FINANCIAL STATEMENTS AS AT 31/12/2020
LAYOUTS AND EXPLANATORY NOTES

Layouts as at 31/12/2020

Balance sheet

Assets *(in Euro)*

	Asset items	31/12/2020	31/12/2019
10.	Cash and cash equivalents	16,851,409	19,016,966
20.	Financial assets measured at fair value through profit or loss	214,157,435	231,371,249
	a) financial assets held for trading	858,699	348,135
	b) financial assets designated at fair value	11,932,270	11,774,440
	c) other financial assets mandatorily measured at fair value	201,366,466	219,248,674
30.	Financial assets measured at fair value through other comprehensive income	568,539,489	411,775,091
40.	Financial assets measured at amortised cost	5,008,754,625	4,330,720,884
	a) loans and receivables with banks	144,108,753	146,055,600
	b) loans and receivables with customers	4,864,645,872	4,184,665,284
70.	Equity investments	1,650,877	1,211,248
80.	Tangible assets	43,004,072	38,806,686
90.	Intangible assets	9,437,926	9,268,284
	of which: goodwill	8,458,447	8,458,447
100.	Tax assets	51,721,641	58,279,771
	a) current	7,295,086	7,698,460
	b) prepaid	44,426,555	50,581,311
120.	Other assets	70,174,499	38,842,303
	Total assets	**5,984,291,973**	**5,139,292,482**

Liabilities and shareholders' equity *(in Euro)*

	Liabilities and shareholders' equity items	31/12/2020	31/12/2019
10.	Financial liabilities measured at amortised cost	5,505,277,249	4,699,127,246
	a) due to banks	1,204,723,865	869,319,181
	b) due to customers	4,097,275,724	3,576,387,849
	c) securities issued	203,277,660	253,420,216
20.	Financial liabilities held for trading	50,636	16,615
60.	Tax liabilities	5,981,958	2,692,034
	a) current	3,492,042	1,192,383
	b) deferred	2,489,916	1,499,651
80.	Other liabilities	92,134,168	84,097,308
90.	Post-employment benefits	3,485,463	4,046,769
100.	Provisions for risks and charges	3,726,072	2,575,034
	a) commitments and guarantees given	1,403,100	758,423
	c) other provisions for risks and charges	2,322,972	1,816,611
110.	Valuation reserves	4,762,256	1,475,018
140.	Reserves	17,302,691	(2,509,891)
150.	Share premium reserve	230,298,585	230,298,585
160.	Share capital	106,550,481	106,550,481
170.	Own shares (-)	(9,616,966)	(9,379,211)
180.	Profit (Loss) for the year (+/-)	24,339,380	20,302,494
	Total liabilities and shareholders' equity	**5,984,291,973**	**5,139,292,482**

Income statement *(in Euro)*

Items		31/12/2020	31/12/2019
10.	Interest income and similar revenues	102,791,634	95,745,892
	of which: interest income calculated with the effective interest method	(5,715,073)	(2,375,505)
20.	Interest expense and similar charges	(19,591,830)	(22,398,310)
30.	**Net interest income**	**83,199,804**	**73,347,582**
40.	Fee and commission income	46,342,573	41,605,677
50.	Fee and commission expense	(7,258,447)	(5,629,292)
60.	**Net fee and commission income**	**39,084,126**	**35,976,385**
70.	Dividends and similar income	1,530,150	1,139,696
80.	Net profit (loss) from trading activities	3,753,779	738,399
100.	Profit (Loss) on sale or repurchase of:	26,300,772	11,560,709
	a) financial assets measured at amortised cost	4,233,977	(792,507)
	b) financial assets measured at fair value through other comprehensive income	22,092,648	12,357,776
	c) financial liabilities	(25,853)	(4,560)
110.	Profits (Losses) on financial assets and liabilities measured at fair value through profit or loss	(1,428,854)	2,920,872
	a) financial assets and liabilities designated at fair value	157,830	197,365
	b) other financial assets mandatorily measured at fair value	(1,586,684)	2,723,507
120.	**Net interest and other banking income**	**152,439,777**	**125,683,643**
130.	Net impairment losses for credit risk of:	(28,176,582)	(17,364,229)
	a) financial assets measured at amortised cost	(27,005,620)	(17,537,879)
	b) financial assets measured at fair value through other comprehensive income	(1,170,962)	173,650
140.	Modification gains (losses) without derecognition	(252,070)	(576,429)
150.	**Net profit (loss) from financial operations**	**124,011,125**	**107,742,985**
160.	Administrative expenses:	(93,569,122)	(86,453,039)
	a) labour costs	(50,398,271)	(45,898,730)
	b) other administrative expenses	(43,170,851)	(40,554,309)
170.	Net accruals to provisions for risks and charges	(1,244,916)	222,835
	a) commitments and guarantees given	(644,676)	262,464
	b) other net accruals	(600,240)	(39,629)
180.	Depreciation and net impairment losses on tangible assets	(4,260,153)	(3,784,600)
190.	Amortisation and net impairment losses on intangible assets	(618,428)	(695,887)
200.	Other operating income/expense	9,801,979	9,244,756
210.	**Operating costs**	**(89,890,640)**	**(81,465,935)**
220.	Net gains (losses) on equity investments	(510,000)	(520,000)
250.	Net gains (losses) on sales of investments	88,401	(32,381)
260.	**Profit (Loss) from current operations gross of taxation**	**33,698,886**	**25,724,669**
270.	Income taxes for the year on current operations	(9,359,506)	(5,422,175)
280.	**Profit (Loss) from current operations net of taxation**	**24,339,380**	**20,302,494**
300.	**Profit (Loss) for the year**	**24,339,380**	**20,302,494**

Statement of comprehensive income *(in Euro)*

	Items	31/12/2020	31/12/2019
10.	**Profit (Loss) for the year**	**24,339,380**	**20,302,494**
	Other income components net of taxation without reversal to income statement:	**(27,537)**	**(110,795)**
70.	Defined benefit plans	(27,537)	(110,795)
	Other income components net of taxation with reversal to income statement:	**3,314,775**	**1,477,448**
140.	Financial assets (other than equity securities) measured at fair value through other comprehensive income	4,212,925	2,677,218
160.	Portion of valuation reserves of equity-accounted investments	(898,150)	(1,199,770)
170.	**Total other income components net of taxation**	**3,287,238**	**1,366,653**
180.	**Comprehensive income (Item 10+170)**	**27,626,618**	**21,669,147**

Statement of changes in shareholders' equity as at 31 December 2020 *(in Euro)*

	Balances as at 31 December 2019	Change in opening balances	Balances as at 1 January 2020	Allocation of previous year result		Changes during the year								Shareholders' equity as at 31 December 2020
							Transactions on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary dividend distribution	Change in capital instruments	Derivatives on own shares	Stock options	Comprehensive income as at 31/12/2020	
Share capital:	106,550,481	-	106,550,481	-	-	-	-	-	-	-	-	-	-	106,550,481
a) ordinary shares	106,550,481	-	106,550,481	-	-	-	-	-	-	-	-	-	-	106,550,481
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	230,298,585	-	230,298,585	-	-	-	-	-	-	-	-	-	-	230,298,585
Reserves:	(2,509,891)	-	(2,509,891)	19,802,494	-	10,088	-	-	-	-	-	-	-	17,302,691
a) income-related	582,201	-	582,201	19,802,494	-	10,088	-	-	-	-	-	-	-	20,394,783
b) other	(3,092,092)	-	(3,092,092)	-	-	-	-	-	-	-	-	-	-	(3,092,092)
Valuation reserves	1,475,018	-	1,475,018	-	-	-	-	-	-	-	-	-	3,287,238	4,762,256
Capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	(9,379,211)	-	(9,379,211)	-	-	-	-	(237,755)	-	-	-	-	-	(9,616,966)
Profit (Loss) for the year	20,302,494	-	20,302,494	(19,802,494)	(500,000)	-	-	-	-	-	-	-	24,339,380	24,339,380
Shareholders' equity	**346,737,476**	**-**	**346,737,476**	**-**	**(500,000)**	**10,088**	**-**	**(237,755)**	**-**	**-**	**-**	**-**	**27,626,618**	**373,636,427**

Statement of changes in shareholders' equity as at 31 December 2019 *(in Euro)*

	Balances as at 31 December 2018	Change in opening balances	Balances as at 1 January 2019	Allocation of previous year result		Changes during the year								Shareholders' equity as at 31 December 2019
							Transactions on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of own shares	Extraordinary dividend distribution	Change in capital instruments	Derivatives on own shares	Stock options	Comprehensive income as at 31/12/2019	
Share capital:	106,550,481	-	106,550,481	-	-	-	-	-	-	-	-	-	-	106,550,481
a) ordinary shares	106,550,481	-	106,550,481	-	-	-	-	-	-	-	-	-	-	106,550,481
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	230,298,585	-	230,298,585	-	-	-	-	-	-	-	-	-	-	230,298,585
Reserves:	(12,501,019)	-	(12,501,019)	9,991,025	-	103	-	-	-	-	-	-	-	(2,509,891)
a) income-related	(9,408,927)	-	(9,408,927)	9,991,025	-	103	-	-	-	-	-	-	-	582,201
b) other	(3,092,092)	-	(3,092,092)	-	-	-	-	-	-	-	-	-	-	(3,092,092)
Valuation reserves	108,365	-	108,365	-	-	-	-	-	-	-	-	-	1,366,653	1,475,018
Capital instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Own shares	(8,840,411)	-	(8,840,411)	-	-	-	-	(538,800)	-	-	-	-	-	(9,379,211)
Profit (Loss) for the year	15,186,011	-	15,186,011	(9,991,025)	(5,194,986)	-	-	-	-	-	-	-	20,302,494	20,302,494
Shareholders' equity	**330,802,012**	**-**	**330,802,012**	**-**	**(5,194,986)**	**103**	**-**	**(538,800)**	**-**	**-**	**-**	**-**	**21,669,147**	**346,737,476**

Cash Flow Statement (in Euro)

CASH FLOW STATEMENT - Indirect method	Amount	
	31/12/2020	**31/12/2019**
A. OPERATING ACTIVITIES		
1. Cash flow from operating activities	**18,494,164**	**49,275,011**
- profit (loss) for the year (+/-)	24,339,380	20,302,494
- capital gains/losses on financial assets held for trading and on other financial assets/liabilities measured at fair value through profit or loss (+/-)	4,972,553	782,033
- net impairment losses for credit risk (+/-)	(26,300,772)	17,940,658
- depreciation/amortisation and net impairment losses on tangible and intangible assets (+/-)	4,878,581	4,480,486
- net allocations to provisions for risks and charges and other costs/revenues (+/-)	1,244,916	(222,835)
- unpaid duties, taxes and tax credits (+/-)	9,359,506	5,422,175
- other adjustments (+/-)	-	570,000
2. Cash flow generated/used by financial assets	**(817,732,847)**	**(239,437,232)**
- financial assets held for trading	(510,564)	(272,968)
- financial assets measured at fair value	(157,830)	(2,197,365)
- other assets mandatorily measured at fair value	13,687,007	51,534,047
- financial assets measured at fair value through other comprehensive income	(157,541,750)	(113,549,945)
- financial assets measured at amortised cost	(648,445,730)	(181,311,961)
- other assets	(24,763,980)	6,360,960
3. Cash flow generated/used by financial liabilities	**807,496,118**	**203,606,695**
- financial liabilities measured at amortised cost	806,150,003	214,929,817
- financial liabilities held for trading	34,021	(45,653)
- other liabilities	1,312,094	(11,277,469)
Cash flow from (used in) operating activities	**8,257,435**	**13,444,474**
B. INVESTING ACTIVITIES		
2. Cash flow used in	**(9,685,238)**	**(6,273,867)**
- purchases of equity investments	(439,629)	(530,000)
- purchases of tangible assets	(8,457,539)	(5,237,366)
- purchases of intangible assets	(788,070)	(506,501)
Cash flow from (used in) investing activities	**(9,685,238)**	**(6,273,867)**
C. FINANCING ACTIVITIES		
- issues/purchases of own shares	(237,754)	(538,800)
- dividend distribution and other purposes	(500,000)	(5,194,986)
Cash flow from (used in) financing activities	**(737,754)**	**(5,733,786)**
CASH FLOW GENERATED/USED DURING THE YEAR	**(2,165,557)**	**1,436,821**

RECONCILIATION		
Financial statement items	**31/12/2020**	**31/12/2019**
Cash and cash equivalents at the beginning of the year	19,016,966	17,580,145
Total cash flow generated/used during the year	(2,165,557)	1,436,821
Cash and cash equivalents at the end of the year	**16,851,409**	**19,016,966**

Part A - Accounting policies

A.1 - General section

Section 1 – Statement of compliance with International Financial Reporting Standards

The Financial Statements as at 31 December 2020 were drawn up in accordance with the international accounting standards issued by the International Accounting Standards Board (IASB) and approved on the date of preparation of these financial statements, illustrated in the following point A.2; they were also drawn up in accordance with the related interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and Circular No. 262 of 22 December 2005 of the Bank of Italy, updated as at 30 November 2018, issued on the basis of the authorisation contained in Italian Legislative Decree No. 38/2005, which acknowledged in Italy Regulation (EC) No. 1606/2002 regarding international accounting standards.
Circular No. 262 contains the formats of the financial statements, the guidelines and the contents of the explanatory notes.
Reference was also made to the "framework for the preparation and presentation of financial statements" (known as IAS framework).
The derogation laid down by Article 5.1 of Italian Legislative Decree No. 38/2005 was not used.

Section 2 – Basis of preparation

The financial statements comprise the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of changes in shareholders' equity, Statement of cash flows and the Explanatory notes and are also accompanied by a Directors' report on operations.
As per Article 5 of Italian Legislative Decree No. 38/2005, the financial statements are drawn up using the Euro as the reporting currency. The amounts reported in the Financial Statements are expressed in Euro, while the figures in the tables in the Directors' Report on operations are in thousands of Euro.

Where applicable, account was taken - on impacts from Covid-19 and related phenomena - of the documents, guidelines and warnings published during the year by the various regulatory bodies (Bank of Italy, ECB, EBA, ESMA and Consob) insofar as they were useful for the preparation of the 2020 financial statements.
The application of certain accounting standards necessarily involves the use of estimation processes and assumptions that affect the balance sheet values; all information available up to the date of preparation of the financial statements and reasonable assumptions about assumed future scenarios are taken into account in reporting these items. Among the main factors of uncertainty that may affect future scenarios, the effects of the Covid-19 epidemic and its evolution should not be underestimated, and these effects will only become clear once the vaccination campaign has produced its benefits. The exercise of incorporating the consequences of the Covid-19 pandemic into the financial statement estimates is and will be extremely difficult in that the effects - currently controlled by government support measures (moratoria and government-backed loans) and European support measures (ECB,

prudential measures and TLTRO financing) - will depend on a series of variables that cannot realistically be predicted today.

The basis of presentation laid down by IAS 1 and used for preparing these annual financial statements involved:

1) Going concern: the financial statements were prepared with a view to the Bank continuing its business activities for the foreseeable future, therefore assets, liabilities and "off-balance sheet" transactions were valued in accordance with the operational features.
The possible foreseeable future taken into consideration is that which emerges from all the available information used for preparing the strategic plan. Furthermore, in relation to the activities carries out, taking account of all the risks that are analysed and illustrated in other parts of the financial statements, the Bank believes that it falls within the sphere of application of IAS 1 according to which when pre-existing profitable activities and easy access to financial resources exist, the requirement of the company as a going concern is appropriate without carrying out detailed analysis. When assessing the business as a going concern, the references to IAS 1 contained in the joint "Bank of Italy/Consob/ISVAP No. 2 dated 6 February 2009" were used.
The directors also believe that the risks and uncertainties that the Bank may face in the course of its business, considering the Covid-19 effects - now only presumable - are not significant and are therefore not such as to give rise to doubts about the Bank's ability to continue as a going concern.

2) Accrual-basis accounting: costs and revenues are recognised, irrespective of the time of their monetary settlement, in an accrual basis and on matching principals.

3) Financial statement presentation consistency: the presentation and classification of the items are maintained from one year to the next for the purpose of ensuring the comparability of the information unless a change is requested by an International Accounting Standard, such as in applying IFRS 9, or by an Interpretation or it is clear that another presentation or classification is more appropriate in terms of relevancy and reliability for the representation of the information. When the presentation or classification of the financial statement items is changed, the comparative amounts are reclassified, where possible, also indicating the nature and the reasons for the classification.

4) Significance and aggregation: each significant class of similar items is stated separately in the financial statements. Items dissimilar in nature or with regard to intended use are presented separately unless they are insignificant.

5) Substance over form: transactions and other events are recognised and stated in compliance with their economic substance and reality and not only according to their legal form.

6) Offsetting: assets, liabilities, costs and revenues are not offset unless this is required or permitted by an International Accounting Standard or by an interpretation or it is expressly envisaged by the financial statement reporting format for banks.

7) Comparative information: the comparative information is provided for the previous period for all the figures stated in the financial statements except when an International Accounting Standard or Interpretation allows otherwise. The commentary and descriptive information is also included when this is significant for an improved comprehension of the related annual financial statements.

Estimates and valuations

The preparation of the financial statements requires the use of estimates and valuations that may have a significant impact on the values recorded in the balance sheet and income statement.
The use of valuations and assumptions is more commonly required for:

- quantifying the impairment of financial assets, loans and receivables, tangible and intangible assets;
- determining the fair value of financial instruments to be used for disclosure purposes and the use of valuation models for determining fair value of financial instruments not listed on active markets;
- assessing the reasonableness of the amount of goodwill and of other intangible assets;
- quantifying employees' provisions and provisions for risks and charges;
- the actuarial and financial assumptions used to determine liabilities associated with defined benefit plans for employees;
- the estimates and assumptions made with regard to the recoverability of deferred tax assets;
- calculating parameters that significantly increase risk, mainly based on models for measuring probability of default (PD) at the origin of the financial assets and at the end of the reporting period;
- the inclusion of forward looking factors, including macroeconomic factors, for determining PD and LGD;
- determining the probability of the sale of non-performing financial assets through the realisation of market positions.

Reasonable estimates and assumptions are formulated by using all the internal and external information available and past experience.
The adjustment of an estimate further to changes in the circumstances on which it was based or further to new information or additional experience, is applied prospectively and therefore generates an impact on the income statement for the year in which the change takes place and, possibly, on that relating to future years.
The valuation process is particularly complex in consideration of the current macro-economic and market scenario, characterised by unusual levels of volatility that can be found on all the financial balances decisive for the purposes of the valuation and consequent difficulty in the formulation of performance forecasts, including short-term, relating to financial parameters that significantly affect the estimated values.

Classification criteria of financial assets

The classification of financial assets in the three categories envisaged by IFRS 9 applied as from 1 January 2018 depends on two classification criteria or drivers: the business model with which the financial instruments are managed (or Business model) and the contractual characteristics of the cash flows of the financial assets (or SPPI test). The combination of the two drivers mentioned above results in the classification of financial assets as follows:

- financial assets measured at amortised cost - assets that are part of the Hold to Collect (HTC) business model that, having passed the SPPI test, prove that they meet the necessary requirements to be recognised in this portfolio;

- financial assets measured at fair value through other comprehensive income (FVOCI) - assets included in the Hold to collect and sell (HTCS) business model that, having passed the SPPI test, prove that they meet the necessary requirements to be recognised in the portfolio in question. An exception is made for equity securities that can be recognised in this portfolio by exercising the "Fair value option" even if they do not pass the SPPI test;
- financial assets measured at fair value through profit or loss (FVTPL) - this is a residual category and includes financial assets defined as held for trading or designated at fair value according to their business model and instruments included in different business models but that do not pass the "SPPI test".

In order for a financial asset to be classified at amortised cost or FVOCI, in addition to the analysis relating to the business model, the contractual terms of the asset itself must provide, at certain dates, for cash flows represented by payments of principal and interest on the amount of principal to be repaid ("solely payment of principal and interest" SPPI).
The SPPI test must be carried out on each individual financial instrument when it is recognised in the financial statements. Subsequent to initial recognition, and as long as it is recognised in the financial statements, the asset is no longer subject to new valuations for the purposes of the SPPI test. If a financial instrument is derecognised (accounting derecognition) and a new financial asset is recognised, the SPPI test must be carried out on the new asset.

If the test shows that the contractual cash flows (not discounted) are "significantly different" from the cash flows (also not discounted) of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered as meeting the definition of the SPPI test.

With regard to the business model, IFRS 9 identifies three cases in relation to the way cash flows and sales of financial assets are managed:

- Hold to Collect (HTC): this is a business model whose objective is achieved through the collection of contractual cash flows from the financial assets included in the associated portfolios. The inclusion of a portfolio of financial assets in this business model does not necessarily mean that it is impossible to sell the instruments even if it is necessary to consider the frequency, value and timing of sales in previous years, the reasons for the sales and expectations regarding future sales;
- Hold to Collect and Sell (HTCS): this is a mixed business model whose objective is achieved through the collection of contractual cash flows from financial assets in the portfolio and (also) through a sales activity that is an integral part of the strategy. Both activities (collection of contractual flows and sales) are essential to achieve the objective of the business model. Therefore, sales are more frequent and significant than in an HTC business model and are an integral part of the pursued strategies;
- Others/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed using a business model that does not fall under the previous categories (Hold to Collect and Hold to Collect and Sell).

The business model does not depend on the management's intentions with regard to a single financial instrument but refers to the way in which groups of financial assets are managed in order to achieve a specific business objective.

For the Hold to Collect portfolios, the Bank defined the eligibility thresholds for sales that do not affect the classification and, at the same time, established the parameters for identifying sales consistent with this business model as they are attributable to an increase in credit risk.

