (Level 2 and Level 3) to Customers

As set forth in the "Statement of compliance with the International Accounting Standards", Crédit Agricole FriulAdria, consistently with the choices made by the Crédit Agricole Group, has opted to exercise the option provided for by IFRS 9 and IFRS 1, not to restate the comparison figures of the IFRS 9 first-time adoption financial statements.

Liabilities and equity items			31 Dec. 2018	31 Dec. 2017
10.		Financial liabilities measured at amortized cost	9,611,802,825	
	10.	a) Due to banks	2,932,511,010	2,384,664,511
	20.	b) Due to Customers	6,529,009,206	6,458,457,360
	30.	c) Debt securities issued	150,282,609	420,082,593
20.	40.	Financial liabilities held for trading	11,112,406	7,735,996
30.		Financial liabilities designated at fair value	-	
	50.	Financial liabilities measured at fair value		-
40.	60.	Hedging derivatives	100,491,211	78,347,985
50.	70.	Fair value change of financial liabilities in macro-hedge portfolios (+/-)	72,088,655	78,474,720
60.	80.	Tax liabilities	37,321,830	33,915,870
		(a) current	30,451,782	24,634,939
		b) deferred	6,870,048	9,280,931
70.	90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-
80.	100.	Other liabilities [*]	173,664,004	140,002,643
90.	110.	Employee severance benefits	19,371,330	20,379,869
100.	120.	Provisions for risks and charges	22,848,940	17,520,095
		a) commitments and guarantees given [*]	4,989,332	
		b) post-employment and similar obligations	-	-
		c) other provisions for risks and charges	17,859,608	17,520,095
110.	130.	Valuation reserves	-19,779,727	2,436,713
120.	140.	Redeemable shares	-	-
130.	150.	Equity instruments	-	-
140.	160.	Reserves	6,361,844	91,121,445
150.	170.	Share premium reserve	471,757,296	471,757,296
160.	180.	Capital	120,689,285	120,689,285
170.	190.	Treasury shares (-)	-4,999,975	-4,999,975
180.	200.	Profit (Loss) for the period (+/-)	61,416,156	50,131,194
TOTAL LIABILITIES AND EQUITY			**10,684,146,080**	**10,370,717,600**

[*] The "commitments and guarantees given" item shall report credit risk allowances resulting from commitments to disburse funds and from financial guarantees given, which were previously reported under Other liabilities

INCOME STATEMENT

Items			31 Dec. 2018	31 Dec 2017
10.	10.	Interest and similar income (*) (§)	155,890,555	180,766,633
		Of which: interest income calculated with the effective interest method	154,932,227	
20.	20.	Interest and similar expenses (*)	21,516,895	(18,124,350)
30.	**30.**	**Net interest income**	**177,407,450**	**162,642,283**
40.	40.	Fee and commission income	145,277,386	140,838,064
50.	50.	Fee and commission expense	(4,415,229)	(4,577,490)
60.	**60.**	**Net fee and commission income**	**140,862,157**	**136,260,574**
70.	70.	Dividends and similar income	33,508	198,385
80.	80.	Net profit (loss) on trading activities	2,337,307	3,530,401
90.	90.	Net profit (loss) on hedging activities	(2,639,242)	(2,747,585)
100.	100.	Profit (losses) on disposal or repurchase of:	20,094,876	1,784,225
		a) financial assets measured at amortized cost	11,021,615	
		b) financial assets measured at fair value through other comprehensive income	9,186,538	
		c) financial liabilities	(113,277)	
		a) loans		(2,269,716)
		b) financial assets available for sale		4,451,920
		c) investments held to maturity		-
		d) financial liabilities		(397,979)
110.	110.	Net profit (loss) on other financial assets and liabilities measured at fair value through profit or loss	-	-
		a) financial assets and liabilities designated at fair value	-	
		b) other financial assets mandatorily measured at fair value	-	
		Net profit (loss) on financial assets and liabilities measured at fair value		-
120.	**120.**	**Net interest and other banking income**	**338,096,056**	**301,668,283**
130.	130.	Net losses/recoveries for credit risk on:	(40,704,669)	(35,396,951)
		a) financial assets measured at amortized cost	(40,463,950)	
		b) financial assets measured at fair value through other comprehensive income	(240,719)	
		a) loans (§)		(30,555,496)
		b) financial assets available for sale		(4,148,952)
		c) investments held to maturity		-
		d) other financial assets		(692,503)
140.		Profits/Losses on contract modifications without derecognition	(33,141)	
150.	**140.**	**Net income from banking activities**	**297,358,246**	**266,271,332**
160.	150.	Administrative expenses:	(238,770,474)	(229,404,787)
		a) personnel expenses	(101,603,854)	(97,028,746)
		b) other administrative expenses	(137,166,620)	(132,376,041)
170.	160.	Net provisions for risks and charges	(5,153,059)	
		a) commitments and guarantees given	(1,022,784)	
		b) other net provisions	(4,130,275)	
		Net provisions for risks and charges		(1,679,161)
180.	170.	Net adjustments of/recoveries on property, plant and equipment	(5,061,428)	(4,906,938)
190.	180.	Net adjustments of/recoveries on intangible assets	(2,212,646)	(2,212,646)
200.	190.	Other operating expenses/income	45,057,852	50,340,397
210.	**200.**	**Operating costs**	**(206,139,755)**	**(187,863,135)**
220.	210.	Profit (losses) on equity investments	-	-
230.	220.	Profit (losses) from property, plant and equipment and intangible assets measured at fair value	-	-
240.	230.	Impairment on goodwill	-	-
250.	240.	Profit (losses) on disposals of investments	64,702	84,168
260.	**250.**	**Profit (Loss) before tax from continuing operations**	**91,283,193**	**78,492,365**
270.	260.	Taxes on income from continuing operations	(29,867,037)	(28,361,171)
280.	**270.**	**Profit (Loss) after tax from continuing operations**	**61,416,156**	**50,131,194**
290.	280.	Profit (Loss) after tax from discontinued operations	-	-
300.	**290.**	**Net Profit (Loss) for the period**	**61,416,156**	**50,131,194**

(*) The 5th update of Circular 262 requires that differentials on hedging derivatives, related to single items/technical forms, be reported under interest income or interest expense in accordance with the algebraic sign of interest (income or expense) of the single item/technical form that derivative contracts change. Before, the balance of all differentials on hedging derivatives was reported, in accordance with the related algebraic sign, under interest income or interest expenses.

(§) The 5th update of Circular 262 requires that interest with time value effects, determined on impaired financial assets based on the original effective interest rate, be recognized under interest and similar income. Previously, writebacks with time value effects, equal to interest accrued in the period based on the original effective interest rate, were reported under net losses/recoveries on impairment of loans.

As set forth in the "Statement of compliance with the International Accounting Standards", Crédit Agricole FriulAdria, consistently with the choices made by the Crédit Agricole Group, has opted to exercise the option provided for by IFRS 9 and IFRS 1, not to restate the comparison figures of the IFRS 9 first-time adoption financial statements.