Method for determining the amortised cost

The “amortised cost” of a financial asset or liability is equal to the initial recognition cost, decreased/increased by the capital repayments, impairment losses/reversals of impairment losses and the amortisation - calculated using the effective interest rate method - of the difference between the amounts disbursed and that which can be repaid on maturity, attributable typically to the costs/income booked directly to the individual loan/receivable.

The effective interest rate is the rate that equalises the current value of a financial asset or liability to the contractual flows, for principal and interest, of the future payments or those received up until maturity or on the subsequent rate recalculation date.

With regard to fixed rate instruments or those at fixed rate for temporary periods (e.g. step up bonds), the future cash flows are determined in the basis of the interest rate known during the life of the instrument.

With regard to floating rate financial assets or liabilities, the determination of the future cash flows is carried out on the basis of the last known rate. As of each price review date, steps are taken to recalculate the repayment plan and the effective rate of return on the entire useful life of the financial instrument, in other words until the maturity date.

Amortised cost is applied to receivables and debt securities recognised in the asset portfolio under items "30 Financial assets measured at fair value through other comprehensive income" or "40 Financial assets measured at amortised cost" and to liabilities and securities issued recognised as liabilities.

The financial assets and liabilities traded under market conditions are initially recognised at their fair value, which normally corresponds to the amount paid or disbursed inclusive of the transaction costs and the directly bookable commission.

Transaction costs are considered to be the internal marginal costs and income attributable at the time of initial recognition of the instrument, not rechargeable to the customer.

These accessory components, which must be attributable to the individual assets or liability, affect the effective return and make the effective interest rate different from the contractual interest rate.

The costs and income referable without distinction to several transactions and the correlated components that may be subject to recognition during the life of the financial instrument, are excluded.

Furthermore, the costs that the Bank will have to incur irrespective of the transactions, such as administrative, stationery and communication costs, are not considered in the calculation.

Amortised cost also applies to the measurement of the impairment of the financial instruments listed above and to the recognition of those issued or purchased at a value other than their fair value. As indicated by IFRS 9, in some cases, a financial asset is considered non performing upon initial recognition because the credit risk is very high and, if purchased, it is purchased at a large discount. If the financial assets in question, based on the application of the classification drivers (i.e. SPPI test and Business model), are classified as assets measured at amortised cost or fair value through other comprehensive income, they are classified as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to a special treatment with regard to the impairment process. The measurement criterion at amortised cost does not apply to financial assets/liabilities backed by hedging derivatives for which changes in fair value relating to the hedged risk are recognised in the Income Statement.

Estimated impairment of financial assets

Pursuant to IFRS 9, at the end of each reporting period, financial assets other than those measured at fair value through profit or loss undergo an assessment to determine whether there is evidence that the carrying amount of the assets cannot be fully recovered.

For financial assets for which there is no evidence of impairment, i.e. for performing financial instruments classified under STAGE 1, the measurement envisages the recognition of expected losses over the following twelve months. However, at the end of each reporting period, it is necessary to check whether there is evidence that the credit risk of the individual transaction has increased significantly since initial recognition. In fact, should there be evidence of a significantly increased credit risk, the financial instruments, while remaining performing, will decrease in terms of both staging and measurement. Where such evidence exists, the financial asset is included in STAGE 2 and a measurement is applied to it which envisages the recognition of impairment losses equal to the expected losses over the entire residual life of the financial instrument (known as PD Lifetime).

In order to identify the "significant increase" in credit risk, the change in the probability of default compared to the time of initial recognition in the financial statements of the financial instrument is considered; moreover, the presence of a past due that has been such for at least 30 days, the existence of forbearance measures and the management classification in "under control" watchlists determines the inclusion in STAGE2.

Focusing on the change in the probability of default, the significant increase in credit risk ("SICR") is determined by comparing the relative change in the probability of default recorded between the date of first recognition of the relation and the date of observation (Delta PD) with predetermined significance thresholds.

With regard to non-performing positions classified in STAGE 3, the measurement is usually carried out according to analytical methods.

The criteria for estimating the write-downs to be made to non-performing loans are based on the discounting of expected cash flows, taking into account any guarantee assisting the positions and any advance received. To determine the current value of the flows, the key elements are the identification of the estimated collections, the related maturities and the discount rate to be applied. The amount of the adjustment is equal to the difference between the book value of the asset and the current value of the expected future cash flows, discounted at the original effective interest rate, properly updated in the case of instruments with variable interest rates, or, in the case of positions classified as bad loans, at the effective interest rate at the date of transition to bad loans status. Depending on the severity of the state of impairment and the significance of the exposure, the estimates of the recoverable amount consider a going concern approach, which assumes the going concern of the counterparty and the continuous generation of operating cash flows, or a gone concern approach: in the event of a scenario of disposal of the asset in which the recovery of the receivable is substantially based on the value of the assisting guarantees or on the realisable value of the assets, taking into account the amount of liabilities and any pre-emption rights.

Moving on to analyse an alternative recovery scenario, note that, as a strategy that can maximise the recovery of cash flows under certain conditions, the sale of certain bad loans with transferable characteristics is envisaged.

As far as non-performing loans are concerned, the Bank removes/derecognises uncollectable accounting entries and writes off the unadjusted balance in the event of non-recoverability, assignment or waiver of the loan.

Recognition criteria for income components

Besides the matters illustrated in the basis of presentation, revenues are recognised at a specific point in time, when the entity meets its obligation to perform by transferring the promised good or service to the customer, or over time, as the entity meets its obligation to perform by transferring the promised good or service to the customer. The asset is transferred when, or during the period in which, the customer acquires control.

In detail:

a) interest payments are recognised on a pro rata basis according to the contractual rate of interest or the actual rate in the case of the application of amortised cost. The item interest income (or interest expense) also includes the differentials or margins, positive or negative, accrued until the end of the reporting period, relating to the derivative contracts:
   - to hedge assets or liabilities that generate interest;
   - classified in the Balance Sheet in the trading book, but related to financial assets and/or liabilities measured at fair value (as per the fair value option);
   - related operationally to assets and liabilities classified in the trading book and that envisage the settlement of differentials or margins with several maturities;

b) default interest, which may be provided for contractually, is recognised in the Income Statement only when it is actually collected;

c) dividends are recognised in the income statement during the financial year in which their distribution is resolved;

d) fees and commissions on revenues from services are recognised on the basis of contractual agreements in the period in which the services are provided. The commissions considered in the amortised cost for the purposes of determining the effective interest rate are recognised under interest;

e) revenues from the sale of financial instruments, determined by the difference between the consideration paid or received for the transaction and the fair value of the instrument, are recognised in the Income Statement when the transaction is recognised;

f) revenues from the sale of non-financial assets are recognised when the sale is completed, i.e. when the obligation to perform with regard to the customer is fulfilled;

g) costs are recognised when they are incurred, following the criterion of correlation between costs and revenues that derive directly and jointly from the same transactions or events;

h) costs directly attributable to the assets measured at amortised cost and that can be determined from the beginning, regardless of the moment when they are paid, flow to the income statement by applying the effective interest rate;

i) costs that cannot be linked to revenues are immediately charged to the income statement. Impairment losses are recognised in the income statement in the financial year in which they are recognised.

Section 3 - Events after the end of the reporting period

Pursuant to Article 3, letter d) of Italian Legislative Decree No. 87 dated 27 January 1992, and in accordance with the wording of the regulations, we specify that after the end of the reporting period and up until approval of the draft financial statements by the Board of Directors, no events took place liable to affect the truthfulness, clarity or correctness of the provided accounting representation

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Section 4 – Other aspects

Audit

The financial statements are subject to audit, pursuant to Italian Legislative Decree No. 58/98, by Mazars Italia S.p.A., in accordance with the appointment granted for the 2020-2028 period to this company with the shareholders' resolution on 29 June 2020.

Accounting standards/interpretations approved and applicable on a mandatory basis as from 2020

The Regulations approved by the European Commission during 2020 or in previous years, whose application will be mandatory as from 2020 or subsequent financial years and amending or supplementing the international accounting standards, are listed below:

• no. 2075/2019 of 29 November 2019 - amendments to IAS 1 "Presentation of Financial Statements", IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", IAS 34 "Interim Financial Reporting", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", IAS 38 "Intangible Assets", IFRS 3 "Business Combinations", IFRS 6 "Exploration for and Evaluation of Mineral Resources" and Interpretations no. 12-19-20-22; these amendments must be adopted from 1 January 2020 at the latest;

• no 34/2020 of 15 January 2020 - amendments to IAS 39 "Financial Instruments", IFRS 7 "Financial Instruments: Disclosures" and IFRS 9 "Financial Instruments", amendments to be applied mandatorily as from the 2020 financial year;

• no. 551/2020 of 21 April 2020 - amendments to Regulation 1126/2008 "Amendments to IFRS 3 Business Combinations"; the Regulation changes the definition of the concept of "Business"; application as from 1 January 2020;

• no. 1434/2020 of 9 April 2020 - amendments to Regulation 1126/2008 "Amendments to IFRS 16 Leases"; *practical expedient*; possible application as from 1 January 2020;

Accounting standards/interpretations approved and applicable on a mandatory basis as from financial years after 2020

There are currently no Accounting standards applicable after 1 January 2020.

Risks, uncertainties and impacts of the Covid-19 epidemic

This paragraph describes the economic and financial impacts related to the Covid-19 epidemic that have already been recorded, and also sets out the bank's view of some relevant issues, also on a prospective basis.

Net fee and commission income

The trend in commissions, as better described in the specific sections of the Report on Operations and the Explanatory Notes, was overall positive and increased compared to the previous year. However, the various components - and the fee and commission income from Collection and payment services, in particular - were adversely affected by the partial reduction in branch operations as well as some of our customer companies between the first and second quarter of the year. As an extraordinary feature of the year, both in terms of fee and commission income (paid by customers) and fee and commission expense (paid to third parties involved in the preliminary investigation), was the exceptional growth in disbursements in the form of government-backed loans.

Operating expenses

During the year, extraordinary operating expenses related to Covid-19 (masks, disinfectant gels, sanitisation) were recognised under administrative expenses for approximately Euro 400 thousand; these expenses were partially recovered thanks to contributions and tax credits, established by specific laws, to which the bank had access.

Market trends

The turbulence in the financial markets during the year depressed share prices and the value of debt securities in the first half of the year. However, in the second half of the year, there was a consistent recovery in stock market values, which was also positively influenced by the active policies of the Central Banks. As can be seen from the income statement, the bank was able to take advantage of these market trends.

Goodwill

Covid-19 scenarios were also taken into account in goodwill impairment; the sensitivity tests gave positive results and there was no need to write down these assets. See the specific section "Intangible Assets" in Part B of the explanatory notes.

Tangible assets

No tangible assets are held for investment purposes, while all tangible assets are subject to depreciation. In particular, it is not considered necessary to make extraordinary impairments on the property held in that they are all "used in operations" and all regularly depreciated.

Going concern

The Directors believe that the risks and uncertainties that the Bank may face as a result of the pandemic crisis are not of such a magnitude as to cast doubt on its ability to continue as a going concern.

IFRS 16 and considerations on actuarial gains/losses from post-employment benefits

The practical expedient provided for in IFRS 16 has not been applied. Given the "intangibility" of post-employment benefits, no thought was given to the possible impact of the Covid-19 pandemic on actuarial gains/losses.

Legislative, interbank, discretionary moratoria, classification and accounting treatment

During the year, the Bank granted various facilities to businesses in the form of deferment/suspension of payments by virtue, as mentioned above, of law provisions, interbank agreements and discretionary initiatives.

Based on and in coordination with legislative measures by the various States on moratorium measures (moratoria to be granted automatically to customers if certain parameters are met), the EBA published on 2 April 2020 guidelines on the treatment of moratoria granted to customers due to the pandemic crisis. These guidelines, which were subsequently updated, exempted from forborne classification all exposures on which a moratorium was granted either by law or by association (e.g. ABI). The same applied to "discretionary" (non-legislative) moratoria granted by individual banks when the criteria applied were consistent with "public" or "association" support initiatives. The GL above specifies the criteria for classifying a moratorium as a "general payment moratorium" and clarifies that the application of a moratorium should not in itself lead to the reclassification of an exposure as forborne, whether non-performing or performing, unless the need to reclassify the exposure had already arisen prior to the application of the extension measure. The regulatory bodies have also exempted intermediaries from the automatic transition to STAGE2 for IFRS 9 purposes in that such measures do not necessarily express a significant increase in credit risk.

However, banks are required to monitor for the occurrence of "unlikely to pay" on positions subject to the moratorium and consider reclassification.

In June 2020, the EBA also extended the deadline for "general payment moratoria" by three months from the original deadline of 30 June 2020 for loans disbursed before the start of the support measures. The flexibility granted by the regulatory body ensured effective management of the high volumes of requests for moratoria legitimised by government measures (moratoria of a "compulsory" nature envisaged by the "Cura Italia" Decree) thanks to the postponement of the maturity period: firstly, from 30 September 2020 to 31 January 2021 with the August Decree and subsequently to 30 June 2021 with the Stability Law.

As for EBA, while on 21 September 2020 it announced the phasing out of the transitional regime for moratoria granted after 30 September 2020, on 2 December 2020 (GL 2020/15) it then re-scheduled the end of the moratorium measures until 31 March 2021. This takes into account both the exceptional circumstances of the "second wave" of Covid-19 and the further extensions put in place by national governments regarding the deadlines for moratoria.

For the monitoring of moratoria, the EBA introduced specific weekly and quarterly reporting requirements, and the following tables have been included in Parts B, C and E of the explanatory notes: "4.4a Loans measured at amortised cost subject to Covid-19 support measures", "8.1a Net impairment losses for credit risk relating to Loans measured at amortised cost subject to Covid-19 support measures", "A.1.7a Loans subject to Covid-19 support measures".

These tables also show the significant phenomenon of new government-backed loans, in response to the demand induced by the pandemic emergency.

With regard to the accounting treatment of loans in arrears, reference can be made to the provisions of IFRS 9 on "Renegotiation of financial assets", which occurs when the original contractual terms are changed by the parties. In this respect, referring to the paragraph "Amendments to contracts for financial assets" in "Section 14 - Other information" of this "Part A - Accounting policies", we are dealing with non-substantial modifications, made, however, in an area in which the assumption of customer financial difficulty cannot be automatically applied, if not granted. It should also be noted that on loans in moratorium, interest is charged on the residual debt for the entire period of suspension of payments; such interest is paid on the original maturity date if only the principal portion is suspended, or from the end of the moratorium if the entire instalment is suspended. This method of application implies that the current value of the cash flows relating to the loan before the moratorium is similar to the current value after the moratorium is granted; therefore, there are no differences to be recognised in the income statement under item 140, which is instead changed when there are non-substantial changes resulting in a difference between the current value before and after application of the moratorium. In this respect, also the Explanatory Report to the "Cura Italia" Decree establishes that the moratorium provisions must not entail an economic loss for the granting body, also from an actuarial point of view.

Credit risk and impairment losses

The issue of "Credit Risk" related to its possible post Covid-19 development has been recently and punctually discussed by our bank within the 2020-2022 Business Plan. The Bank of Italy requested our bank (as well as others) to formalise this plan, which is periodically updated.
The actions implemented by the Bank, described in the plan, focus on three aspects:

- raising network awareness
- strengthening of monitoring processes
- derisking

With regard to derisking, non-performing loans, both unlikely to pay and bad, were sold through transactions described in the report on operations; the collective impairment percentages applied to past due non-performing loans and unlikely to pay loans were increased compared to the past and the policies for the classification and assessment of non-performing loans were revised. This has improved the quality profile of credit assets, both in terms of volumes and ratios, and has prepared internal structures for a possible negative impact on credit risk from the Covid-19 pandemic.
In order to give solidity to the values represented in the plan and according to an assessment approach, the internal control structures prepared and reported on an analysis carried out on a sample of performing loans (forborne, stage 2, moratoria) and non-performing loans (unlikely to pay); The analysis process was successful, as there were few cases where reclassifications of status or measurement adjustments were required, especially for loans under moratorium.

Most moratoria were granted under national regulations ("Cura Italia" Decree, Gasparrini) and the ABI interbank agreement, particularly those granted to businesses. Therefore, such concession measures are fully covered by the measures to which the EBA Guidelines can be applied.

Moreover, the portfolio of loans under moratorium is diversified and not concentrated in sectors particularly affected by the Covid-19 emergency (tourism and entertainment, transport, accommodation and restaurants); the favourable configuration of the portfolio is affected both by the company's lending policies and by the territorial distribution of the bank's branches, which are not widely present in areas with a strong tourist attraction.

It should also be noted that, within total loans, the amount of government-backed loans is higher than in the past, given that the increase is related to the measures introduced by the Liquidity Decree; For these technical forms, specific LGD measures have been applied in the calculation of collective impairment as from the current year.

With regard to the trend of NPLs for the two-year period from 2021 to 2022, as a result of the analyses and premises mentioned above, a modest increase in gross non-performing loans is expected due to the joint effect of the entry into force of the new Definition of Default and the expiry of the Covid-19 moratoria and considering, moreover, the expected implementation of further transactions for the sale of non-performing loans. Moreover, gross/net NPL ratios and the cost of credit are expected to be in line with the 2020 financial year, albeit with an increase in the percentage coverage of non-performing loans.

In specifying that collective impairment applied to performing loans are higher than the average for less-significant banks, reference should be made to "Part E - Information on risks and related hedging policies" in the explanatory notes on the implementation of the valuation process of performing loans (a process that is contextualised both with respect to ordinary operations and with respect to the scenarios induced by the Covid-19 pandemic and the related forms of credit suspension/disbursement).

A.2 Section relating to the main financial statement items

1 - Financial assets measured at fair value through profit or loss (FVTPL)

Classification criteria

This category includes:

- financial assets held for trading consisting mainly of debt and equity securities and the positive value of derivative contracts held for trading;
- financial assets that, while falling within the "Hold to Collect" and "Hold to Collect and Sell" Business models, do not pass the SPPI test. This category also includes financial assets that are not held as part of a business model whose objective is ownership ("Hold to Collect" Business model), or whose objective is achieved both through the collection of contractual cash flows and through sale ("Hold to Collect and Sell" Business model);
- financial assets designated at fair value: in fact, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss at the time of recognition if by doing so, it eliminates or significantly reduces a valuation inconsistency.

This item includes debt securities and loans that are included in an Other/Trading business model or do not pass the "SPPI test", equity instruments that do not qualify as establishing control or joint control over or association with companies and held for trading or for which the option to be designated at fair value through other comprehensive income and real estate UCIT units was not exercised.
The item also includes derivative contracts, recorded under financial assets held for trading, which are represented as assets if the fair value is positive and as liabilities if the fair value is negative.

According to the rules envisaged by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets. In such cases, highly infrequent, financial assets may be reclassified from the category measured at fair value through profit or loss into one of the other two categories envisaged by IFRS 9.
If the entity reclassifies the financial asset from the FVTPL category during the year to amortised cost, its fair value at the date of reclassification becomes the new gross carrying amount.
If the entity reclassifies the financial asset from FVTPL to FVOCI, the financial asset continues to be measured at fair value and the effective interest rate is determined on the basis of its fair value at the date of reclassification.

Recognition criteria

Financial assets are initially recognised on the settlement date for debt securities and equity securities, on the disbursement date for loans and on the subscription date for derivative contracts.
On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, excluding transaction costs or income directly attributable to the instrument itself. On the basis of IFRS 13 (Fair Value Measurement), effective as from 1 January 2013, the fair value is the "price that would be received for the sale of an asset or that would be paid for the transfer of a liability

in a regular transaction between market operators on the measurement date", without considering the transaction costs and revenues relating to said instrument.

Measurement criteria

Financial assets measured at fair value through profit or loss are measured at fair value, the determination of which is based on prices recorded in active markets or through internal valuation models generally used in financial practice as described in more detail in Part A.4 "Information on fair value" of the Explanatory Notes.
If the fair value of a financial asset becomes negative, this asset is recognised as a financial liability.

Derecognition criteria

The financial assets are derecognised from the financial statements when the contractual rights on the cash flows of the assets in question expire and when, further to disposal, essentially all the risks and benefits relating to the same financial asset are transferred.

Recognition criteria for income components

The result of the disposal/redemption or measurement of financial assets held for trading is recognised in profit or loss in item “80. Net profit (loss) from trading activities”.
The result of the disposal/redemption or measurement of financial assets or liabilities measured at fair value is recognised in profit or loss in item “110. Profits (Losses) on financial assets and liabilities measured at fair value”.
Among the interests recorded under item "10. Interest income and similar revenues" also includes interest accrued on financial instruments comprising loans and debt securities classified under item "20. Financial assets measured at fair value through profit or loss" of the balance sheet assets.

2 - Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria

This category includes:

- assets and financial instruments held in accordance with a "Hold to Collect and Sell" business model (debt securities and loans) whose contractual terms envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be returned ("SPPI test" passed);
- capital instruments (equity investments), not held for trading, for which the option to be designated at fair value through other comprehensive income known as "OCI option" was exercised at the time of initial recognition.

Therefore, this item includes: debt securities that are attributable to a Hold to Collect and Sell business model and that passed the "SPPI test", equity interests that do not qualify as establishing control or

joint control, which are not held for trading purposes, for which the option to be designated at fair value through other comprehensive income was exercised, loans that are attributable to a Hold to Collect and Sell business model and passed the SPPI test.
According to the general rules envisaged by IFRS 9 on the reclassification of financial assets (with the exception of equity securities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets that is expected to be highly infrequent.
If the entity reclassifies the financial asset from the FVOCI category to the amortised cost category, the financial asset is reclassified at its fair value at the date of reclassification. The cumulative gains/losses previously recognised in the other components of shareholders' equity are derecognised from it, adjusting them against the fair value of the financial asset at the date of reclassification. Therefore, this adjustment does not affect profit/(loss) for the year and is not a reclassification adjustment.
If the entity reclassifies the financial asset from FVOCI to FVTPL, the financial asset continues to be measured at fair value. The cumulative profit (loss) previously recognised in shareholders' equity is reclassified from it to the profit/loss for the year through a reclassification adjustment.

Recognition criteria

Financial assets are initially recognised on the settlement date for debt securities and equities, and on the disbursement date for loans. Upon initial recognition, the assets are recorded at fair value, inclusive of the transaction costs or income directly attributable to said instrument.

Measurement criteria

Subsequent to initial recognition, financial assets classified at fair value through other comprehensive income, other than equities, are measured at fair value, with impacts deriving from application of amortised cost, the effects of impairment and any exchange rate effect recognised in the Income Statement, whereas other gains or losses arising from a change in fair value are recognised in a specific shareholders' equity reserve under item "110. Valuation reserves", until the financial asset is derecognised. Upon disposal, in whole or in part, the cumulative gain or loss in the valuation reserve is transferred to the Income Statement.

The capital instruments chosen for classification in this category are measured at fair value and the amounts recognised with corresponding item in shareholders' equity must not be subsequently transferred to the income statement, even in the event of disposal. The only component relating to the equities in question that is recognised in the income statement is represented by the related dividends.

For further information on the criteria for determining fair value, please refer to the "A.4 Information on fair value" section in Part A of the Explanatory Notes to the Financial Statements.

For financial instruments both in the form of debt securities and loans classified as stage 1 (i.e. on financial assets at the time of origination, where performing, and on instruments for which there has been no significant increase in credit risk compared to the initial recognition date), a 12-month expected loss is recorded at the initial recognition date and at each subsequent reporting date. On the other hand, for instruments classified as stage 2 (performing positions for which there has been a significant increase in credit risk compared to the date of initial recognition) and stage 3 (non-performing exposures), an expected loss is recognised over the life of the financial instrument. Vice versa, equity securities are not subject to impairment.

Derecognition criteria

The derecognition of the available-for-sale financial assets takes place when the contractual rights on the cash flows of the assets in question expire and when, further to disposal, essentially all the risks and benefits relating to the same financial asset are transferred.

Recognition criteria for income components

In the Income Statement, item "10. Interest income and similar revenues" includes interest and the amount represented by the progressive release of the discounting calculated at the time the impairment was recognised, on financial instruments comprising loans and debt securities classified under item "30. Financial assets measured at fair value through other comprehensive income" of the balance sheet assets.
The impairment losses calculated at the end of each reporting period or interim period, determined in accordance with the impairment rules of IFRS 9, are immediately recognised in the Income Statement under item "130". Net impairment losses for credit risk", with balancing entry under item "110. Valuation reserves", as well as recoveries of part or all amounts subject matter to previous write-downs.
Moreover, in the Income Statement, item "70. Dividends and similar income" includes dividends on equity securities for which the "OCI option" was chosen.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in previous financial statements are recognised in shareholders' equity when the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

3 - Financial assets measured at amortised cost

Classification criteria

This category includes financial assets held according to a business model whose objective is achieved through the collection of contractually agreed cash flows, i.e. financial assets associated with the Hold to Collect Business Model, the contractual terms of which envisage, at certain dates, cash flows represented solely by payments of principal and interest on the principal to be returned (known as “SPPI test passed”).
Therefore, this item includes loans and receivables with banks (current accounts, guarantee deposits, debt securities), loans and receivables with customers (current accounts, advances on invoices, mortgages, finance leasing operations, factoring transactions, debt securities).

This category also includes operating loans related to the provision of financial assets and services as defined by the Consolidated Banking Law (TUB) and the Consolidated Law on Finance (TUF).

According to the general rules envisaged by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not allowed except in highly infrequent cases, where the entity changes its business model for the management of financial assets.
If the entity reclassifies the financial asset from Amortised Cost to FVOCI, its fair value is measured at the date of reclassification. Gains or losses resulting from a difference between the previous amortised cost of the asset and its fair value are recognised in valuation reserves. The effective interest rate and the assessment of expected losses on loans and receivables are not adjusted as a result of the reclassification.
If the entity reclassifies the financial asset from Amortised Cost to FVTPL, its fair value is measured at the date of reclassification. Gains or losses resulting from a difference between the previous amortised cost of the asset and fair value are recognised in profit or loss for the year.

Recognition criteria

Financial assets are initially recognised on the settlement date for debt securities and on the disbursement date for loans. Upon initial recognition, the assets are recorded at fair value, inclusive of the transaction costs or income directly attributable to said instrument.
In particular, with regard to loans, the date of disbursement normally coincides with the date of signing of the agreement. If such a coincidence does not occur, a commitment to disburse funds is recorded at the time of signing the agreement, which ends on the date of disbursement of the loan. The loan is recognised on the basis of its fair value, equal to the amount disbursed, or subscription price, including costs/income directly attributable to the individual loan and determinable from the start of the transaction, even if settled at a later date.
Costs that, despite having the above characteristics, are reimbursed by the debtor counterparty or classified as ordinary internal administrative costs are excluded.

Measurement criteria

Following their initial recognition, the financial assets in question are measured at amortised cost, using the effective interest rate method. The effective interest rate is identified by calculating the rate that makes the current value of the future flows of the asset, in terms of capital and interest, equal to the amount disbursed inclusive of the costs/income attributable to the financial asset itself. This accounting method allows the economic impact of costs/income directly attributable to a financial asset to be distributed throughout its expected residual life.

The amortised cost method is not used for assets - measured at historical cost - whose short duration makes the effect of the application of the discounting logic negligible, for those without a defined maturity or revocable loans.
The measurement criteria, as better described in the chapter in Section 2 of the Accounting Policies "Estimate of impairment losses on financial assets", are strictly related to the inclusion of the instruments in question in one or the three stages (stages of credit risk) envisaged by IFRS 9, the last of which (stage 3) includes non-performing financial assets and the remaining (stages 1 and 2) performing financial assets.
If the financial assets in question are performing, they are measured in order to determine the impairment losses to be recorded in the financial statements at the level of the individual credit

relation, depending on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD), derived from models and properly adjusted to take account of the provisions of IFRS 9.
However, if, in addition to a significant increase in credit risk, there is evidence of impairment, the amount of the loss is measured as the difference between the book value of the asset - classified as "non-performing", like all other transactions with the same counterparty - and the present value of the expected future cash flows, discounted at the original effective interest rate.
The amount of the loss to be recognised in the income statement is defined on the basis of an analytical valuation process or determined by homogeneous categories and, therefore, analytically applied to each position and considers forward looking information and possible alternative recovery scenarios.

Non-performing assets include financial instruments that have been granted the status of bad, unlikely to pay or past due by more than ninety days according to the rules of the Bank of Italy, consistent with IAS/IFRS and European Supervisory regulations. The expected cash flows take into account the expected recovery time and the estimated realisable value of any guarantee.

Derecognition criteria

Changes in a financial asset lead to its derecognition and to the recognition of a new asset when they are "substantial". The assessment of whether the change is "substantial" must be subject to qualitative and quantitative considerations. Therefore, qualitative and quantitative analyses aimed at defining the "substantiality" of the contractual changes made to a financial asset will have to consider the purposes for which the changes were made.

Recognition criteria for income components

In the Income Statement, item "10. Interest income and similar revenues" includes interest and the amount represented by the progressive release of the discounting calculated at the time the impairment was recognised, on financial instruments comprising loans and debt securities classified under item "40. Financial assets measured at amortised cost" of the balance sheet assets.

Impairment losses relating to this type of asset are recognised in the Income Statement under item "130. Net impairment losses for credit risk".
If the reasons for the impairment cease to exist further to an event that has taken place after the recognition of the drop in value, reversals of impairment losses are booked to the income statement. The reversal of impairment loss cannot exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses.
Reversals related to the passage of time are recognised in net interest income. When, over the life of an instrument, the contractual clauses are amended, it is necessary to check whether the original asset must continue to be recognised in the financial statements or, on the contrary, whether the original instrument must be derecognised from the financial statements (derecognition) and a new financial instrument must be recognised.

4 - Hedging transactions

Risk hedging transactions are aimed at neutralising potential losses on exchange and interest rates. The hedges can be divided up into the following categories:

- hedging of the fair value of a specific asset or liability, which has the aim of maintaining the current value of a financial asset/liability in the presence of interest rate changes;
- hedging of the future cash flows attributable to a specific asset or liability, which has the aim of maintaining the cash flow of a financial asset/liability in the presence of interest rate changes;
- hedging of the effects of an investment in foreign currency.

Banca Valsabbina avails itself of the possibility, at the time of introduction of IFRS 9, of continuing to apply in full the provisions of the former IAS 39 on hedge accounting for each type of hedge (both for specific hedges and for macro hedges).

Recognition criteria

Financial hedging derivatives are initially recognised and subsequently measured at fair value and classified in asset item 50, and liability item 40. “Hedging derivatives”.
A relation qualifies as hedging if all the following conditions are satisfied:
- at the start of the hedge, there is a designation and formal documentation of the hedge accounting, the nature of the risk hedged and the risk objectives pursued;
- the definition of the criteria for determining the efficacy of the hedge;
- the expected hedge is highly effective and can be reliably measured and the measurement is carried out on an on-going basis.

Measurement criteria

The determination of the fair value of the derivative instruments is based on prices taken from regulated markets or provided by qualified operators on models for the measurement of the options or on models discounting back future cash flows. A hedge is considered highly effective if, both at the start and during its life, the change in the fair value or the cash flows of the element hedged are almost completely offset by the change in the fair value or the cash flows of the hedging derivative, or rather the effective results remain within an interval between 80% and 125%.

Transactions are no longer considered hedging if:
- the hedge made via the derivative ceases or is no longer highly effective;
- the derivative expires, is sold, terminated or exercised;
- the element hedged is sold, expires or is reimbursed;
- the hedging definition is revoked.

The ineffective part of the hedge is provided by the difference between the change in the fair value of the hedging instrument and the change in the fair value of the hedged element.
For the purposes of determining the efficacy of the hedge, both forecast and retrospective tests are carried out, at least at the end of each reporting period.

Derecognition criteria
The recognition in the financial statements of hedging transactions is interrupted when the efficacy requirements are no longer observed, when they are revoked, when the hedging instrument or the instrument hedged expires, is discharged or sold.

Recognition criteria for income components
The fair value change of the hedged instrument, in effective fair value hedges, is recorded in the income statement item “90. Net hedging income (expense)”. The fair value changes of the hedged element, attributable to the hedged risk with the derivative instrument, are recorded in the income statement to offset the change in the book value of the hedged element.
If the hedge no longer satisfies the criteria for being recorded as such or the derivative is terminated, also due to the insolvency of the counterpart, the difference between the book value of the hedged element at the time the hedge ceases and that which would have been its book value if the hedge had never existed, in the event of interest-bearing financial instruments, is amortised in the income statement, over the residual life of the original hedge; in the event of non-interest bearing financial instruments, this difference is recorded directly in the income statement.

5 - Equity Investments

Recognition criteria
Equity investments are stated in the financial statements at purchase value.

Classification criteria
The item includes the equity investments in subsidiaries, associates and jointly controlled entities (joint ventures) or subject to significant influence of the Bank.

Measurement criteria
Equity investments are carried at cost.
If evidence exists that the value of an equity investment may have undergone a reduction, steps are taken to estimate the recoverable amount of said investment, including the final disposal value of the investment and/or other measurement elements, which are compared with the book value of the equity investment. If this is lower, the difference is booked to the income statement under the item “Net gains (losses) on equity investments”.

If the reasons for the impairment cease to exist further to an event that has taken place after the recognition of the drop in value, reversals of impairment losses are booked to the income statement, in the same item indicated above, up to the extent of the previous impairment.

Derecognition criteria
Equity investments are derecognised when the contractual rights to the corresponding cash flows deriving from the assets expire or when the equity investments are sold substantially transferring all related risks and benefits.

Recognition criteria for income components

In compliance with IAS 18, dividends are recognised when the right of the shareholders to receive the payment is established and, therefore, after the date of adoption of the resolution by the shareholders' meeting of the company in which the shareholdings are held.

6 - Tangible assets

Recognition criteria

Tangible assets whose cost is reliably determined and from which it is probable future economic benefits will derive, are recognised in the financial statements.

Tangible assets are initially recognised at purchase cost, inclusive of accessory charges incurred for the purchase and putting the asset into operation.

For the first-time adoption of IAS/IFRS, the exemption provided by IFRS 1, Article 16, was taken advantage of by opting for the measurement of buildings at fair value, as a substitute for cost, as at 1 January 2005.

The cost model was adopted for the measurement of buildings subsequent to that date.

Extraordinary maintenance costs that increase the value of assets are allocated to the assets to which they refer. Ordinary maintenance costs are recognised directly in the income statement.

Tangible assets acquired under financial leasing operations or through lease agreements similar to Leases under IFRS 16 are accounted for in accordance with IFRS 16, which primarily requires the right of use of the asset (ROU) and the current value of lease payments to be recognised as assets and liabilities, respectively.

ROU ASSET = Liabilities (Lease Liability) + payment of advance rentals - incentives received + initial costs of the lessee + costs of recovery, removal or demolition.

The liability is nothing more than the sum of the current value of outstanding lease or rental payments. After initial recognition of the right of use and the related liability, the lessee must measure the right to use the asset through the cost method, i.e. carry out the depreciation process in accordance with IAS 16 and any impairment losses in accordance with IAS 36.

The depreciation must be calculated taking into account the useful life of the asset in the event of redemption, or, if this is not the case, it will be calculated by choosing the closest time between the expiry of the contract and the end of the useful life of the asset. Finally, in the income statement, the lessee must present the interest expense on the lease liabilities separately from the depreciation charge on the asset consisting of the right of use.

Leasehold improvement and expenses incurred as a result of a lease agreement on third-party assets that are expected to provide future benefits, are recorded in item "120. Other assets" when they are not autonomously identifiable or separable.

Classification criteria
Tangible assets include real estate properties, land, installations, furniture and furnishings and other office equipment. These are assets instrumental for the supply of services.
The value of the land pertaining to the property units owned is recorded separately from the building in that fixed asset with an indefinite useful life. Therefore, lands are not depreciated whereas buildings with a limited life are depreciated.

Measurement criteria
Subsequent to initial recognition, tangible assets are measured at cost net of depreciation and any impairment losses.
The depreciation is calculated systematically on a straight-line basis by means of technical-economic rates representative of the residual possibility of use of the assets. Land is an exception, not subject to depreciation given the impossibility of determining its useful life, and in consideration of the fact that the related value is not usually destined to drop in relation to the passage of time.
At the end of each reporting period or interim period, if there is any indication that the asset may have been impaired, a comparison is made between the book value of the asset and its recoverable amount, equal to the fair value, net of any sales costs, and the related value in use of the asset, understood as the current value of the future flows originated by the asset, whichever is the lower. Potential impairments are recognised in the income statement.

Derecognition criteria
A tangible fixed asset is eliminated from the balance sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Recognition criteria for income components
Impairments are recognised in the income statement under item "180. Depreciation and net impairment losses on tangible assets".
The depreciation of leasehold improvements to and expenses for third party assets takes place on the basis of the duration of contracts underlying the right of use, a minimum of 5 years, in relation to the physical deterioration and the residual possible useful life. This is recorded in the income statement under item "200. Other operating income/expense".

7 - Intangible assets

Intangible assets comprise software for long-term use, intangible assets linked to the enhancement of relations with customers (core deposits) and goodwill.

Recognition and classification criteria
Intangible assets represented by software and user licences owned by the Bank are recognised in the financial statements only if they comply with the requirements that they are independently identifiable and distinct, that it is probable that future economic benefits will be realised, and that the cost itself can be measured reliably.

The goodwill is represented by the difference, when positive, between the purchase cost incurred and the value in use, as from the purchase date, of the assets and the balance sheet elements acquired within the sphere of a company merger.

Measurement criteria

Intangible assets represented by software and user licences are recorded in the financial statements at cost net of amortisation and impairment losses. The amortisation is calculated systematically on a straight-line basis by means of technical-economic rates representative of the residual possibility of use of the assets. At the end of each reporting period, the residual life is measured to check the adequacy.

Goodwill is not amortised in consideration of its indefinite useful life, but it is subject to checking of the adequacy of the recognition value (impairment test) at least once a year, generally at the time of preparation of the annual financial statements and in any event on occurrence of events that suggest that the asset has been impaired. Any goodwill impairment, even if in subsequent years the reasons they were made cease to exist, cannot be reinstated.

Derecognition criteria

An intangible fixed asset is eliminated from the balance sheet at the time of disposal or when its use permanently ceases.

Recognition criteria for income components

Impairment losses are recognised in the income statement under item "190. Amortisation and net impairment losses on intangible assets".

Negative goodwill

When in a business combination the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the purchaser:

- reviews the identification and measurement of identifiable assets, liabilities and contingent liabilities of the acquiree and the determination of the cost of the combine;
- recognises immediately in the income statement any residual excess after the new measurement.

8 - Current and deferred taxation

The items "tax assets" and "tax liabilities" in the Balance Sheet contain tax receivables and payables. Current taxes for the year are determined by applying the tax rates and current legislation; they are recorded as liabilities, net of advances paid, to the extent that they have not been paid. They include those not yet paid relating to previous years.

They are recognised as assets in the event that the amount paid, by way of advance or withholdings made, is in excess with respect to the amount due and to the extent that the receivables are recoverable in subsequent years.

Prepaid and deferred taxes are determined on the basis of the balance sheet liability method, taking into account the timing differences (deductible or taxable) between the book value of an asset or liability and its value recognised for tax purposes.
"Deferred tax assets" are recognised if their recovery is considered probable. They involve a future reduction of the taxable income in the presence of an advance tax paid with respect to the accrual basis of accounting.

“Deferred tax liabilities” are recognised in all the cases where it is probable that the related liability will arise. They represent a future increase in the taxable income determining a deferral of the taxation with respect to the accrual basis of accounting.
Deferred taxes have not been provided for with regard to reserves subject to deferred taxation since no distributions are envisaged with regard to these reserves.
The provision for income taxes is determined on the basis of a prudential forecast of the current, prepaid and deferred tax liability.

Tax assets and liabilities, as a rule, are recognised as an offsetting item in the income statement, except in the case that they derive from transactions whose effects are attributed to shareholders' equity, in which case they concern the calculation of the specific valuation reserves.

9 - Provisions for risks and charges

Provisions for risks and charges include:
- pension funds and similar obligations;
- provisions for risks and charges against commitments and guarantees given;
- other funds.

The provisions for risks and charges against commitments and guarantees given include the provisions for credit risk recognised against commitments to grant finance and guarantees given that fall within the scope of application of the rules on impairment in accordance with IFRS 9. For these cases, in principle, the same methods of allocation between the three stages of credit risk and calculation of the expected loss shown with reference to financial assets at amortised cost or at fair value through other comprehensive income, are adopted.
The aggregate also includes provisions for risks and charges set up to cover other types of commitments and guarantees given that, by virtue of their specific characteristics, do not fall within the aforementioned scope of application of the impairment in accordance with IFRS 9.

Provisions for risks and charges concern specific costs and liabilities whose existence is certain or likely, but whose amount or timing is not yet known at the end of the reporting period. The allowance to provisions for risks and charges is made exclusively when:

- an actual obligation exists (legal or implicit) being the result of a past event;
- it is probable that the fulfilment of this obligation will involve payment;
- a reliable estimate can be made of the amount of the obligation.

The amount of the allowance is represented by the current value of the liabilities that it is supposed will be incurred for discharging the obligation. Whenever the time factor is significant, provisions are discounted using current market rates. The effect of discounting is recognised in the income statement, as is the increase in provisions as a result of the passing of time.

10 - Financial liabilities measured at amortised cost

The various forms of interbank and customer borrowings are represented in Financial Statement items:
10 a) Financial liabilities measured at amortised cost: Due to banks;
10 b) Financial liabilities measured at amortised cost: Due to customers;
10 c) Financial liabilities measured at amortised cost: Securities issued.

These items also include the payables entered by the lessee within the financial leasing operations.

Recognition and classification criteria

The liabilities in hand are entered in the financial statements when the collected amounts are received or when the debt securities are issued. The value at which they are initially recognised is equal to their fair value, normally equal to the consideration received or the issue price including any additional costs/income directly attributable to the transaction and determinable from the beginning regardless of when they are paid. All the charges that are repayable by the creditor or that are attributable to internal costs of an administrative nature, are not included in the initial recognition value.

Measurement criteria

After initial recognition, medium/long-term financial liabilities are measured at amortised cost by using the effective interest rate method. Short-term liabilities, for which the time factor is not significant, are measured at cost.

Derecognition criteria

The financial liabilities are cancelled from the financial statements when paid off or fallen due. The repurchase of own securities issued implies their derecognition with subsequent redefinition of the debt for securities issued.

Recognition criteria for income components

In the Income Statement, item "20. Interest expense and similar charges" includes interest on financial instruments classified under "10. Financial liabilities measured at amortised cost".

Any difference between the repurchase value and the corresponding book value of the liability in the event of repurchase of securities issued by the company is recognised in the Income Statement under item "100. c) Profit (Loss) on sale or repurchase of: financial liabilities".
Any subsequent replacement of bank's own securities, subject to derecognition, is a new issue for what concerns accounting with subsequent recognition at the new replacement price, without any effect on the Income statement.