INCOME STATEMENT

Items			31 Dec. 2018	31 Dec. 2017
10.	**10.**	**Net Profit (Loss) for the period**	**61,416,156**	**50,131,194**
		Other comprehensive income net of tax not reclassified to profit or loss		
20.		Equity securities designated at fair value through other comprehensive income	5,822	
30.		Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	
40.		Hedging of equity securities designated at fair value through other comprehensive income	-	
50.	20.	Property, Plant and Equipment	-	-
60.	30.	Intangible assets	-	-
70.	40.	Defined-benefit plans	42,550	63,764
80.	50.	Non-current assets held for sale and discontinued operations	-	-
90.	60.	Share of Valuation Reserves on equity investments measured using the equity method	-	-
		Other comprehensive income after tax reclassified to profit or loss		
100.	70.	Hedges of investments in foreign operations	-	-
110.	80.	Foreign exchange differences	-	-
120.	90.	Cash flow hedges	-	-
	100.	Financial assets available for sale		2,235,087
130.		Hedging instruments (non-designated elements)	-	
140.		Financial assets (other than equity securities) measured at fair value through other comprehensive income	(22,375,761)	
150.	110.	Non-current assets held for sale and discontinued operations	-	-
160.	120.	Share of Valuation Reserves on equity investments measured using the equity method	-	-
170.	**130.**	**Total other comprehensive income after taxes**	**(22,327,389)**	**2,298,851**
180.	**140.**	**Comprehensive income (Item 10+170)**	**39,088,767**	**52,430,045**

It is pointed out that the inclusion in comprehensive income of the item reporting “Financial assets measured at fair value through other comprehensive income” entails strong volatility that must be taken into account when analyzing the table.

As set forth in the “Statement of compliance with the International Accounting Standards”, Crédit Agricole FriulAdria, consistently with the choices made by the Crédit Agricole Group, has opted to exercise the option provided for by IFRS 9 and IFRS 1, not to restate the comparison figures of the IFRS 9 first-time adoption financial statements.

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

	Capital: shares	Share premiums	Reserves:		Valuation reserves	Treasury shares	Profit (Loss)	Equity
			Retained earnings	other				
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**
CHANGE TO OPENING BALANCES	-	-	-90,223,143	-	110,949	-	-	-90,112,194
AMOUNTS AS AT 1 JAN. 2018	120,689,285	471,757,296	162,588	735,714	2,547,662	-4,999,975	50,131,194	641,023,764
ALLOCATION OF NET PROFIT FOR THE PREVIOUS YEAR								
Reserves	-	-	5,420,381	-	-	-	-5,420,381	-
Dividends and other allocations	-	-	-	-	-	-	-44,710,813	-44,710,813
CHANGES FOR THE PERIOD								
Change in reserves	-	-	40,000	-	-	-	-	40,000
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	-	-	-	3,161	-	-	-	3,161
Comprehensive income	-	-	-	-	-22,327,389	-	61,416,156	39,088,767
EQUITY AS AT 31 DEC. 2018	**120,689,285**	**471,757,296**	**5,622,969**	**738,875**	**-19,779,727**	**-4,999,975**	**61,416,156**	**635,444,879**

The impact generated by the IFRS 9 first-time adoption on equity is reported in the “Change to opening balances” row.

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2017

	Capital: ordinary shares	Share premiums	Reserves:		Valuation reserves	Treasury shares	Profit (Loss) for the year	Equity
			Retained earnings	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 THE PREVIOUS YEAR								
Reserves	-	-	3,645,814	-	-	-	-3,645,814	-
Dividends and other allocations	-	-	-	-	-	-	-33,354,551	-33,354,551
CHANGES FOR THE PERIOD								
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 CASH FLOWS