11 - Financial liabilities held for trading

A financial liability is defined as held for trading and therefore recognised under this item if:

- it is acquired or held mainly in order to be sold or repurchased in the short term;
- it is part of a portfolio of identified financial instruments that are managed jointly and whose recent and actual strategy for obtaining a profit in the short term is substantiated by accounting records;
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Recognition and classification criteria

Financial liabilities held for trading are recognised at the subscription or issue date at an initial recognition value equal to the cost intended as the fair value of the instrument without considering any transaction costs or income directly attributable to it. In particular, this category of liabilities includes the negative value of trading derivatives, the negative value of any embedded derivatives present in complex contracts but not strictly related to them and therefore separated out, and liabilities originating from technical overdrafts generated by securities trading activities.

Measurement criteria

Subsequent to initial recognition, the financial instruments in question are measured at fair value with changes in value booked to item "80. Net profit (loss) from trading activities".

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights to the cash flows deriving from them expire or when they are sold with the substantial transfer of all the related risks and benefits deriving from their ownership.

Recognition criteria for income components

The result of the disposal of financial liabilities held for trading is recognised in profit or loss in item “80. Net profit (loss) from trading activities”.

12 - Financial liabilities designated at fair value

A financial liability can be recognised on initial recognition under "Financial liabilities designated at fair value" on the basis of the fair value option recognised by IFRS 9 only when:

- this is a hybrid contract containing one or more embedded derivatives, and the embedded derivative significantly changes the cash flows that would otherwise be expected from the contract;
- designation at fair value through profit and loss provides more reliable disclosure in that it eliminates or considerably reduces inconsistency in measurement.

Recognition and classification criteria

Financial liabilities designated at fair value, recognised in accordance with the fair value option, are recognised on the issue date. The initial recognition value is equal to the cost deemed as the fair value of the instrument, without considering any transaction costs or income directly attributable to it.

Measurement criteria

Subsequent to initial recognition, the financial instruments in question are measured at fair value with changes in value recognised in profit or loss, however, changes in fair value that are attributable to changes in creditworthiness must be recognised in the Statement of Comprehensive Income (Shareholders' Equity).

Derecognition criteria

Financial liabilities designated at fair value are derecognised when the contractual rights to the cash flows deriving from them expire or when they are sold with the substantial transfer of all the related risks and benefits deriving from their ownership.

Recognition criteria for income components

Changes in value due to measurement subsequent to the initial recognition of financial instruments must be booked to item "110. Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss: financial assets and liabilities designated at fair value". With specific reference to the changes in value relating to its creditworthiness, these are recorded under item "110. Valuation reserves" in shareholders’ equity unless the treatment of the effects of changes in the credit risk of the liability creates or amplifies an accounting asymmetry in the income statement; in the latter case, the changes in question are recognised in the aforementioned item of the Income Statement.

The result of the disposal of financial liabilities held for trading is recognised in profit or loss in item "110. a) Profits (losses) on other financial assets and liabilities measured at fair value through profit or loss - financial assets and liabilities designated at fair value".

13 - Post-employment benefits

On the basis of the international accounting standards, post-employment benefits are considered to be “a benefit subsequent to the employment relationship” of a defined-benefit type, whose value is determined by means of actuarial methods. Consequently, the year end measurement of the item in question is carried out on the basis of the method of the benefits accrued using the unit credit method envisaged (Projected Unit Credit Method). This method envisages the discounting back of the projection of the future outlays on the basis of historical, statistical and probabilistic analyses and the adoption of suitable demographic technical bases. This makes it possible to calculate the post-employment benefits accrued at a given date in an actuarial sense, distributing the liability over all the years of estimated residual permanence of the existing workers, and no longer as a liability to be settled in the event the company ceases its activities at the end of the reporting period, as envisaged by Italian legislation.
The measurement of post-employment benefits of employees is carried out by an independent actuary in compliance with the method indicated above.

Further to Italian Law No. 296 of 27 December 2007, the portions of indemnity accrued up until 31 December 2006 remain with the company, while those accrued after are assigned to supplement pension funds or the INPS treasury fund, at the choice of the employee. No actuarial calculations have been made on these amounts, which take on the form of a defined-contribution plan, since the Bank’s obligation vis-à-vis the employee ceases with the payment of the accrued portions.

The actuarial gains and losses, which arise due to changes or adjustment of the previous cases formulated, including the effects of changes in the discount rate, lead to a re-measurement of the post-employment benefits liability. They are booked to shareholders' equity under the valuation reserve “Actuarial gains/loss on defined-benefit pension plans” and their booking to the income statement is no longer allowed.

Italian Law No. 190/2014 (2015 Stability Law) introduced the possibility for the workers to directly perceive the portion of post-employment benefits accrued in the month in their pay packet; in this case, the booking of the cost to the income statement takes place directly in the month of disbursement.

14 - Other information

Other assets

This item includes assets not attributable to the other balance sheet asset items. It also comprises the expenses for leasehold improvements, essentially involving the costs for renovating rented property; the related amortisation is recorded in the item “200. Other operating income and expense”.

Amendments to contracts for financial assets

During the life of the financial assets (receivables), the original contractual terms can be subsequently amended by the parties to the contract. When the contractual clauses are amended, it is necessary to check whether the original asset must continue to be recognised in the financial statements or, on the contrary, whether the original instrument must be derecognised and a new financial instrument must be recognised.

Among other conditions, the derecognition of financial assets measured at amortised cost occurs if there is a "substantial" contractual change (par 3.2.6 IFRS 9).

In order to determine whether or not the contractual amendments are substantial, it was decided to consider the purposes for which they were made; specifically:

- commercial renegotiations. They are intended to prevent the relation with the customer from being transferred to another financial intermediary; this case study includes all the amendments aimed at adjusting the cost of the debt to market conditions. It is considered that in any case the bank makes a renegotiation in order to avoid losing its customer, such renegotiation should be considered substantial because if not granted the relation would be terminated and transferred to another intermediary. In commercial renegotiations, the customer does not show any signs of financial difficulty. Those renegotiations for which the number of relations with customers does not change after the contractual amendment are also considered "substantial"; no derecognition is carried out formally, but substantially, it is.
- renegotiations made during forbearance measures. In such cases, the customer is in financial difficulty or could be in financial difficulties if the measure were not granted; through these forbearance measures, the bank seeks to maximise the recovery of the original loan. The risks/benefits underlying the contract after the amendment are not materially changed and therefore there is no derecognition. On the other hand, this is the case described in paragraph "5.4.3 IFRS 9 Change in contractual cash flows" for which the accounting process of "Modification accounting" must be observed; this process involves the recognition in the income statement of the difference between the book value and the current value of the modified cash flows discounted at the original interest rate (item 140. Modification gains (losses) without derecognition). This differential is recognised with an offsetting entry in balance sheet assets and then amortised over the remaining contractual term.

Repurchase agreements and security lending transactions

Repurchase agreement transactions that envisage the obligation for the transferee to resell/repurchase forward the assets covered by the transaction (for example, securities) and security lending transactions in which the guarantee is represented by cash that falls under the complete disposition of the bearer, are treated as repos. Therefore, the amounts received and disbursed are recorded in the financial statements as payables and receivables. In detail, the afore-mentioned funding repurchase agreements and security lending transactions are stated in the financial statements as payables for the forward amount received, while those involving lending are stated as receivables for the spot amounts.

These transactions do not lead to changes in the securities portfolio. Accordingly, the cost of the funding and the income from lending, represented by the coupon accrued on said securities and the differential between the spot price and the forward price, are stated on an accrual basis in the income statement items relating to interest.

Foreign currency assets and liabilities

Foreign currency assets and liabilities are recognised at the time of settlement of the related transactions.
Transactions denominated in foreign currency are recorded, at initial recognition, in the reporting currency by applying the exchange rate ruling on the transaction date.
A the end of each reporting period, the foreign currency items are measured as follows:
• monetary items are converted using the exchange rate at the end of the reporting period;
• non-monetary items carried at their historical cost are converted at the exchange rate in effect at the transaction date;
• non-monetary items valued at fair value are converted using the exchange rates at the end of the reporting period.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition or in previous financial statements are recognised in the income statement relating the period in which they arise. When a gain or loss from a non-monetary item is carried at shareholders' equity, the relevant exchange rate difference is also carried at equity. Conversely, when a gain or loss is recognised in the income statement, the associated exchange rate difference is also recognised in the income statement.

Own shares

Shares issued and repurchased are recorded as a direct reduction of shareholders' equity. No profit or loss resulting from the purchase, sale, issue or cancellation of said instruments is recorded in the income statement. Any amount paid or received for said instruments is recorded directly under shareholders' equity.
Gains and losses arising from their subsequent sale are recognised as changes in shareholders' equity.

Securitisations

All the existing securitisation transactions were carried out after 1 January 2004.
The loans sold are not derecognised from the financial statements if a substantial amount of risks and benefits is still retained, although formally they have been sold without recourse to a special purpose vehicle. This may occur, for example, when the bank subscribes tranches of Junior notes or similar exposures, as in this case it shall bear the risk of the initial losses, and likewise it shall benefit from the return on the transaction.
Similar representation criteria, based on the prevalence of substance over form, are applied in recognising accruals.

A.3 - Disclosure on transfers between financial asset portfolios

A.3.1 Reclassified financial assets: change in the business model, book value and interest income

A.3.2 Reclassified financial assets: change in the business model, fair value and effects on comprehensive income

A.3.3 Reclassified financial assets: change in the business model and effective interest rate

During the year, there were no transfers of securities among accounting portfolios.

A.4 - Information on fair value

In December 2012, the European Commission approved, by means of EU Regulation No. 1255/2012, the new IFRS 13 standard "Fair Value Measurement", in force as from 1 January 2013.
IFRS 13 defines fair value as: "the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators on the measurement date".

In determining the fair value, IFRS 13 provides a hierarchy of techniques to determine this value in order to maximise the criteria of reliability and verifiability (IFRS 13 par. 72).
The concept of Fair Value Hierarchy (hereinafter also "FVH") provides for the classification of the fair value measurement based on three different levels (Level 1, Level 2 and Level 3) in descending order of observability of the inputs used to estimate the fair value.

FVH provides for the following levels:
1. Quoted prices taken from active markets (Level 1): the fair value derives from quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date (IFRS 13 par. 76).
An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis (IFRS 13 Appendix A).
2. Measurement methods based on observable market parameters (Level 2): the fair value is determined from inputs that are observable for the asset or liability, either directly or indirectly (IFRS 13 par. 81).
Level 2 inputs include (IFRS 13 par. 82):
- quoted prices in active markets for identical assets or liabilities;
- quoted prices for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable (for example: interest rates, yield curves, volatility etc.);
- input from or corroborated by observable market data.

3. Measurement methods based on unobservable market parameters (Level 3): the fair value is a level 3 if the inputs used in the valuation techniques of the fair value are unobservable on the market (IFRS 13 par. 86).
When using level 3 inputs, it must be considered that the aim of the measurement is to determine an exit price (transfer price) to the market participant holding the financial instrument. Level 3 inputs must reflect the assumptions of the Bank, on market participant assumptions, in attributing a price to the instrument (IFRS 13 par. 87).

Level 3 inputs are developed based on the best information available on the basis of inside information to the Bank.

As a result, the information inside the Bank must be correct if there are evidences, without excessive costs or efforts, that the market participants will use different assumptions (IFRS 13 par. 89).
The Fair Value Hierarchy gives the highest priority to the use of Level 1 inputs and the lowest priority to Level 3 inputs (IFRS 13 par. 72). In general, if the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement, as described in IFRS 13 par. 73.
A fair value measurement, developed using the technique of the present value, could be classified in level 2 or 3 depending on the significant inputs for the entire measurement and the level of these inputs (IFRS 13 par. 74).
The assessment as to the significance of the input, which determines the classification in level 2 rather than level 3, requires the expression of a judgment by the evaluator, which takes into account specific factors of the asset or liability.

For the financial instruments measured at fair value in the financial statements, the Bank uses a "Fair Value Policy" that gives the highest priority to quoted prices in active markets and the lowest priority to the use of unobservable inputs, in that they are more discretionary, in line with the fair value hierarchy shown above.
More specifically, this policy defines:
- the rules for identifying the market data, the selection/hierarchy of information sources and price configurations required for enhancing the financial instruments on active markets and classified at level 1 of the fair value hierarchy (“Mark to Market Policy”);
- the valuation techniques and the related input parameters in all cases where it is not possible to adopt the Mark to Market Policy ("Mark to Model Policy" for level 2 or 3 of the hierarchy).

Mark to Market Policy
To determine fair value, the Bank uses information based on market data, any time it is available, obtained from independent sources, in that considered to be the best evidence of fair value. In this case, the fair value is the market price of the same measured instrument, meaning without changes in or recomposition of the instrument itself, which can be taken from the listings expressed by an active market (and classified in level 1 of the fair value hierarchy). A market is considered active when the transactions occur with sufficient frequency and volume to provide useful information for determining the price on an ongoing basis (IFRS 13 Appendix A).
The following are generally considered active markets:
- regulated securities and derivative markets, with the exception of the Luxembourg stock market;
- certain OTC electronic trading networks, when given circumstances are in place based on the presence of a certain number of contributors with executable offers, characterised by bid-ask spreads – i.e., the difference between the price a seller is offering for a security (ask price) and the price a buyer is willing to pay (bid price) – falling within a given tolerance threshold;

- the secondary market for UCIT units, expressed by the official NAV (Net Asset Value), based on which the issuing asset management company guarantees to settle the units in a short time. In particular, these are open-end harmonised UCIT funds, characterised by type of investment and high levels of transparency and liquidity

Mark to Model Policy
When the Mark to Market Policy is not applicable because there are no prices directly observable on active markets, it is necessary to use valuation techniques that maximise the use of information available on the market, based on the following measurement approaches: recent transactions, transactions in similar instruments, methods of asset valuation, discounting of future cash flows.

In detail:

- debt securities are measured by discounting expected cash flows, suitably adjusted to account for issuer risk;
- unlisted equity securities are measured by referring to direct transactions of the same security or similar securities observed over a suitable time frame as compared to the valuation date, using the comparably company market multiples method, and subordinately using financial, income and equity valuation methods;
- investments in UCITs, other than those harmonised open-end, are measured on the basis of the NAVs made available by the fund administrator or by the management company. These investments usually include private equity funds, real estate funds and hedge funds.

A.4.1 Levels of fair value 2 and 3: valuation techniques and inputs used

In the absence of prices listed on active markets, the financial instruments must be classified in levels 2 or 3.

Classification in level 2 rather the Level 3 is determined on the basis of the possibility to observe on the market significant inputs used for the purpose of determining the fair value. A financial instrument must be fully classified in a single level; therefore, if the inputs used to measure fair value are categorised into different levels, the fair value measurement is categorised in its entirety in the level of the lowest level input if it is significant to the entire measurement.
If the weight of the unobservable data is prevalent with respect to the overall measurement, the level assigned is "3".

Fair value determined using Level 2 inputs
The following types of investments are normally considered level 2:
- unlisted equity securities on active markets, measured:

- based on the prices of recent transactions
- by means of the multiple valuation techniques, referring to a selected sample of comparable companies with respect to the subject-matter of valuation
- assuming price indications provided by the issuer possibly adjusted to take into account the counterpart and/or liquidity risk (for example: the price resolved by the Board of

Directors/Shareholders' meeting for the shares of unlisted industrial co-operative banks, the value of the holding communicated by the management company for closed-end funds reserved for institutional investors, the redemption value determined in compliance with the issue regulations for insurance agreements)

- debt securities, not listed on active markets, for which the inputs, including the credit spreads, are taken from market sources (for example, interest rates or yield curves observable at commonly quoted intervals, implicit volatility and credit spreads);
- funds characterised by significant levels of transparency and liquidity, measured on the basis of NAVs provided by the management company/fund administrator, published on a weekly and/or monthly basis.

Fair value determined on the basis of level 3 input

The following financial instruments are generally considered Level 3:

- hedge funds characterised by significant levels of illiquidity and for which it is believed that the valuation process of the fund significantly requires a number of assumptions and estimates. The fair value measurement is carried based on the NAV, adjusted if necessary to account for the fund's diminished liquidity, i.e., the time span between the date of the request for redemption and that of the actual redemption, as well as for possible commissions for exiting from the investment;
- real estate funds measured based on the latest available NAV;
- illiquid share-based securities for which no recent transactions are observable or comparable, usually measured on the basis of the equity model;
- illiquid equity securities not traded on an active market, in relation to which the fair value cannot be determined to a reliable extent according to the most common methods (in the fist place, the discounted cash flow analysis) stated at cost, adjusted to take account of any significant decreases in value;
- debt securities characterised by complex financial structures for which sources not publicly available are generally used. These are non-binding prices and also not corroborated by market evidence;
- debt securities issued by entities in financial distress for which the management must use its judgement in defining the "recovery rate", since there is no significant prices observable on the market.

A.4.2 Processes and sensitivity of measurements

The measurement methods indicated above are periodically implemented to take into account the change in the observable elements (e.g. rates, market prices) and any significant change in the credit and market risk of the financial assets measured that requires a change to the measurement technique.

A.4.3 Fair value level

The Bank classifies the measurements at fair value of the financial assets and liabilities on the basis of a level hierarchy that reflects the significance of the inputs used in the measurements, whose criteria has been stated previously.

A.4.4 Other information

As part of the financial assets and liabilities, the IAS standards also include loans and receivables with banks and customers and liabilities with banks and customers or represented by securities.
In case of bonds and government securities, whatever the accounting portfolio and the FV hierarchy, the objective evidence of impairment is recorded when there is insolvency in the payment of principals and interests, there are significant delays in the payment of the principal/interest or there is a granting of moratoria and at the same time renegotiations at rates lower than those paid by the market.
With regard to medium/long-tern debt, represented by securities and for which application of the fair value options was opted for, the fair value is determined discounting back the residual contractual flows using the "zero coupon" rate curve obtained, via the bootstrapping method, from the curve of the market rates.
With regard to medium/long-term debt represented by securities valued at amortised cost and subject to hedging for the rate risk, the book value is adjusted due to the hedging of the fair value attributable to the risk hedged discounting back the related flows.
With regard to derivative contracts traded on regulated markets, the market price on the last listing day of the period is adopted as fair value.
With regard to over the counter derivative contracts: the market value as at the reference date is adopted as fair value, determined according to the following methods in relation to the type of contract:

- for contracts on interest rates: the market value is represented by the so-called "replacement cost", determined by means of the discounting back of the differences, to the envisaged settlement dates, between the flows calculated at the contract rates and the estimated flows calculated at market rates, objectively determined, current at year end by equal residual maturity;
- for option contracts on securities and other instruments: the market value is determined making reference to recognised pricing models.

Quantitative information

A.4.5 Fair value level

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

Financial assets/liabilities at fair value	Total 31/12/2020			Total 31/12/2019		
	L 1	L 2	L 3	L 1	L 2	L 3
1. Financial assets measured at fair value through profit or loss	57,939	2,519	153,699	24,434	2,346	204,592
a) Financial assets held for trading	771	88	-	338	10	-
b) Financial assets designated at fair value	-	-	11,932	-	-	11,774
c) Other financial assets mandatorily measured at fair value	57,168	2,431	141,767	24,096	2,336	192,818
2. Financial assets measured at fair value through other comprehensive income	540,299	21,113	7,128	384,434	25,113	2,228
3. Hedging derivatives	-	-	-	-	-	-
4. Tangible assets	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**598,238**	**23,632**	**160,827**	**408,868**	**27,459**	**206,820**
1. Financial liabilities held for trading	-	51	-	-	17	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**51**	**-**	**-**	**17**	**-**

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

In FV Level 2 of "Financial assets measured at FV through profit or loss mandatorily measured at fair value", there are UCITS with the characteristics to be recorded in this level.
FV Level 2 of "Financial assets measured at FVOCI" includes Arca S.g.r. shares, totalling Euro 6,083 thousand; during the first half of the year, the bank purchased 126,081 shares at a unit price of Euro 6.90, the price used to value the shareholding. Level 2 also includes the equity investment in the Bank of Italy, amounting to 0.20% of the share capital and recorded in our financial statements for Euro 15 million; over the last few months, other financial intermediaries have continued to sell their holdings in the Bank of Italy at the same price as our purchase.

FV Level 3 of the portfolio "Financial assets measured at FV through profit or loss mandatorily measured at fair value", for an amount of Euro 141,767 thousand, includes the securities listed below:

- bonds issued by vehicles for the purchase of loans to the public administration and subscribed by the bank; in particular, these are securities issued by the special purpose vehicle ATLAS SPV (Euro 9,148 thousand) and the vehicle Valsabbina Investimenti (Euro 67,624 thousand). The value of these securities represents, in substance, the value attributed to the underlying receivables, receivables represented in the financial statements of the special purpose vehicles; the securities are included in this portfolio due to the failure to pass the SPPI test for lack of contractual flows of certain interest;

- "Fondo Efesto" UCITS unit was created from the sale of a portfolio of non-performing loans classified as unlikely to pay, which took place during the year and is described in greater detail in the Report on Operations. Since the sale was completed in December, the securities are recorded in the financial statements at their book price;
- UCITS unit of a single non-significant amount totalling Euro 8,486 thousand; there are measurements/NAVs or periodic transactions for these UCITS, but since they have as underlyings partially non-liquid assets, they are recorded in FV Level 3;
- units of real estate mutual funds of Euro 41.6 million on the basis of price indications provided by the issuer (NAV as at 30 June 2020);
- shares held in Cedacri S.p.A. of Euro 3,903 thousand, shares measured using the criterion of the last fair value recorded in the financial statements;
- other bonds and equity securities for a non-significant amount.

The FV level 3 of the portfolio "Financial assets measured at FV through other comprehensive income" includes - for an amount equal to approximately Euro 2 million - the interest held in Satispay, measured in accordance with the internal FV policy at a value equal to the purchase price, as well as the equity investment in the company Vivibanca for an amount of Euro 4.9 million. A valuation of this holding was carried out by a third party expert, which confirmed the purchase price paid by the bank and the median value. This level of FV was also attributed to other shares, for a total amount of Euro 228 thousand and with a non-significant amount.

The item “Financial assets measured at FV through profit or loss designated at fair value” includes three insurance policies.

Changes in securities classified in level 3 are described, using a breakdown by accounting portfolio, in table A.4.5.2; for securities included in the portfolio of "Other financial assets mandatorily measured at Fair Value", the analytical table also follows.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which c) other financial assets mandatorily measured at FV				
1. Opening balances	**204,592**	**-**	**11,774**	**192,818**	**2,228**	**-**	**-**	**-**
2. Increases	**52,166**	**213**	**174**	**51,779**	**4,900**	**-**	**-**	**-**
2.1 Purchases	51,934	213	-	51,721	-	-	-	-
2.2 Gains recognised in:	232	-	174	58	-	-	-	-
2.2.1 Income statement	232	-	174	58	-	-	-	-
- of which: Capital gains	232	-	174	58	-	-	-	-
2.2.2 Shareholders' equity	-	-	-	-	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	4,900	-	-	-
2.4 Other increases	-	-	-	-	-	-	-	-
3. Decreases	**103,059**	**213**	**16**	**102,830**	**-**	**-**	**-**	**-**
3.1 Sales	195	195	-	-	-	-	-	-
3.2 Redemptions	101,389	-	-	101,389	-	-	-	-
3.3 Losses recognised in:	1,457	-	16	1,441	-	-	-	-
3.3.1 Income statement	1,457	-	16	1,441	-	-	-	-
- of which capital losses	1,457	-	16	1,441	-	-	-	-
3.3.2 Shareholders' equity	-	-	-	-	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	18	18	-	-	-	-	-	-
4. Closing balances	**153,699**	**-**	**11,932**	**141,767**	**7,128**	**-**	**-**	**-**

	Breakdown of financial assets measured at fair value on a recurring basis (Level 3) – Portfolio of Other financial assets mandatorily measured at Fair Value through profit or loss													TOTAL
	Bonds			Shares		Mutual funds								
	VALSABBINA PA	ATLAS SPV	OTHER BONDS	CEDACRI	F.I.T.D. VOLUNTARY SCHEME	EFESTO FUND	OTHER ON-REAL ESTATE FUNDS	ASSET BANCARI I	ASSET BANCARI IV	ASSET BANCARI V	ASSET BANCARI VI	FININT FENICE	NAMIRA DISTR ASS	
1. Opening balances	**129,961**	**9,677**	**168**	**3,903**	**43**	**-**	**6,087**	**683**	**6,022**	**906**	**10,117**	**19,540**	**5,711**	**192,818**
2. Increases	**23,494**	**14,861**	**43**	**-**	**-**	**10,920**	**2,461**	**-**	**-**	**-**	**-**	**-**	**-**	**51,779**
2.1 Purchases	23,494	14,861	43	-	-	10,920	2,403	-	-	-	-	-	-	51,721
2.2 Gains recognised in:	-	-	-	-	-	-	58	-	-	-	-	-	-	58
2.2.1 Income statement	-	-	-	-	-	-	58	-	-	-	-	-	-	58
-of which: Capital gains	-	-	-	-	-	-	58	-	-	-	-	-	-	58
2.2.2 Shareholders’ equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Decreases	**85,831**	**15,390**	**168**	**-**	**17**	**-**	**62**	**29**	**443**	**13**	**319**	**468**	**90**	**102,830**
3.1 Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.2 Redemptions	85,831	15,390	168	-	-	-	-	-	-	-	-	-	-	101,389
3.3 Losses recognised in:	-	-	-	-	17	-	62	29	443	13	319	468	90	1,441
3.3.1 Income statement	-	-	-	-	17	-	62	29	443	13	319	468	90	1,441
-of which Capital losses	-	-	-	-	17	-	62	29	443	13	319	468	90	1,441
3.3.2 Shareholders’ equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-	-	-	-	-	-	-	-	
3.5 Other decreases	-	-	-	-	-	-	-	-	-	-	-	-	-	
4. Closing balances	**67,624**	**9,148**	**43**	**3,903**	**26**	**10,920**	**8,486**	**654**	**5,579**	**893**	**9,798**	**19,072**	**5,621**	**141,767**

A.4.5.3 Annual changes of financial liabilities at fair value on a recurring basis (level 3)

The Bank did not issue financial liabilities at fair value.

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2020				31/12/2019			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	5,008,755	1,347,282	-	3,896,869	4,330,721	955,190	-	3,511,554
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**5,008,755**	**1,347,282**	**-**	**3,896,869**	**4,330,721**	**955,190**	**-**	**3,511,554**
1. Financial liabilities measured at amortised cost	5,505,277	118,678	-	5,386,271	4,699,127	175,212	-	4,523,788
2. Liabilities associated with assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**5,505,277**	**118,678**	**-**	**5,386,271**	**4,699,127**	**175,212**	**-**	**4,523,788**

A.5 Information on the “day one profit/loss”

This section is not drawn up since there were no transactions of this type as at 31 December 2020.

Part B - Information on the Balance Sheet

Assets

Section 1 - Cash and cash equivalents - Item 10

The balances of currencies in legal tender and demand deposits with the Bank of Italy are reported in this section.

1.1 Cash and cash equivalents: breakdown

Item/Amounts	Total 31/12/2020	Total 31/12/2019
a) Cash	16,851	19,017
b) Demand deposits with Central Banks	-	-
Total	**16,851**	**19,017**

The item "Cash" includes the balances of coins and banknotes at the branch accounts, cash point machines and the centralised account. Foreign banknotes amount to Euro 385 thousand. At year end, there were no demand deposits with the Bank of Italy. The Compulsory Reserve is recorded in item "40 Loans and receivables with banks".

Section 2 - Financial assets measured at fair value through profit or loss - Item 20

This item can include:

- Debt instruments
  - that failed the SPPI test;
  - that failed the benchmark test where required.
- Equity instruments
  - that are held for trading (business model Others).
- All instruments purchased for trading only.
- Instruments designated at fair value: on initial recognition, an entity may irrevocably designate the financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an inconsistency in measurement or recognition (sometimes referred to as an «accounting asymmetry») that would otherwise result from measuring assets or liabilities or recognising related gains and losses on different bases.

The trading book is measured at fair value.

The term "level", in the heading of the various columns of the tables shown below, represents the different method of measurement of the financial assets with the use for level 1 of market values, for level 2 of different external sources either direct (prices) or indirect (derived from prices), and for level 3 of internal measurements or the cost.
Complete disclosure on the fair value level is provided at the end of the accounting standards: "Information on fair value".

2.1 Financial assets held for trading: breakdown by type

Item/Amounts	Total 31/12/2020			Total 31/12/2019		
	L1	L2	L3	L1	L2	L3
A On-balance sheet assets						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	295	-	-	-	-	-
3. UCIT units	123	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**418**	**-**	**-**	**-**	**-**	**-**
B Derivative instruments						
1. Financial derivatives	353	88	-	338	10	-
1.1 trading	353	88	-	338	10	-
1.2 related to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 related to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**353**	**88**	**-**	**338**	**10**	**-**
Total (A+B)	**771**	**88**	**-**	**338**	**10**	**-**

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

Financial assets for trading "derivative instruments" are made up of:
- with regard to level 1, Euro 353 thousand from warrants listed on ordinary stock markets;
- with regard to level 2, Euro 88 thousand in foreign currency forward transactions, offset by the liability item 20 "Financial liabilities held for trading". The book amount (intrinsic value) is the expression of a notional value of the transactions of Euro 2,625 thousand.

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparties

Item/Amounts	Total 31/12/2020	Total 31/12/2019
A. On-balance sheet assets	**418**	
1. Debt securities	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	**295**	-
a) Banks	74	-
b) Other financial companies	-	-
of which insurance companies	-	-
c) Non-financial companies	221	-
d) Other issuers	-	-
3. UCIT units	**123**	-
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	**418**	-
B. Derivatives	**441**	**348**
a) Central counterparties	-	-
b) Other	441	348
Total B	**441**	**348**
Total (A+B)	**859**	**348**

2.3 Financial liabilities designated at fair value: breakdown by type

Item/Amounts	Total 31/12/2020			Total 31/12/2019		
	L1	**L 2**	**L 3**	**L1**	**L 2**	**L 3**
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Loans	-	-	**11,932**	-	-	**11,774**
2.1 Structured	-	-	-	-	-	-
2.2 Other	-	-	11,932	-	-	11,774
Total	-	-	**11,932**	-	-	**11,774**

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

Financial assets designated at fair value consist of three policies issued by leading insurance companies.

2.4 Financial assets designated at fair value: breakdown by debtor/issuer

Item/Amounts	Total 31/12/2020	Total 31/12/2019
1. **Debt securities**	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. **Loans**	**11,932**	**11,774**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	11,932	11,774
of which: insurance companies	11,932	11,774
e) Non-financial companies	-	-
f) Households	-	-
Total	**11,932**	**11,774**

2.5 Other financial assets mandatorily measured at fair value: breakdown by type

Item/Amounts	Total 31/12/2020			Total 31/12/2019		
	L1	L 2	L 3	L1	L 2	L 3
1. Debt securities	**13,202**	**-**	**76,815**	**4,369**	**-**	**139,805**
1.1 Structured securities	1,653	-		1,014	-	-
1.2 Other debt securities	11,549	-	76,815	3,355	-	139,805
2. Equity securities	**6,164**	**-**	**3,930**	**4,707**	**-**	**3,946**
3. UCIT units	**37,802**	**2,431**	**61,022**	**15,020**	**2,335**	**49,067**
4. Loans	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**57,168**	**2,431**	**141,767**	**24,096**	**2,335**	**192,818**

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

The portfolio of other financial assets mandatorily measured at fair value includes:
- government securities and bonds (banking book) not intended for trading;
- units of mutual investment funds (UCIT);
- equity securities including interests held for long-term investment.

For the contents of the portfolio, reference should be made to the "Report on Operations".

2.6 Other financial assets mandatorily measured at fair value: breakdown by debtor/issuer

Item/Amounts	Total 31/12/2020	Total 31/12/2019
1. Equity securities	**10,094**	**8,653**
of which: banks	278	504
of which: other financial companies	568	149
of which: non-financial companies	9,248	8,000
2. Debt securities	**90,017**	**144,174**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	1,926	507
d) Other financial companies	82,407	140,513
of which: insurance companies	111	105
e) Non-financial companies	5,684	3,154
3. UCIT units	**101,255**	**66,422**
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**201,366**	**219,249**

Section 3 – Financial assets measured at fair value through other comprehensive income - Item 30

This section is intended to recognise financial assets measured at fair value through other comprehensive income.

This portfolio can include:

- Debt instruments:
  - that passed the SPPI test;
  - that passed the benchmark test where required;
  - that are held to collect cash flows and for sale (HTCS business model).
- Equity securities for which the appropriate option has been exercised.

This is a portfolio at amortised cost measured at fair value with recycling (a transfer from the shareholders' equity reserve to the income statement is envisaged for debt securities against the sale of the securities recorded therein); fair value measurements are not recognised in the income statement, but in shareholders' equity reserve.

Non-trading equity instruments can also be included in this portfolio with the special feature that in these cases only dividends can be recognised in the income statement, while any income from sale and fair value measurements must be recognised in shareholders' equity, in income-related reserved, without any recycling in the income statement in the event of sale. The reserve thus formed is never discharged.
Finally, it is specified that equity instruments initially classified in the FVOCI portfolio can no longer be moved to another portfolio.

The term "level", in the heading of the various columns of the tables shown below, represents the different method of measurement of the financial assets with the use for level 1 of market values, for level 2 of different external sources either direct (prices) or indirect (derived from prices), and for level 3 of internal measurements or the cost.
Complete disclosure on the fair value level is provided at the end of the accounting standards: "Information on fair value".

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by type

Item/Amounts	Total 31/12/2020			Total 31/12/2019		
	L1	L 2	L 3	L1	L 2	L 3
1. Debt securities	**532,509**	-	-	**383,885**	-	-
1.1 Structured securities	3,618	-	-	3,064	-	-
1.2 Other debt securities	528,891	-	-	380,821	-	-
2. Equity securities	**7,790**	**21,112**	**7,128**	**549**	**25,113**	**2,228**
3. Loans	-	-	-	-	-	-
Total	**540,299**	**21,112**	**7,128**	**384,434**	**25,113**	**2,228**

Key:

L1 = Level 1

L2 = Level 2
L3 = Level 3

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

Item/Amounts	Total 31/12/2020	Total 31/12/2019
1. Debt securities	**532,509**	**383,885**
a) Central Banks	197	-
b) Public administrations	420,209	276,726
c) Banks	34,405	34,559
d) Other financial companies	21,685	25,088
of which: insurance companies	-	-
e) Non-financial companies	56,013	47,512
2. Equity securities	**36,030**	**27,890**
a) Banks	21,558	20,450
b) Other issuers:	14,472	7,440
- other financial companies	7,355	5,241
of which: insurance companies	1,215	-
- non-financial companies	7,117	2,199
- other	-	-
3. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**568,539**	**411,775**

For the contents of the portfolio, reference should be made to the "Report on Operations".

3.3 Financial assets measured at fair value through other comprehensive income: gross value and total impairment losses

	Gross value				Total impairment losses			Total partial write-offs(*)
	Stage 1	of which instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	523,896	523,896	9,179	996	(332)	(310)	(921)	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2020	**523,896**	**523,896**	**9,179**	**996**	**(332)**	**(310)**	**(921)**	**-**
Total 31/12/2019	**380,345**	**378,355**	**3,931**	**-**	**(329)**	**(62)**	**-**	**-**
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-	-

(*) Value to be shown for information purposes

IFRS 9 introduces a new impairment model for debt instruments measured at amortised cost and fair value through shareholders' equity (FVOCI) based on the concept of expected loss instead of the current incurred loss, with the aim of recognising losses in the income statement more quickly. The standard envisages that, for the purposes of assessing creditworthiness, financial instruments must be allocated in three different stages:

stage 1**:** for exposures that have not been impaired, compared to the time of disbursement or purchase, in terms of credit quality or which imply a negligible credit risk at the time of disbursement or purchase;

stage 2**:** for exposures whose original credit quality has deteriorated significantly and whose credit risk is not negligible, although they cannot yet be classified as non performing;

stage 3: for exposures whose credit risk has increased to the extent that the instrument is considered non performing; this stage also includes defaulting financial instruments.

3.3a Loans measured at fair value through other comprehensive income subject to Covid-19 support measures: gross value and total impairment losses

As at 31 December 2020, there were no loans measured at fair value through other comprehensive income subject to Covid-19 support measures.

Section 4 - Financial assets measured at amortised cost - Item 40

This portfolio can include:

- Financial assets (debt securities and loans):
  - that passed the SPPI test;
  - that passed the benchmark test where required;
  - that are held to collect cash flows (HTC business model).

This is a portfolio at amortised cost not measured at fair value.

The term "level", in the heading of the various columns of the tables shown below, represents the different method of measurement of the financial assets with the use for level 1 of market values, for level 2 of different external sources either direct (prices) or indirect (derived from prices), and for level 3 of internal measurements or the cost.
Complete disclosure on the fair value level is provided at the end of the accounting standards: "Information on fair value".

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

	Total 31/12/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
Type of transaction/Amounts	**Stage 1 and 2**	**Stage 3**	**of which: acquired or originated impaired**	**L1**	**L2**	**L3**	**Stage 1 and 2**	**Stage 3**	**of which: acquired or originated impaired**	**L1**	**L2**	**L3**
A. Loans and Receivables with Central Banks	**100,887**	**-**	**-**	**-**	**-**	**100,887**	**41,296**	**-**	**-**	**-**	**-**	**41,296**
1. Time deposits		-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	100,887	-	-	-	-	-	41,296	-	-	-	-	-
3. Repurchase agreements		-	-	-	-	-	-	-	-	-	-	-
4. Other		-	-	-	-	-	-	-	-	-	-	-
B. Loans and receivables with banks	**43,222**	**-**	**-**	**-**	**-**	**43,227**	**104,760**	**-**	**-**	**-**	**-**	**104,760**
1. Loans	40,337	-	-	-	-	40,337	86,483	-	-	-	-	-
1.1 Current accounts and demand deposits	16,135	-	-	-	-	-	9,957	-	-	-	-	-
1.2. Time deposits	7,336	-	-	-	-	-	11,336	-	-	-	-	-
1.3. Other loans:	16,866	-	-	-	-	-	65,190	-	-	-	-	-
- Reverse repurchase greements		-	-	-	-	-	-	-	-	-	-	-
- Finance leases		-	-	-	-	-	-	-	-	-	-	-
- Other	16,866	-	-	-	-	-	65,190	-	-	-	-	-
2. Debt securities	**2,885**	**-**	**-**	**-**	**-**	**2,890**	**18,277**	**-**	**-**	**-**	**-**	**18,277**
2.1 Structured securities		-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	2,885	-	-	-	-	2,890	18,277	-	-	-	-	**18,277**
Total	**144,109**	**-**	**-**	**-**	**-**	**144,114**	**146,056**	**-**	**-**	**-**	**-**	**146,056**

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

Just the balance of the Compulsory reserve, amounting to Euro 100,887 thousand, is recorded under loans and receivables with Central banks. Loans and receivables with banks amounted to Euro 43.2 million, including, under debt securities, a bond loan of Euro 2.9 million subscribed by us and issued by a bank.

4.2 Financial assets measured at amortised cost: breakdown by type of loans and receivables with customers

	Total 31/12/2020						Total 31/12/2019					
	Book value			Fair value			Book value			Fair value		
Type of transaction/Amounts	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	L1	L2	L3
1. Loans	**3,274,966**	**139,717**	**5,433**	**-**	**-**	**3,627,437**	**2,959,693**	**176,610**	**5,759**	**-**	**-**	**3,280,024**
1.1. Current accounts	314,466	21,868	317	-	-	-	471,424	31,381	1,118	-	-	-
1.2. Reverse repurchase agreements	26,299	-	-	-	-	-	-	-	-	-	-	-
1.3. Mortgages	2,641,212	114,440	5,070	-	-	-	2,151,930	141,598	4,578	-	-	-
1.4. Credit cards, personal loans and salary-backed loans	150	76	2	-	-	-	222	78	2	-	-	-
1.5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
1.7. Other loans	292,839	3,333	44	-	-	-	336,117	3,553	61	-	-	-
2. Debt securities	**1,449,963**	**-**	**-**	**1,347,282**	**-**	**125,318**	**1,048,362**	**-**	**-**	**955,190**	**-**	**85,475**
2.1. Structured securities	2,277	-	-	503	-	1,784	2,169	-	-	-	-	2,173
2.2. Other debt securities	1,447,686	-	-	1,346,779	-	123,534	1,046,193	-	-	955,190	-	83,302
Total	**4,724,929**	**139,717**	**5,433**	**1,347,282**	**-**	**3,752,755**	**4,008,055**	**176,610**	**5,759**	**955,190**	**-**	**3,365,499**

Loans and receivables with customers are stated net of impairment.
Financial statement regulations envisage that loans and receivables with customers are stated in separate columns with distinction between first and second stage (performing) and third stage (non performing), on the basis of their technical form.
Non-performing loans include bad, unlikely to pay and past due impaired loans, as more fully illustrated in part E of these Explanatory Notes: Section 1 - Credit risk.

For the contents of the portfolio, reference should be made to the "Report on Operations".

4.3 Financial assets measures at amortised cost: breakdown by debtor/issuer of loans and receivables with customers

Type of transaction/Amounts	Total 31/12/2020			Total 31/12/2019		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired assets	Stage 1 and 2	Stage 3	of which: acquired or originated impaired assets
1. Debt securities	**1,449,963**	**-**	**-**	**1,048,362**	**-**	**-**
a) Public administrations	1,309,696	-	-	963,068	-	-
b) Other financial companies	134,032	-	-	79,632	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	6,235	-	-	5,662	-	-
2. Loans to:	**3,274,966**	**139,717**	**5,433**	**2,959,693**	**176,610**	**5,759**
a) Public administrations	16,996	-	-	17,736	-	-
b) Other financial companies	214,218	276	-	237,602	379	48
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	2,123,689	83,755	2,850	1,832,737	111,443	3,395
d) Households	920,063	55,686	2,583	871,618	64,788	2,316
Total	**4,724,929**	**139,717**	**5,433**	**4,008,055**	**176,610**	**5,759**

The distribution of loans and receivables by debtor/issuer is carried out using the classification criteria envisaged by the Bank of Italy.

4.4 Financial assets at amortised cost: gross value and total impairment losses

	Gross value				Total impairment losses			Total partial write-offs (*)
	Stage 1	of which instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	1,452,855	1,452,855	1,239	-	(1,216)	(30)	-	-
Loans	3,202,641	-	237,301	261,310	(14,582)	(9,170)	(121,593)	(11,638)
Total 31/12/2020	**4,655,496**	**1,452,855**	**238,540**	**261,310**	**(15,798)**	**(9,200)**	**(121,593)**	**(11,638)**
Total 31/12/2019	**3,943,248**	**1,052,582**	**235,991**	**303,446**	**(14,908)**	**(10,221)**	**(126,836)**	**(11,770)**
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-	-

(*) Value to be shown for information purposes

4.4a Loans measured at amortised cost subject to Covid-19 support measures: gross value and total impairment losses

This table provides a breakdown of the gross value and total impairment losses by risk stages, as well as information on the total partial write-offs for loans, which are subject to "moratoria" or other measures of, or constitute new liquidity provided through public guarantee mechanisms, loans outstanding at 31 December 2020 for which the forbearance measures or disbursements were implemented in the Covid-19 period.