	31 Dec. 2018	31 Dec. 2017
A. OPERATING ACTIVITIES		
1. Operations	**194,089,481**	**169,604,581**
- Profit (Loss) for the year (+/-)	61,416,156	50,131,194
- "gains/losses on financial assets held for trading and on financial assets/liabilities measured at fair through profit or loss(-/+)"	-341,959	-1,408,615
- Gains/losses on hedging activities (-/+)	359,035	-69,516
- Net losses/recoveries for credit risk on (+/-)	36,368,074	33,940,281
- Net adjustments of/recoveries on property, plant and equipment and intangible assets (+/-)	7,274,074	7,119,584
- Net provisions for risks and charges and other costs/revenues (+/-)	5,153,059	1,679,161
- Taxes and levies to be paid (+)	29,867,037	28,361,171
- Net adjustments /recoveries on discontinued operations net of tax effect (-/+)	-	-
- Other adjustments (+/-)	53,994,005	49,851,321
2. Cash flow generated/absorbed by financial assets	**-452,127,588**	**-1,001,046,937**
- Financial assets held for trading	-2,453,601	2,074,908
- Financial assets designated at fair value	-	-
- Financial assets mandatorily measured at fair value	-	-
- Financial assets measured at fair value through other comprehensive income	6,355,792	
- Financial assets available for sale		180,708,556
- Financial assets measured at amortized cost	-471,830,183	
- Due from banks: on demand		-367,570,429
- Due from banks: other receivables		-464,984,851
- Loans to Customers		-327,834,265
- Other assets	15,800,404	-23,440,856
3. Cash flow generated/absorbed by financial liabilities	**303,591,578**	**1,313,917,432**
- Financial liabilities measured at amortized cost	349,535,355	
- Due to banks: on demand		-11,628,348
- Due to banks: other due and payables		945,212,384
- Due to Customers		806,348,351
- Debt securities issued		-311,298,511
- Financial liabilities held for trading	3,376,410	-921,125
- Other liabilities	-49,320,187	-113,795,319
Net cash flow generated/absorbed by operating activities	**45,553,471**	**482,475,076**
B. INVESTING ACTIVITIES		
1. Cash flow generated by:	**127,508**	**295,520**
- sales of equity investments	-	-
- dividend received on equity investments	33,508	198,385
- sales of property, plant and equipment	94,000	97,135
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flow absorbed by:	**-2,388,903**	**-448,020,548**
- purchases of equity investments	-	-
- purchases of investments held to maturity		-442,859,100
- purchases of property, plant and equipment	-2,388,903	-4,392,866
- purchases of intangible assets	-	-
- purchases of business units	-	-768,582
Net cash flow generated/absorbed by investing activities	**-2,261,395**	**-447,725,028**
C. FUNDING ACTIVITIES		
- issues/purchases of treasury shares	-	-
- issues/purchases of equity instruments	-	-
- distribution of dividends and other	-44,710,814	-33,354,551
Net cash flows generated/absorbed by funding activities	**-44,710,814**	**-33,354,551**
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	**-1,418,738**	**1,395,497**

RECONCILIATION		
Financial Statement items	**31 Dec. 2018**	**31 Dec. 2017**
Opening cash and cash equivalents	43,843,200	42,447,703
Total net increase in cash and cash equivalents in the period	-1,418,738	1,395,497
Cash and cash equivalents: foreign exchange effect	-	-
Closing cash and cash equivalents	**42,424,462**	**43,843,200**

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

As set forth in the "Statement of compliance with the International Accounting Standards", Crédit Agricole FriulAdria, consistently with the choices made by the Crédit Agricole Group, has opted to exercise the option provided for by IFRS 9 and IFRS 1, not to restate the comparison figures of the IFRS 9 first-time adoption financial statements.

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 Dec. 2017	Changes from cash flows generated by financing activities	Changes from obtaining or losing control of subsidiaries or other businesses	Fair value changes	Other changes	31 Dec. 2018
Liabilities arising from financing activities (items 10, 20, 30 of Liabilities)	9,270,940,460	349,350,303	-	2,624,468	-	9,622,915,231

CONTACT DATA

Crédit Agricole FriulAdria
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Codice Fiscale e numero iscrizione al Registro delle imprese di Pordenone: 01369030935
Partita Iva: aderente al Gruppo IVA Crédit Agricole Italia n. 02886650346
Capitale sociale: euro 120.689.285,00 i.v.
Codice ABI: 5336
Numero di iscrizione all’Albo delle banche: 5391
N. Iscrizione RUI: D000051546
Aderente al Fondo Interbancario di Tutela dei Depositi e al Fondo Nazionale di Garanzia. Società soggetta all’attività di Direzione e Coordinamento di Crédit Agricole Italia S.p.A e appartenente al Gruppo bancario Crédit Agricole Italia iscritto all’Albo dei Gruppi Bancari al n. 6230.7.