	Gross value				Total impairment losses			Total partial write-offs(*)
	Stage 1	**of which instruments with low credit risk**	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	
1. GL-compliant forborne loans	555,665	-	62,600	5,320	(2,912)	(2,637)	(1,083)	-
2. Other forborne loans		-	6,522	560		(204)	(92)	-
3. New loans	482,953	-	9,701	269	(1,045)	(157)	(57)	-
Total 31/12/2020	**1,038,618**	**-**	**78,823**	**6,149**	**(3,957)**	**(2,998)**	**(1,232)**	**-**
Total 31/12/2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Section 5 - Hedging derivatives - Item 50

This section is not drawn up because as at 31 December 2020 the Bank did not have any transactions of this type, as in the previous year.

Section 6 - Value adjustment to financial assets subject to macro-hedging - Item 60

This section is not drawn up because as at 31 December 2020 the Bank did not have any transactions of this type, as in the previous year.

Section 7 – Equity investments - Item 70

This section includes the equity investments in subsidiary companies, jointly controlled companies and equity investments in companies subject to significant influence.

7.1 Equity investments: information on investment relationships

Company name	Registered Office	Operating office	% equity investment	% voting rights available
A. Fully-controlled companies				
1. Valsabbina Real Estate S.R.L.	Brescia	Brescia	100.00%	-
B. Jointly-controlled companies	-	-	-	-
C. Companies subject to significant influence	-	-	-	-
1. Polis Fondi Immobiliare di Banche popolari SGR p.A.	Milan	Milan	9.80%	-
2.Integrae SIM	Milan	Milan	26.30%	-

7.2 Significant equity investments: book value, fair value and dividends received

Company name	Book value	Fair value	Dividends received
A. Fully-controlled companies	**137**		
1. Valsabbina Real Estate S.R.L.	137	-	-
B. Jointly-controlled companies	-	-	-
C. Companies subject to significant influence	-	-	-
Total	**137**	-	-

Valsabbina Real Estate is fully owned. the consolidated financial statements are not drawn up due to the scant significance and relevance of the balances of the subsidiary with respect to those of the parent company, in application of the "Framework for the Preparation and Presentation of financial statements", which represents the conceptual model underlying the IAS standards.
The financial statement total of the subsidiary (Euro 1,947 thousand) is lower than the limits envisaged by the Supervisory instructions for the consolidated indications (balance sheet assets less than Euro 10 million).
The reporting formats of the Company are enclosed with the financial statements of the Bank.

7.3 Significant equity investments: accounting information

Company name	A. Fully-controlled companies	Valsabbina Real Estate s.r.l	B. Jointly-controlled companies	C. Companies subject to significant influence
Comprehensive income (3) = (1) + (2)	**(511)**	(511)	-	-
Other income components net of taxation (2)	-	-	-	-
Profit (loss) for the year (1)	**(511)**	(511)	-	-
Profit (loss) from discontinued operations net of taxation	-	-	-	-
Profit (Loss) from current operations net of taxation	**(511)**	(511)	-	-
Profit (Loss) from current operations gross of taxation	**(645)**	(645)	-	-
Depreciation/amortisation and net impairment losses on tangible and intangible assets	-	-	-	-
Net interest income	-	-	-	-
Total revenues	**671**	671	-	-
Non-financial liabilities	**211**	211	-	-
Financial liabilities	**1,609**	1,609	-	-
Non-financial assets	**1,947**	1,947	-	-
Financial assets	-	-	-	-
Cash and cash equivalents	-	-	-	-

The figures indicated in the table are related to the financial statements as at 31 December 2020; the shareholders' equity of the subsidiary, inclusive of the profit (loss) for the year, amounts to Euro 127 thousand.

7.4 Non-significant equity investments: accounting information

Comprehensive income (3) = (1) + (2)	-	-		193	530
Other income components net of taxation (2)	-	-		(37)	(8)
Profit (loss) for the year (1)	-	-		230	538
Profit (loss) from discontinued operations net of taxation	-	-		-	-
Profit (Loss) from current operations net of taxation	-	-		230	538
Total revenues	-	-		6,961	3,564
Total liabilities	-	-		3,961	2,797
Total assets	-	-		11,534	4,973
Book value of equity investments	-	-		1,014	500
Company name	**A. Fully-controlled companies**	**B. Jointly-controlled companies**	**C. Companies subject to significant influence**	Polis Fondi Immobiliare S.G.R	Integrae SIM

The row of Companies subject to significant influence includes the equity investment held by the Bank in the company Polis S.G.R. and the new equity investment of Euro 500 thousand, result of an investment in the company Integrae SIM.
The first one was acquired during 2013 (50,960 Polis Fondi Immobiliare S.G.R. shares, equal to 9.80% of the share capital), for Euro 1,205 thousand with the specific aim of taking part in the management of the closed-end real estate funds that have been assigned properties by the subsidiary Valsabbina Real Estate and by virtue of the shareholders' agreements, the holding was classified as an equity investment subject to significant influence. While the equity investment in Integrae SIM, of which 26.30% is held, was acquired with a logic of synergic exploitation of the activities carried out by the parties..
The figures shown refer to the financial statements as at 31 December 2019.

7.5 Equity investments: annual changes

	Total 31/12/2020	Total 31/12/2019
A. Opening balances	**1,211**	**1,251**
B. Increases	**950**	**480**
B.1 Purchases	500	-
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	450	480
C. Decreases	**510**	**520**
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Write-downs	510	520
C.4 Other changes	-	-
D. Closing balances	**1,651**	**1,211**
E. Total revaluations	-	-
F. Total impairment losses	**510**	**520**

During the year, Banca Valsabbina paid over to the investee company Real Estate Euro 450 thousand to cover losses; at the same time, it took steps to write down the investment of Euro 510 thousand recognised in the financial statements. Moreover, "purchases" include the new investment in the associate Integrae SIM for Euro 500 thousand.

7.6 Commitments referred to equity investments in jointly controlled companies

There are no equity investments in jointly controlled companies.

7.7 Commitments referred to equity investments in companies subject to significant influence

As things stand, there are no commitments with the associates and subsidiaries.

7.8 Significant restrictions

There are no cases of significant restrictions as indicated in section 22 b) and c) of IFRS 12.

7.9 Other information

A credit facility of Euro 15 million was made available to Valsabbina Real Estate; this facility was used at year end by Euro 1,582 thousand for possible transactions falling within the cases for which the company was established.
For further information on the subsidiary's activities, please refer to the paragraph in the "Directors' Report on Operations".

Section 8 – Tangible assets - Item 80

This item includes the tangible assets (properties, plant, machinery, furniture and other tangible assets used in operations) owned or acquired under finance lease.

8.1 Tangible assets used in operations: breakdown of assets measured at cost

Asset/Amounts	Total 31/12/2020	Total 31/12/2019
1 Owned assets	**37,509**	**33,071**
a) land	4,255	3,378
b) buildings	28,647	25,845
c) furniture	1,472	996
d) electronic systems	393	264
e) other	2,742	2,588
2 Rights of use acquired through the lease	**5,495**	**5,736**
a) land	-	-
b) buildings	5,495	5,736
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**43,004**	**38,807**
of which: obtained through the realisation of guarantees received	-	-

Owned properties have been used almost entirely during the year for banking activities.

8.2 Investment property: breakdown of assets measured at cost
There are no assets held for investment purposes.

8.3 Tangible assets used in operations: breakdown of revalued assets
There are no revalued assets used in operations.

8.4 Investment property: breakdown of assets measured at fair value
There is no investment property.

8.5 Inventories of tangible assets regulated by IAS 2: breakdown
There are no tangible assets regulated by IAS 2.

8.6 Tangible assets used in operations: changes during the year

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balances	**3,378**	**42,246**	**5,119**	**1,264**	**7,647**	**59,654**
A.1 Net total impairment		10,665	4,123	1,000	5,059	20,847
A.2 Net opening balances	**3,378**	**31,581**	**996**	**264**	**2,588**	**38,807**
B. **Increases:**	**937**	**6,035**	**908**	**321**	**1,146**	**9,347**
B.1 Purchases	937	6,035	908	321	1,086	9,287
B.2 Capitalised improvement expenditure	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 *Positive fair value changes*	-	-	-	-	-	-
recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other changes	-	-	-	-	60	60
C. **Decreases:**	**60**	**3,474**	**432**	**192**	**992**	**5,150**
C.1 Sales	60	245	-	1	33	339
C.2 Depreciations		2,696	414	191	959	4,260
C.3 Impairment	-	-	-	-	-	-
losses recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative *fair value changes*	-	-	-	-	-	-
recognised in	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other changes	-	533	18	-	-	551
D. Net closing balances	**4,255**	**34,142**	**1,472**	**393**	**2,742**	**43,004**
D.1 Net total impairment	-	13,034	4,533	1,191	5,804	24,561
D.2 Gross closing balances	**4,255**	**47,176**	**6,005**	**1,584**	**8,545**	**67,565**
E. Measured at cost	-	-	-	-	-	-

The item tangible fixed assets amounts to Euro 43,004 thousand, with an increase of Euro 4,197 thousand compared to the previous year, as the imbalance between purchases of Euro 9,287 thousand, depreciations of Euro 4,260 thousand, net disposals of Euro 339 thousand and other net changes of Euro 491 thousand.

Purchases and sales of buildings/land include the costs for the purchase of buildings to be used as administrative offices in Brescia, buildings to be used as a branch in Milan and buildings for other activities in Roè Volciano, as well as the sale of a building in Brescia previously used as a branch.
In the event of the purchase of properties, without indication in the deed of the separate value pertaining to the underlying land, steps are taken to assign this category 20% of the initial cost and the remaining 80% to the item property.
Other changes in buildings mainly include the effect of early termination of lease contracts, which are recorded under "rights of use" in accordance with IFRS 16.

The purchases recorded in the table columns called “furniture, electronic system and other assets” concern the purchase of furniture, plant, electronic machines for the office, alarm systems and other minor categories, both for the head offices and the branches.
The depreciation has been calculated on all the tangible assets, with the exclusion of land, in relation to their estimated useful life as indicated below:

- Properties 33 - 50 years;
- Furniture and furnishing 7 years;
- Vehicles 4 years;
- Armoured counters 5 years;
- Electronic systems 4 years;
- Sundry machinery and equipment 5 years;
- Assets with a gross value of less than Euro 516 are subject to 100% depreciation in the year of acquisition.

From 1 January 2019, as required by the EU Regulations, the accounting standard IFRS 16 "Leases", issued by the IASB and endorsed by the European Commission, was applied. The Standard replaced as from 1 January 2019 the previous Standard IAS 17 and the related interpretations, intervening on the definition of lease and overcoming the accounting dualism between finance lease and operating lease, introducing a single accounting model based on the recognition in the financial statements of an asset (Right of use) and Lease liabilities.
The reference values expressing the application of the standard for the current year are shown below in the reference section "Part M - Disclosure on leases".

8.7 Investment property: annual changes
There are no assets held for investment purposes and therefore steps have not been taken to draw up the related tables.

8.8 Inventories of tangible assets regulated by IAS 2: changes during the year
There are no tangible assets regulated by IAS 2.

8.9 Commitments to purchase tangible assets
There are no commitments to purchase tangible assets.

Section 9 – Intangible assets - Item 90

This section comprises the intangible assets as defined by IAS 38.

9.1 Intangible assets: breakdown by type of asset

Asset/Amounts	Total 31/12/2020		Total 31/12/2019	
	Definite duration	**Indefinite duration**	**Definite duration**	**Indefinite duration**
A.1 Goodwill	**-**	**8,458**	**-**	**8,458**
A.2 Other intangible assets	**979**	**-**	**810**	**-**
A.2.1 Assets measured at cost:	979	-	810	-
a) internally generated intangible assets	-	-	-	-
b) other assets	979	-	810	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**979**	**8,458**	**810**	**8,458**

Intangible assets with a definite duration refer for Euro 979 thousand to the costs incurred for the purchase of EDP programmes inclusive of those supplied with specific invoicing by our outsourcer; these costs are amortised each year on the basis of the useful life, as a rule 3 years. All the classes of intangible assets are measured at cost.

Intangible assets with an indefinite duration comprise:
- Euro 6,476 thousand for the goodwill relating to the acquisition of Credito Veronese;
- Euro 1,982 thousand for the residual goodwill, recorded for Euro 4,220 thousand with the incorporation of Cassa Rurale di Storo in 2000, less the amortisation of Euro 2,238 made between 2000 and 2004.

On the basis of the IAS international accounting standards, systematic amortisation is no longer applied, but it is necessary at least once a year to check whether the goodwill assigned to a specific CGU (Cash Generating Unit) has suffered an impairment loss (impairment test). Pursuant to IAS 36, an asset has undergone an impairment when its book value exceeds its recoverable amount understood as the higher between its fair value less selling costs and its value in use.

Over time, Banca Valsabbina followed a strategy of territorial development that included a programme of growth in neighbouring areas through the opening of new branches or through the acquisition of already existing and established structures. This context includes the purchase of Cassa Rurale di Storo merged in 2000, Credito Veronese (incorporated in 2012) and, subsequently, the branch of the 7 former Hypo Alpe Adria Bank branches.
As a result of the acquisitions of Cassa Rurale di Storo and Credito Veronese, goodwill and specific intangible assets emerged in the Bank's assets and must be tested for impairment in accordance with IAS 36.
Over the years, the process of integrating the branch networks acquired and incorporated into the Bank continued, revising and integrating the organisational and territorial structure; in this context, a model structured by geographical areas has been consolidated. Therefore, from a strategic, management and reporting point of view, the area referring to the former Cassa di Risparmio di Storo and the former Credito Veronese is no longer relevant, whereas the wider geographical areas into which the branches, once belonging to them, have merged are relevant.

For the reasons set out above, the geographical areas correspond, in general terms, to the Bank's Cash Generating Units (CGUs) and each of them constitutes the smallest group of activities generating independent cash inflows and, moreover, the minimum level at which internal planning and reporting processes are managed by the Bank.
In summary, the process of implementing the network with the branches acquired by the incorporation of Cassa Rurale di Storo and Credito Veronese, as well as the normal territorial expansion process, resulted in homogeneous areas characterised by a perimeter other than the one identifiable at the time of initial acquisition. The branches acquired with the Credito Veronese operation merged into the new "North East Area" which also includes some branches aggregated with the Bank following the Hypo Alpe Adria Bank S.p.A. merger.
The four branches acquired with Cassa Rurale di Storo merged into the "Valsabbia and Valtrompia Area".
These CGUs were defined in 2017 and the impairment test starting from that year was carried out with reference to these entities.

As mentioned above, the accounting standard suggests writing down goodwill when the net book value of the CGU is greater than the recoverable amount, where, in the definition of the recoverable amount, it was deemed to show preference for the estimate of the value in use with respect to the fair value. Due to its characteristics, the value in use is an evaluation method that is well suited to the characteristics of the banking sector, as well as being aligned with the practice that has developed in this field. Furthermore, the need to calculate both the value in use and the fair value ceases when one of the two is higher than the book value of the asset, given that this condition excludes that the same has undergone an impairment.

The value in use of the CGU was established by discounting back the forecast cash flows, which in the case of banking concerns correspond to the values of capital available after the capitalisation requirements laid down by sector regulations (Excess Capital Method or Dividend Discount Method - DDM) have been met.
The development of the DDM envisages the estimate of the projections of the available cash flows, the discounting back rate and the long-term growth rate (g); The cash flows available for the 2021-2025 period were estimated on the basis of the economic and financial projections prepared by the Management.
The discount rate was estimated as equal to the cost of the capital on the basis of the Capital Asset Pricing Model (CAPM) from which a rate of 7.34% emerges. The model expresses a linear relationship, under conditions of balance of the markets, between the return of an investment and its systematic risk. The return on an investment is calculated as the sum of the risk free rate and the premium for the risk assigned to it according to the following formula:
$Ke = rf + \beta \times (rm - rf)$ where:
• rf is the return of an asset with no risk (free risk rate);
• β is the volatility index of the investment;
• (rm - rf) is the premium for the risk.
The parameters used are:
- risk free rate: 1.14% (average value of the returns on 10-year Italian Government securities. The average value of the returns in a period of observation corresponding to twelve months);
- Beta: 1.09 expresses the correlation between the returns of an individual risk investment and the returns of the market portfolio. In this case, it is equal to the average Beta 2Y of a sample of listed Italian banks;
- premium at risk: 5.70% estimate of the market premium provided by the difference between the return of a diversified portfolio made up of all the risk investments available on the market and the return of a security lacking risk.

The growth rate (g) was 1.5%, essentially in line with the expected rate of inflation.
For the purpose of checking the measurement of the change in the values obtained with respect to the parameter used, subsequent sensitivity analyses were carried out, including an analysis developed considering changes in the "Ke" discount rate and the medium/long-term growth rate "g" of ±25 bps.

The North East Area CGU has an accounting goodwill of Euro 6.5 million; the asset was then tested for impairment. Using the economic and financial projections prepared by management and the parameters set out above, the estimated value in use for this CGU is Euro 47.5 million, compared to an operating capital - minimum shareholders' equity requirement - of Euro 31.6 million; therefore, the theoretical goodwill is Euro 15.9 million, higher than the book value of Euro 6.5 million of the recognised intangible assets.
The sensitivity analysis provided a range of estimates of the value of the goodwill attributable to the CGU ranging from Euro 13.2 million to Euro 19.1 million; therefore, also varying the parameters used, it is indicated that the book value of the intangible assets is confirmed.

The Valsabbia and Valtrompia CGU has an accounting goodwill of Euro 2 million; this goodwill is residual compared to the initial one of Euro 4.2 million, partially amortised; the estimated value in use was for this Area Euro 61.7 million compared to an operating capital - minimum shareholders' equity requirement - of Euro 33 million, to which corresponds a goodwill of Euro 28.7 million, therefore higher than the book value of the recorded intangible assets.
The sensitivity analysis provided a range of estimates of the value of the goodwill attributable to the CGU ranging from Euro 25.4 million to Euro 32.6 million; therefore, also varying the parameters used, it is indicated that the book value of the intangible assets is confirmed.

The current and future market environment is and will be significantly affected by the evolution of the Covid-19 pandemic. The main economic variables are constantly updated in the light, among other things, of decisions taken by national and international governing bodies according to the spread of the pandemic. Moreover, the first final data on the effects it has had on the economic system in the past months is starting to be released, important basic data for better forecasting future developments of the main macroeconomic parameters.
Thanks to the containment measures taken to prevent the uncontrolled spread of the virus, including the "lockdown", it was possible to limit the effects of the spread but not the negative effects on the economic system. To date, a possible way out of the economic crisis depends on the ability of individual countries to overcome the health emergency with a widespread vaccination campaign, leading towards a complete cancellation/relaxation of restrictive measures. Together with this, the significant resources envisaged at national and EU level should provide the support needed to relaunch the economy, laying the foundations for what can be described as a likely V-shaped recovery; however, there is still a great deal of uncertainty regarding the ability of the individual concrete measures adopted to reduce the permanent effects on the economic and social system caused by the health emergency.
The banking sector is one of those most affected by the health emergency, a sector that has been suffering for some time from a difficult recovery of stock market prices due to the difficulties related to the credit quality and the difficult recovery of the national economic system. In line with the indications coming from various Authorities and Bodies, economic-financial forecasts have been prepared for the sole purpose of measuring goodwill, which take into account a scenario of further worsening (worst case) with respect to those considered in the base scenario, forecasts that give rise to the numbers described above.
The worst-case scenario is based on a reduction in net interest income (10 bps in the years from 2021 to 2022 and 5 bps in the years from 2023 to 2024) and an increase in the cost of credit (80 bps in

2021, 50 bps in 2022 and 25 bps in the years from 2023 to 2024), while a gradual return to "base" conditions is expected in 2025.
If the worst-case scenario occurs, the sustainability of the values of the goodwill recorded is confirmed, both for the NordEst CGU and for the ValtrompiaValsabbia CGU.
Therefore, on the basis of the results of the analysis carried out, amounts representing impairment losses on intangible assets with an indefinite duration were not booked to the income statement.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Opening balances	**8,458**	-	-	**1,701**	-	**10,159**
A.1 Net total impairment	-	-	-	891	-	891
A.2 Net opening balances	**8,458**			**810**	-	**9,268**
B. Increases	-	-	-	**788**	-	**788**
B.1 Purchases	-	-	-	788	-	**788**
B.2 Increases in internally generated intangible assets	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Positive fair value changes:	-	-	-	-	-	-
- to shareholders' equity	-	-	-	-	-	-
- to income statement	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	**618**	-	**618**
C.1 Sales	-	-	-		-	
C.2 Impairment losses	-	-	-	618	-	**618**
- Amortisation	-	-	-	618	-	**618**
- Write-downs:	-	-	-	-	-	-
+ shareholders' equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative fair value changes:	-	-	-	-	-	-
- to shareholders' equity	-	-	-	-	-	-
- to income statement	-	-	-	-	-	-
C.4 Transfers to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other changes	-	-	-		-	
D. Net closing balances	**8,458**	-	-	**979**	-	**9,437**
D.1 Total net impairment losses	-	-	-	910	-	**910**
E. Gross closing balances	**8,458**	-	-	**1,889**	-	**10,347**
F. Measured at cost	-	-	-		-	-

Key
DEF: with definite life
INDEF: with indefinite life

9.3 Intangible assets: other information

With regard to intangible fixed assets (IAS 38, sections 122 and 124), it is hereby specified that:

- there are no intangible assets pledged as collateral for the Bank's liabilities;
- there are no commitments to purchase intangible assets;
- - there are no intangible assets acquired under financial or operating lease agreement or via government concession;
- there are no revalued intangible assets recorded at fair value.

Section 10 – Tax assets and tax liabilities - Asset item 100 and liability item 60

This section includes the tax assets (current and prepaid) and tax liabilities (current and deferred), without offsetting between the deferred tax assets and deferred tax liabilities, stated respectively in items 100 of the assets and 60 of the liabilities.

Deferred tax assets, for which balances and changes are shown in the tables below, are recognised on the basis of the probability of their future recovery. The tax rates in force for the year 2020 are also used for recognising prepaid and deferred taxes, rates of 27.50% for IRES (corporate income tax) (including the additional 3.50% introduced by Italian Legislative Decree 147/2015, effective from 1 January 2017) and 5.57% for IRAP (regional business tax).

The Bank operates under a tax consolidation system for IRES purposes in which the subsidiary Valsabbina Real Estate participates.

It is deemed useful to report immediately below, and in any case also in the section dedicated to "deferred tax assets", the most relevant regulatory changes for intermediaries in terms of direct taxes - introduced with the Stability Laws of the years 2019 and 2020 - which have had a particular impact in terms of tax deductibility in the 2018 and 2019 financial statements but which also have consequences in 2020 and following years.

Paragraph 1067 of 2019 Budget Law no. 145 envisaged that "*the income components deriving exclusively from the adoption of the model for the recognition of the provision to cover expected losses on receivables recorded in the financial statements at the time of first-time adoption of IFRS 9 were deductible from the corporate income tax base for 10% of their amount in the tax period of first-time adoption of IFRS 9 and for the remaining 90% on a straight-line basis in the subsequent nine tax periods*". In paragraph 1068 the same concept was transferred to the IRAP tax base. Therefore, the Bank, consistently with the regulations in force for the year 2018, deducted 10% of these components from the IRES and IRAP tax bases; for the remaining non-deductible portion of taxable income in 2018, amounting to approximately Euro 54 million, the Bank had not recorded tax credits. Subsequently, paragraph 715 of 2020 Budget Law no. 160 envisaged that "*the deduction of the 10% share of the amount of negative components envisaged, for the purposes of Italian corporate income tax and regional business tax, by paragraphs 1067 and 1068 of Article 1 of Italian Law no. 145 of 30 December 2018, respectively, for the tax period in progress as at 31 December 2019, is deferred to the tax period in progress as at 31 December 2028".* Therefore, the residual taxable income arising from the impairment of loans and receivables made under IFRS 9 FTA is deductible in the years from 2020 to 2028, both for IRAP and IRES purposes. Therefore, in calculating the taxes for the 2020 financial statements, we have complied with current regulations by deducting 10% of the amount of the negative components mentioned above.

Taking into account the deduction just mentioned, the effects of taxes in the income statement, recorded under the item "270 taxes on income from current operations", amount to Euro 9,359 thousand as the algebraic sum between current taxes of Euro 3,779 thousand, negative effects from the cancellation of prepaid taxes of Euro 5,564 thousand and negative effects relating to deferred taxes of Euro 16 thousand.
Current assets, totalling Euro 7,295 thousand, include an amount requested for reimbursement of Euro 5 million originating from the payment of IRES advances that later turned out to be excessive, IRAP advances and surpluses of Euro 824 thousand, surpluses deriving from the "Aid to economic growth" for 2016/2017 converted into IRAP tax credits of Euro 1,471 thousand; whereas, current liabilities, amounting to Euro 3,492 thousand, include direct tax liabilities arising from the calculation made in the financial statements.

The composition of and changes in deferred tax assets/liabilities are shown below.

10.1 Deferred tax assets: breakdown

Items	Total 31/12/2020		Total 31/12/2019	
	Law No.	Other	Law No.	Other
Through the income statement:				
Impairment of loans and receivables deductible on	36,267	-	42,173	-
- from previous years	36,267	-	42,173	-
- from current year	-	-	-	-
Exemption of goodwill and other elements from incorporation	1,538	-	1,620	-
Exemption of goodwill from consolidation	2,849	-	2,897	-
Tax losses	-	-	44	-
IFRS 9 FTA	-	831	-	831
Allowance to provision for risks and charges	-	768	-	601
Provision for guarantees given	-	386	-	209
Financial assets	-	178	-	128
Administrative expense and other items	-	766	-	688
Total through the income statement	**40,654**	**2,929**	**46,734**	**2,457**
Through shareholders' equity:				
Securities	-	**708**	-	**1,269**
- bonds	-	184	-	1,244
- shares	-	524	-	25
Actuarial effect on employee benefits	-	**135**	-	**121**
Total through shareholders' equity		**843**	-	**1,390**
Total	**40,654**	**3,772**	**46,734**	**3,847**

Prepaid taxes “as per Italian law No. 214/2011” are those recorded in relation to the impairment of loans and receivables not yet deducted and the value of the goodwill and other intangible assets whose negative components are deductible in subsequent tax periods. In the event of the recording of a statutory or tax loss, they permit transformation into a tax credit that can be used immediately.
On the basis of Stability Law No. 147/2013, in the same circumstances, the same possibility has been extended to the IRAP, in the presence of financial statements closing with a loss or a negative net production value (IRAP declaration with a loss).

Italian Decree Law No. 83/2015 envisaged that, as from 1 January 2016, impairment losses on loans and receivables with customers recorded in the financial statements will become fully deductible during the year in which they are recognised, instead of deductible over five financial years as introduced by Italian Law No. 147/2013; for 2015, a transitional regime was envisaged for which 75% of the losses/write-downs were deductible. For the remaining 25%, as well as the amount still to be recovered as at 31 December 2014, a deduction plan had been envisaged from 2016 until 2025 with a measure varying from 5% to 12% of the taxable base. Subsequently, according to the 2019 budget law issued on 31 December 2018, the portion deductible during 2018 envisaged by the plan was deferred to 2026; moreover, as a consequence of paragraph 712 of 2020 Budget Law no. 160 of 27 December 2019, which reads "*The deduction of the 12% share of the amount of negative components envisaged, for the purposes of Italian corporate income tax and regional business tax, by paragraphs 4 and 9 of Article 16 of Italian Law Decree no. 83 of 27 June 2015, converted, with amendments, by Italian Law no. 132 of 6 August 2015, for the tax period in progress as at 31 December 2019, is deferred, on a straight-line basis, to the tax periods in progress as at 31 December 2022 and the following three"*, a deferral was introduced for what would have been deducted in 2019. For 2020, the 12% deduction for previous impairment of loans was confirmed and therefore this was taken into account in the tax calculation in the financial statements.
Also for goodwill and other intangible components, the 2019 and 2020 Stability Laws envisaged in various ways a postponement of the tax deduction terms compared to what was originally envisaged; also for these components, as well as for impairment of loans, the last Budget Law did not introduce any further deferments and therefore the deductions provided for in the calculation of current taxes and in changes of deferred tax assets in our Bank's financial statements were used.

Therefore, the amount of taxes "set forth to in Italian Law 214/2011" decreased compared to 31 December 2019 and amounted to Euro 40,654 thousand:

- Euro 36,267 thousand in taxes relating to the impairment of loans and receivables recorded in the financial statements before 2016 and not yet deducted. These taxes will be recovered - to a variable extent depending on the year - between 2021 and 2026, as envisaged by Italian Decree Law No. 83/2015, Italian Law No. 145/2018 and Italian Law No. 160/2019 mentioned above;
- Euro 1,538 thousand derives from the exemption of the elements resulting from the incorporation of Credito Veronese of which Euro 1,500 thousand concerns the goodwill originating from the financial statements as at 31 December 2012, as envisaged by Article 186 of the TUIR (Consolidation Act on Income Taxes) and Euro 38 thousand refer to “other elements from incorporation” and in other words to Receivables Fair Value, component for which a temporary misalignment of one year exists between the time of booking to the financial statements and the year of recovery for tax purposes;
- Euro 2,849 thousand derives from the re-alignment for tax purposes of the goodwill and the other intangible assets recorded autonomously in the 2011 consolidated financial statements as envisaged by Article 23 of Italian Decree Law No. 98/2011 and Article 20 of Italian Decree Law No. 201/2011.

Other deferred tax assets through the income statement refer mainly to income statement components for which deduction is expected when the financial event occurs.

On the other hand, prepaid taxes through shareholders' equity amount to Euro 843 thousand; of this, Euro 708 thousand refers to the capital losses booked to the negative securities valuation reserves recorded in the FVOCI portfolio and Euro 135 thousand refers to the actuarial differences registered on post-employment benefits.

10.2 Deferred tax liabilities: breakdown

Items	Total 31/12/2020	Total 31/12/2019
Through the income statement:		
- on amortisation of goodwill	654	620
- on accumulated depreciation of land	181	181
- on dividends still to be collected	-	-
- on payments to the F.I.T.D. Voluntary Scheme	9	14
- on measurement of financial instruments	62	47
- on exchange rates of financial instruments	-	28
- from reclassification of securities for IFRS 9	186	186
Total through the income statement	**1,092**	**1,076**
Through shareholders' equity:		
FVOCI financial assets	1,398	424
- bonds	1,091	192
- shares	307	232
Total through shareholders' equity	**1,398**	**424**
Total	**2,490**	**1,500**

The total value of deferred taxes with an offsetting entry in the income statement did not change.
On the other hand, deferred taxes through shareholders' equity are affected by the variability of the valuation reserves on securities, measured punctually at the end of the period, and amount to Euro 1,398 thousand. They are related to the positive valuation reserves for equity securities and bonds in the FVOCI portfolio.
Deferred tax liabilities on monetary revaluation reserves subject to deferred taxation have not been recognised, since it is deemed that the possibility that the taxation pre-requisite will apply (distribution of the same) is very remote.

10.3 Changes in prepaid taxes (through the income statement)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**49,191**	**52,776**
2. Increases	**1,027**	**1,821**
2.1 Prepaid taxes recognised in the financial year	1,027	1,821
a) relating to previous financial years	-	270
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	1,027	1,551
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**6,635**	**5,406**
3.1 Prepaid taxes cancelled during the financial year	6,591	5,406
a) reversals	6,591	5,406
b) impairment losses due to non-recoverability	-	-
c) changes in accounting policies	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases:	44	-
a) conversion into tax assets set forth in Italian Law 214/2011	44	-
b) other	-	-
4. Closing balance	**43,583**	**49,191**

10.3bis Changes in prepaid taxes set forth in Italian Law 214/2011

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**46,734**	**46,868**
2. Increases	**38**	**141**
3. Decreases	**6,118**	**275**
3.1 Reversals	6,074	275
3.2 Transformations into tax credits	44	-
a) deriving from losses for the year	-	-
a) deriving from tax losses	44	-
3.3 Other decreases	-	-
4. Closing balance	**40,654**	**46,734**

The decrease in advance payments is mostly due to the deduction of the annual portion related to past impairment losses on receivables, which in 2018 and 2019 had been postponed by the Budget Laws.

10.4 Changes in deferred taxes (through the income statement)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**1,076**	**1,049**
2. Increases	**93**	**109**
2.1 Deferred taxes recognised in the financial year	93	109
a) relating to previous financial years	-	-
b) due to changes in accounting policies	**-**	**-**
c) other	93	109
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**77**	**82**
3.1 Deferred taxes cancelled during the financial year	77	82
a) reversals	77	82
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,092**	**1,076**

10.5 Changes in prepaid taxes (through shareholders' equity)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**1,390**	**2,564**
2. Increases	**632**	**1,133**
2.1 Prepaid taxes recognised in the financial year	632	1,133
a) relating to previous financial years	-	-
b) due to changes in accounting policies	-	-
c) other	632	1,133
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,179**	**2,307**
3.1 Prepaid taxes cancelled during the financial year	1,179	2,307
a) reversals	1,029	1,487
b) impairment losses due to non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	150	820
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**843**	**1,390**

10.6 Changes in deferred taxes (through shareholders' equity)

	Total 31/12/2020	Total 31/12/2019
1. Opening balance	**424**	**331**
2. Increases	**1,140**	**149**
2.1 Deferred taxes recognised in the financial year	1,140	149
a) relating to previous financial years	-	-
b) due to changes in accounting policies	-	-
c) other	1,140	149
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**166**	**56**
3.1 Deferred taxes cancelled during the financial year	166	56
a) reversals	140	17
b) due to changes in accounting policies	-	-
c) other	26	39
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,398**	**424**

Section 11 - Non-current assets held for sale and disposal groups and associated liabilities - Item 110 under assets and item 70 under liabilities

At the end of the reporting period, there are no non-current assets and liabilities held for sale and discontinued operations.

Section 12 – Other assets – Item 120

12.1 Other assets: breakdown

Items	Total 31/12/2020	Total 31/12/2019
Sundry utilities to be debited/SDD/Other items	21,974	20,350
Amounts deriving from transactions in securities awaiting recognition/receipt	19,689	4,967
Amounts due from tax authorities for advances paid	18,347	7,205
Tax credits from building works and investments	4,202	-
Credit transfers and debits to be made	2,366	2,828
Prepaid expenses	1,134	1,090
Withholdings	975	636
Credits for direct taxes relating to previous financial years and accrued interest	-	86
Current account cheques and foreign currency drawn on banks and third parties	12	21
Guarantee deposits on behalf of the Bank	126	126
Cheques being processed	20	142
Cheques returned unpaid	-	-
Credit cards and Cashline card withdrawals	476	482

Costs for leasehold improvements	853	909
Total	**70,174**	**38,842**

The amounts due from tax authorities for advances paid refer to the advances paid for stamp duty, for substitute tax on mortgage loans and on capital gain.

Liabilities and shareholders' equity

Section 1 – Financial liabilities measured at amortised cost - Item 10

Liabilities item 10 includes the various forms of interbank and customer borrowings.

The item is broken down in:

10 a) Financial liabilities measured at amortised cost: Due to banks;
10 b) Financial liabilities measured at amortised cost: Due to customers;
10 c) Financial liabilities measured at amortised cost: Securities issued.

These aggregates, if any, also include the payables entered by the lessee within the financial leasing operations.

The term "level", in the heading of the various columns of the tables shown below, represents the different method of measurement of the financial assets with the use for level 1 of market values, for level 2 of different external sources either direct (prices) or indirect (derived from prices), and for level 3 of internal measurements or the cost.
Complete disclosure on the fair value level is provided at the end of the accounting standards: "Information on fair value".

1.1 Financial liabilities measured at amortised cost: breakdown by type of due to banks

Type of transaction/Amounts	Total 31/12/2020				Total 31/12/2019			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**1,204,403**	-	-	-	**731,358**	-	-	-
2. Due to banks	**321**	-	-	-	**137,961**	-	-	-
2.1 Current accounts and demand deposits	321	-	-	-	38	-	-	-
2.2 Time deposits	-	-	-	-	-	-	-	-
2.3 Loans	-	-	-	-	137,923	-	-	-
2.3.1 Repurchase agreements	-	-	-	-	137,923	-	-	-
2.3.2 Other	-	-	-	-	-	-	-	-
2.4 Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
2.5 Lease payables	-	-	-	-	-	-	-	-
2.6 Other payables	-	-	-	-	-	-	-	-
Total	**1,204,724**	-	-	**1,204,724**	**869,319**	-	-	**869,340**

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

Liabilities to banks as at 31 December 2020 amounted to Euro 1,204.7 million compared to the balance of Euro 869.3 million at the end of last year.

The aggregate includes amounts due to the ECB under the TLTROIII programme with a total nominal value of Euro 1,210 million, of which Euro 920 million maturing on 28 June 2023 and Euro 290 million on 27 September 2023, nominal amounts that contribute to the balance after taking into account accrued interest income. During the year, all tranches of TLTROII loans were closed, of which Euro 250 million was due in June and Euro 440 million was paid in advance between June and September.

The amount borrowed for TLTROIII is equal to 50% of the eligible loans disbursed by the bank as at 28 February 2019, which is the maximum that can be disbursed until December 2020, when the ECB Governing Council decided to increase the maximum borrowing from 50% to 55%.

Each of the programme's operations will last three years; an interest rate equal to that of the main refinancing operations prevailing during the respective TLTROIII shall apply to them, except for the period from 24 June 2020 to 23 June 2022 when a reduction of 50 basis points shall apply. Counterparties that achieve certain lending performance targets during the specified periods will benefit from a further reduction in the applied rate.

It should be noted that, as it is necessary at the end of the reporting period - and in any case also thereafter - to be reasonably certain that the Bank will meet its targets in terms of lending performance for the relevant period (first special reference period, 01/03/2020-31/03/2021), for the purposes of the 2020 financial statements, interest income commensurate with the maximum applicable rate of 1% has been recognised.

Finally, it should be noted that, if with the TLTROII operation the bank was able to request up to a maximum of Euro 694 million of loans from the ECB (of which Euro 690 million actually taken out), with the TLTROIII operation it will be possible to access loans up to a maximum of Euro 1,334 million (of which Euro 1,210 million already taken out). The support measure granted, in the intention of ECB, via the banks to the real economy has thus been considerably strengthened; the increase in our assets, in particular in the financial assets pledged as collateral to the ECB, is concomitant with the greater amount of loans received,

1.2 Financial liabilities measured at amortised cost: breakdown by product of due to customers

Type of transaction/Amounts	Total 31/12/2020				Total 31/12/2019			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	3,170,577	-	-	-	2,620,995	-	-	-
2. Time deposits	789,363	-	-	-	949,519	-	-	-
3. Loans	131,802	-	-	-	-	-	-	-
3.1 Repurchase agreements	131,802	-	-	-	-	-	-	-
3.2 Other	-	-	-	-	-	-	-	-
4. Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
5. Lease payables	5,452	-	-	-	5,644	-	-	-
6. Other payables	82	-	-	-	230	-	-	-
Total	**4,097,276**	**-**	**-**	**4,097,284**	**3,576,388**	**-**	**-**	**3,576,388**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The current accounts and demand deposits comprise:

	Total 31/12/2020	Total 31/12/2019
Euro current accounts	3,128,000	2,583,065
Savings deposits	23,989	27,134
Foreign currency current accounts	18,588	10,796
Total	**3,170,577**	**2,620,995**

Time deposits are restricted deposits with a maximum maturity of 7 years.

1.3 Financial liabilities measured at amortised cost: breakdown by type of securities issued

Type of security/Amounts	Total 31/12/2020				Total 31/12/2019			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities	**203,278**	**118,678**	**-**	**84,263**	**253,420**	**175,212**	**-**	**78,061**
1. bonds	182,067	118,678	-	63,052	232,518	175,212	-	57,159
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	182,067	118,678	-	63,052	232,518	175,212	-	57,159
2. Other securities	21,211	-	-	21,211	20,902	-	-	20,902
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	21,211	-	-	21,211	20,902	-	-	20,902
Total	**203,278**	**118,678**	**-**	**84,263**	**253,420**	**175,212**	**-**	**78,061**

Key:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The bonds outstanding are inclusive of the current accrued coupon and are net of the bonds repurchased, which on the basis of the IAS accounting standards must be eliminated; the recognition criteria used for the book value is that of amortised cost. The volume of securities issued – a typical component of medium-term deposits – was significantly reduced in recent years, as a result of the commercial policy implemented with the entry into force of the bail-in regulations aimed at encouraging the replacement of maturing bonds with other forms of compulsory deposits such as time deposits.
The value shown in the Level 1 column of FV refers to bonds listed on the HI-MTF market, while the value shown in the Level 3 column of FV refers to unlisted bonds and was obtained by discounting the flows based on the average rate of a basket of triple B bank bonds.
For unlisted bonds issued by the Bank, the valuation, which is useful for trading, is carried out by an external provider.
Medium/long-term certificates of deposit are recorded under other securities.

1.4 Breakdown of subordinated debts/securities

Items	Book value	
	Total 31/12/2020	Total 31/12/2019
Subordinated securities issued and in issue	83,014	76,926
Total	**83,014**	**76,926**

Subordinated bonds in issue amounted to Euro 83 million, of which Euro 78 million of nominal value eligible for inclusion in own funds.

Subordinated bonds include the following securities:
-IT0004987456 issued on 3 February 2014 of Euro 35 million, fixed rate of 4.50% and maturity 3 February 2021, with repayment of 20% per annum as from 3 February 2017, nominal residual value Euro 0.4 million net of repurchases (book value including accruals Euro 439 thousand);
-IT0005014706 issued on 2 May 2014 of Euro 25,432 million, fixed rate of 4.00% and maturity 2 May 2022, with repayment of 20% per annum as from 2 May 2018, nominal residual value Euro 3.2 million net of repurchases (book value including accruals Euro 3,262 thousand);
-IT0005085250 issued on 10 February 2015 of Euro 35 million, fixed rate of 4.50% and maturity 10 February 2021, nominal residual value Euro 35 million (book value including accruals Euro 35,607 thousand);
-IT0005204257 issued on 15 July 2016 of Euro 15 million, fixed rate of 4.00% and maturity 15 July 2022, nominal residual value Euro 15 million (book value including accruals Euro 15,278 thousand);
-IT0005366924 issued on 29 March 2019 of Euro 20 million, fixed rate of 4.675% and maturity 29 September 2024, nominal residual value Euro 20 million (book value including accruals Euro 20,241 thousand);
-IT0005415119 issued on 1 July 2020 of Euro 8 million, fixed rate of 4.675% and maturity 1 January 2026, nominal residual value Euro 8 million (book value including accruals Euro 8,187 thousand).

1.5 Breakdown of structured debts

This section is not drawn up because as at 31 December 2020 the Bank did not have any transactions of this type, as in the previous year.

1.6 Lease payables

Lease payables, as shown in Table 1.2, include the discounted value of property rents; for specific description see part M.

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown by type

Type of transaction/Amounts	Total 31/12/2020					Total 31/12/2019				
	NV	Fair value			Fair value (*)	NV	Fair value			Fair value (*)
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities	-	-	-	-	-	-	-	-	-	-
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	-	-	-	-	-
3.1.2 Other bonds	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	-	-	-	-	-
3.2.2 Other	-	-	-	-	-	-	-	-	-	-
TOTAL A	-	-	-	-	-	-	-	-	-	-
B. Derivative instruments	-	-	-	-	-	-	-	-	-	-
1. Financial derivatives	-	-	51	-	-	-	-	17	-	-
1.1 Trading	-	-	51	-	-	-	-	17	-	-
1.2 Related to the fair value option	-	-	-	-	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-	-	-	-	-
2.2 Related to the fair value option	-	-	-	-	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-	-	-	-	-
TOTAL B	-	-	**51**	-	-	-	-	**17**	-	-
TOTAL A+B	-	-	**51**	-	-	-	-	**17**	-	-

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

Fair value* = Fair value calculated by excluding changes in value due to the change in creditworthiness of the issuer with respect to the issue date

The amount of Euro 51 thousand (Level 2) comprises:

- Euro 48 thousand in foreign currency forward transactions, whose value is offset by asset item 20 “Financial assets held for trading”. The book amount (intrinsic value) is the expression of a notional value of the transactions of Euro 2,657 thousand;
- Euro 3 thousand being the intrinsic value referring to hedges of foreign currency transactions carried out by the Bank, with a notional value of Euro 479 thousand.

2.2 Breakdown of item 20 "Financial liabilities held for trading": subordinated liabilities;

In the absence of operations, subsections are not drawn up.

2.3 Breakdown of item 20 "Financial liabilities held for trading": structured debts.

In the absence of operations, subsections are not drawn up.

Section 3 - Financial liabilities designated at fair value - Item 30

In the absence of operations, the specific tables and subsections are not drawn up.

Section 4 - Hedging derivatives - Item 40

As at 31 December 2020 and 31 December 2019 the bank did not have any hedging derivatives outstanding.
In the absence of operations, the specific tables and subsections are not drawn up.

Section 5 - Value adjustment to financial liabilities subject to macro-hedging - Item 50

The Bank has not established any liability subject to macro hedging from the interest rate risk.

5.1 Value adjustment to hedged financial liabilities: breakdown by hedged portfolio.

In the absence of operations, the tables are not drawn up.

Section 6 - Tax liabilities - Item 60

See section 10 under assets.

The breakdown as well as the changes in liabilities for current and deferred taxes are illustrated in part B - Asset Section 10 of these explanatory notes.

Section 7 - Liabilities associated with assets held for sale and discontinued operations - Item 70

At the end of the reporting period, there were no liabilities associated with assets held for sale and discontinued operations.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

Items	Total 31/12/2020	Total 31/12/2019
Tax withholdings and contributions relating to staff	3,413	2,988
Amounts to be paid to staff and related contributions	4,220	3,858
Taxes to be paid to the tax authorities	1,583	2,168
Taxes to be paid to the tax authorities on behalf of third parties	5,284	4,254
Credit transfers to be carried out	16,501	12,748
Credit cards and Cashline card withdrawals	139	208
Amount paid for withdrawal of bills and cheques and payment by advice collections	1,006	1,486
Currency spreads on portfolio transactions	44,711	43,421
Due to suppliers	7,982	6,563
Deferred income and provisions	1,063	349
Charity Fund	79	28
Other items	6,153	6,026
Total	**92,134**	**84,097**

The "amounts to be paid to staff, inclusive of related contributions" also include variable remuneration, including contributions and holiday accruals, relating to the management of employees.

"Currency spreads on portfolio transactions" represent the imbalance between the "debit adjustments" and the "credit adjustments" of the portfolio subject to due reserve and after collection, whose breakdown is indicated in the specific table Other information in part B of these explanatory notes.

Section 9 - Post-employment benefits - Item 90

9.1 Post-employment benefits: annual changes

	Total 31/12/2020	Total 31/12/2019
A. Opening balances	**4,047**	**4,888**
B. Increases	**2,088**	**2,117**
B.1 Provision in the year	2,025	1,884
B.2 Other changes	63	233
C. Decreases	**2,650**	**2,958**
C.1 Benefits paid	631	1,060
C.2 Other changes	2,019	1,898
D. Closing balances	**3,485**	**4,047**
Total	**3,485**	**4,047**

"Increases" of the row provisions include the costs attributable to the revaluation of the provision in the company, in so far as it concerns the Treasury Fund and the Supplementary Funds, as well as the cost relating to post-employment benefits paid directly in the payroll. With regard to other decreases, the main items are represented by the amounts paid to the Treasury Funds and the Supplementary Funds as well as the IAS actuarial changes (which have an impact on the shareholders' equity reserves).

The balance of post-employment benefits as at 31 December 2020 calculated on the basis of Italian legislation amounts to Euro 3,043 thousand, Euro 442 thousand lower than the book value; in 2019, the same came to Euro 3,630 thousand, Euro 417 thousand less with respect to the book value. The financial parameters used for the discounting process are listed and described below.

IAS 19 "Employee benefits" enforces the recognition of the actuarial changes offset by shareholders' equity and the recognition in the income statement is no longer allowed.
The actuary carried out the calculation on the basis of the following financial assumptions:
- annual discount rate of 0.34% (determined, on a consistent basis with section 83 of IAS 19, with reference to the average returns curve that derives from the IBOXX Eurozone Corporates AA index with a duration of 10+ struck on 31 December 2020, rate considered as the best expression of returns of businesses of primary standing, instead of the 0.77% used as at 31 December 2019;
- annual rate of inflation 0.80%, instead of 1.20%;
- annual Post-employment benefit rate 2.10%, instead of 2.40%

The actuarial change is illustrated in part "D - Comprehensive income".

Section 10 - Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges - provisions

Item/Amounts	**Total 31/12/2020**	**Total 31/12/2019**
1. Provisions for credit risk related to commitments and financial guarantees given	514	243
2. Provisions on other commitments and other guarantees given	889	515
3. Company pension funds	-	-
4. Other provisions for risks and charges	2,323	1,817
4.1 legal and tax disputes	2,307	1,807
4.2 labour costs	-	-
4.3 other	16	10
Total	**3,726**	**2,575**

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and other guarantees given	Pension funds	Other provisions for risks and charges	Total
A. Opening balances	**758**	**-**	**1,817**	**2,575**
B. Increases	**653**		**681**	**1,334**
B.1 Provision in the year	653		681	1,334
B.2 Changes due to the passing	-	-	-	-
of time	-	-	-	-
B.3 Changes due to	-	-	-	-
discount rate fluctuations	-	-	-	-
B.4 Other changes	-	-	-	-
C. Decreases	**8**		**175**	**183**
C.1 Uses in the year	-		94	94
C.2 Changes due to	-	-	-	-
discount rate fluctuations	-	-	-	-
C.3 Other changes	8		81	89
D. Closing balances	**1,403**		**2,323**	**3,726**

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

	Provisions for credit risk related to commitments and financial guarantees given			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
1. Commitments to grant finance	238	10	-	248
2. Financial guarantees given	24	203	39	266
Total	**262**	**213**	**39**	**514**

10.4 Provisions on other commitments and other guarantees given

The Bank has no other funds of this kind recorded in the financial statements.

10.5 Defined benefit company pension funds

The Bank has no funds of this kind recorded in the financial statements.

10.6 Provisions for risks and charges - other provisions

The provision for legal disputes includes the amounts set aside for disputes relating to revocatory action on bad loans or those already written off or for other disputes that arise during the performance of the ordinary activities. The Bank makes provisions for such reasons when, in agreement with its legal advisors, it believes it probable that it will have to make a payment and the amounts of the same can be reasonably estimated.

Section 11 - Redeemable shares - Item 120

The Bank has not issued any redeemable shares. The related tables are not drawn up.

Section 12 – Company equity - Items 110, 130, 140, 150, 160, 170, and 180

12.1 "Share capital" and "Own shares: breakdown

The fully paid-in and subscribed share capital is made up of 35,516,827 shares with a par value of Euro 3.00 each for a total of Euro 106,550 thousand.

12.2 Share capital - Number of shares: annual changes

Items/Types	Ordinary	Other
A. Shares at the beginning of the year	**35,516,827**	-
- fully paid-up	35,516,827	-
- not fully paid-up	-	-
A.1 Own shares (-)	(1,205,216)	-
A.2 Outstanding shares: opening balances	**34,311,611**	-
B. Increases	-	-
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sales of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**54,546**	-
C.1. Cancellation	-	-
C. 2 Purchase of own shares	54,546	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balances	**34,257,065**	-
D.1 Own shares (+)	1,259,762	-
D.2 Shares at the end of the year	35,516,827	-
- fully paid-up	35,516,827	-
- not fully paid-up	-	-

During the year, approximately 55 thousand shares were purchased, bringing the total of own shares in the portfolio to 1,260 thousand for an equivalent value of Euro 9,617 thousand (liability item 170 "own shares").

12.3 Share capital - Other information.

The following revaluation reserves have been transferred over time to the share capital:
- Italian Law No. 576 dated 2 December 1975 for Euro 88 thousand, reserve from monetary revaluation;
- Italian Law No. 72 dated 19 March 1983 for Euro 2,067 thousand, reserve from monetary revaluation;
- Italian Law No. 413 dated 30 December 1991 for Euro 1,375 thousand, reserve from monetary revaluation;
- Italian Legislative Decree No. 38 dated 28 February 2005 (application of the IAS principles in Italy) for Euro 7,955 thousand.

12.4 Income-related reserves: other information

Liabilities item 140 includes positive reserves of Euro 17,303 thousand: Euro 20,395 thousand refers to positive profit reserves, while "other reserves" include the negative reserves from the merger of Credito Veronese of Euro 3,092 thousand.
Additional information relating to changes can be found in the statement of changes in shareholders' equity and in part F of these explanatory notes.
Pursuant to Article 2427.7 bis of the Italian Civil Code, the composition of Shareholders' equity, according to the origin and the degree of availability and distributable nature of the various items, is as follows:

Items	Amount	Possibility of use	Portion available	Tax restriction	Uses made in the last three accounting periods	
					to cover losses	for other reasons
A) SHARE CAPITAL						
- Share capital (1)	106,550	-	90,531	16,019	no use	no use
B) CAPITAL RESERVES						
- Share premium reserve (2)	230,299	ABC	230,299	-	no use	no use
C) INCOME-RELATED RESERVES						
- Legal reserve (3)	27,744	B		-	no use	no use
- Extraordinary reserve	46,076	ABC	46,076	-	no use	no use
- Reserve for purchase of own shares (4)	12,014	ABC	2,397	-	no use	no use
- Other reserves (6)	(65,439)	-	-	-	no use	no use
D) OTHER RESERVES						
- Merger differences	(3,092)			-	no use	no use
- IAS valuation reserves (5)	4,762	AB	-	-	no use	no use
E) OWN SHARES						
- Own shares	(9,617)	-	-	-	-	-
TOTAL						
- 2020 profit for the year	24,339	-	-	-	-	-
TOTAL EQUITY	**373,636**	**-**	**-**	**-**		

Key:
A: for increase in portion; B: to cover losses; C: for distribution to Shareholders
Note:
1) In the event of distribution, the share capital is subject to a tax restriction equal to the booking of monetary revaluation reserves of Euro 11,485 thousand as specified in point 12.3 plus Euro 4,534 equal to the difference between the amount

tax sheltered in 2013 of the additional values acknowledged to the properties for Euro 5,398 thousand and the substitute tax of 16% for Euro 864 thousand.

2) On the basis of Article 2431 of the Italian Civil Code, the “share premium reserve” can be fully distributed since the legal reserve is higher than one fifth of the share capital, equal to Euro 21,310 thousand.

3) On the basis of Article 24 of the Consolidated Banking Law, Italian Legislative Decree No. 385 dated 1 September 1993, industrial co-operative banks must allocate at least ten percent of the annual net profits to the legal reserve.

4) The reserve is available for the surplus with respect to the amount of own shares in the portfolio, which amounted to Euro 9,617 thousand as at 31 December 2020.

5) The reserve is restricted in accordance with Article 6 of Italian Legislative Decree No. 38/2005 (introduction of the IAS accounting standards).

6) This item mainly consists of a negative reserve of Euro 66,456 thousand recorded in 2018 on first-time adoption of IFRS 9.

12.5 Capital instruments: breakdown and annual changes

The Bank has not issued the capital instruments indicated in section 80.A and 136.A of IAS 1.

12.6 Other information

The Board of Directors proposes the payment of a dividend equal to Euro 0.13 per share, amounting in total to Euro 4,617 thousand.

Other information

1. Commitments and financial guarantees given (other than those designated at fair value)

	Notional value on commitments and financial guarantees given			TOTAL 31/12/2020	TOTAL 31/12/2019
	Stage 1	Stage 2	Stage 3		
Commitments to grant finance	**1,364,231**	**17,686**	**3,850**	**1,385,767**	**1,241,469**
a) Central Banks	-	-	-	-	-
b) Public administrations	7,572	-	-	7,572	2,809
c) Banks	6,048	-	-	6,048	6,438
d) Other financial companies	63,898	38	-	63,936	55,615
e) Non-financial companies	1,208,847	14,564	3,678	1,227,089	1,103,379
f) Households	77,866	3,084	172	81,122	73,228
Financial guarantees given	**15,867**	**2,136**	**135**	**18,138**	**10,707**
a) Central Banks	-	-	-	-	-
b) Public administrations	361	-	-	361	162
c) Banks	7,684	-	-	7,684	-
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	6,969	2,136	135	9,240	9,559
f) Households	853	-	-	853	986

2. Other commitments and other guarantees given

	Nominal value
	TOTAL 31/12/2020
Other guarantees given	**109,396**
of which: non-performing	1,228
a) Central Banks	-
b) Public administrations	863
c) Banks	998
d) Other financial companies	200
e) Non-financial companies	102,416
f) Households	4,919
Other commitments	**70**
of which: non-performing	-
a) Central Banks	-
b) Public administrations	-
c) Banks	-
d) Other financial companies	-
e) Non-financial companies	-
f) Households	70

3. Assets pledged as guarantee for the Bank's liabilities and commitments

Portfolios	Amount 31/12/2020	Amount 31/12/2019
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through comprehensive income	-	-
3. Financial assets measured at amortised cost	843,415	459,038
4. Tangible assets of which: tangible assets that constitute inventories	-	-

The above amounts refer to owned securities granted to third parties as collateral; each amount refers to the specific portfolio used.

4. Management and trading on behalf of third parties

	Amount
1. Execution of orders on behalf of customers	-
a) Purchases	-
1. settled	-
2. unsettled	-
b) Sales	-
1. settled	-
2. unsettled	-
2. Individual portfolio management	-
3. Custody and administration of securities	**5,369,935**
a) A) third party securities held on deposit: when acting as custodian bank (excluding portfolio management)	6
1. securities issued by the reporting bank	1
2. other securities	5
b) other third-party securities held on deposit (excluding portfolio management): others	1,175,742
1. securities issued by the reporting bank	261,144
2. other securities	914,598
c) third-party securities deposited with third parties	1,141,140
d) portfolio securities deposited with third parties	3,053,047
4. Other transactions	-

6. Receivables collected on behalf of third parties: credit and debit adjustments

The table provides a breakdown of the differences deriving from the elimination of the asset items relating to the portfolio received subject to due reserve and after collection with those of the liabilities relating to transferors with settlement date subsequent to the end of the reporting period. According to the Supervisory instructions, in the annual financial statements the "other assets" or the "other liabilities" will have to contain, according to the sign, only the imbalance of the items relating to the portfolio, indicating the individual components in the Explanatory notes.
The imbalance between the sum of the "debit adjustments" represented by the asset items for bank collection order, bills of exchange, direct debits, etc. accepted subject to due reserve and after collection by customers and banks and the sum of the "credit adjustments" represented by the liability

items of the transferors, is equal to Euro 44,711 thousand and is recorded in the financial statement liability item 80 “other liabilities”.
Points a.1 and b.1 include the amount of the items, with settlement date in 2021, flowing to the current accounts of the correspondent banks already during 2020 and related to remittances of bills for collection. These items have been reversed from the individual pertinent accounts and booked to the original portfolio items (bills received on collection from banks or rather bills sent for collection to banks).

Items	**Total 31/12/2020**	**Total 31/12/2019**
a) “debit” adjustments	**527,133**	**573,937**
1. Current accounts	-	-
2. Portfolio	525,290	571,783
3. Cash	148	373
4. Other accounts	1,695	1,781
b) “credit” adjustments	**571,844**	**617,358**
1. Current accounts	8,271	8,208
2. Transferors’ bills and documents	561,707	607,190
3. Other accounts	1,866	1,960
Currency spreads on portfolio transactions	**44,711**	**43,421**

Part C - information on the income statement

Section 1 - Interest - Items 10 and 20

Interest recorded under item "10. Interest income and similar revenues" also includes interest accrued on financial instruments comprising loans and debt securities classified under item "20. Financial assets measured at fair value through profit or loss" of the balance sheet assets and item “30. Financial assets measured at fair value through other comprehensive income” of the balance sheet assets; it includes interest and the amount represented by the progressive release of the discounting calculated at the time the impairment was recognised, on financial instruments comprising loans and debt securities classified under item "40. Financial assets measured at amortised cost" of the balance sheet assets. Whereas in the Income Statement, item "20. Interest expense and similar charges" includes interest on financial instruments recognised in item "10. Financial liabilities measured at amortised cost".

1.1 Interest income and similar revenues: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial assets measured at fair value through profit or loss:	3,911	-	-	3,911	4,562
1.1 Financial assets held for trading	287	-	-	287	3
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	3,624	-	-	3,624	4,559
2. Financial assets measured at fair value *through comprehensive income*	3,052	-	-	3,052	2,256
3. Financial assets measured at amortised cost:	9,377	77,920	-	87,297	85,411
3.1 Loans and receivables with banks	33	228	-	261	637
3.2 Loans and receivables with customers	9,344	77,692	-	87,036	84,774
4. Hedging derivatives	-	-	2	2	3
5. Other assets	-	-	24	24	-
6. Financial liabilities	-	-	-	8,506	3,514
Total	**16,340**	**77,920**	**26**	**102,792**	**95,746**
of which: interest income on impaired assets	-	6,037	-	6,037	8,876
of which: interest income on finance leases	**-**	**-**	**-**	**-**	-

Sub-item 3.1 “Loans and receivables with banks” includes:

Interest income on loans and receivables with banks due to:	Total 31/12/2020	Total 31/12/2019
- deposit tied to compulsory reserve	-	-
- current accounts for services rendered	5	19
- deposits and Reverse repurchase agreements	223	578
- debt securities	33	40
Total	**261**	**637**

Sub-item 3.2 “Loans and receivables with customers” includes:

Interest income on loans and receivables with customers due to:	Total 31/12/2020	Total 31/12/2019
- current accounts	23,310	25,751
- mortgage loans	23,572	24,969
- import - export advances	1,555	1,685
- other credit transactions	25,728	19,591
- default interest collected	785	1,759
- discounting back non-performing loans	2,741	4,034
- securities recorded in loans and receivables with customers	9,344	6,985
Total	**87,035**	**84,774**

Sub-item 6.”Financial liabilities” includes, as required by law, negative interests on deposits with certain institutional intermediaries (ECB for TLTRO II loans, Cassa Compensazione e Garanzia for the NewMic interbank market and guarantee for the interbank market and banks for repurchase agreements).

During the financial year, default interest of Euro 75 thousand accrued on bad loans, fully written down; whereas item 10 comprises only the default interest collected of Euro 344 thousand. With regard to the other performing and non-performing positions other than bad loans, default interest was recorded in the income statement for a total of Euro 442 thousand; moreover, following the 5th update of Circular No. 262/2005, interest income as at 31 December 2020 included Euro 2,741 thousand of interest proportionate to the passage of time in the measurement of non-performing financial assets (discounting back).

With regard to non-performing positions as at 31 December 2020, interest other than default interest and interest arising from the discounting process accrued throughout the year of Euro 2,511 thousand were also recognised in the income statement and determined as follows:

- Past due non-performing Euro 496 thousand;
- unlikely to pay Euro 1,875 thousand;
- bad loans Euro 140 thousand.

1.2 Interest income and similar revenues: other information

1.2.1 Interest income on foreign currency financial assets

Interest income on loans and receivables with customers due to:	Total 31/12/2020	Total 31/12/2019
Interest income on foreign currency financial assets	647	915

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 31/12/2020	Total 31/12/2019
1. Financial liabilities measured at amortised cost	(12,932)	(6,653)	-	(19,585)	(22,356)
1.1 Due to central banks	-	-	-	-	-
1.2 Due to banks	(70)	-	-	(70)	(32)
1.3 Due to customers	(12,862)	-	-	(12,862)	(14,372)
1.4 Securities issued	-	(6,653)	-	(6,653)	(7,952)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	-	-	-	-	-
5. Hedging derivatives	-	-	-	-	-
6. Financial assets	-	-	-	(7)	(42)
Total	**(12,932)**	**(6,653)**	**-**	**(19,592)**	**(22,398)**
of which: interest expense related to lease payables	(219)	-	-	(219)	(208)

Sub-item 1.2 "Due to banks", "Payables" column includes:

Interest expense for due to banks:	Total 31/12/2020	Total 31/12/2019
- current accounts	(6)	(2)
- foreign currency deposits	(1)	(2)
- loans received	(63)	(28)
Total	**(70)**	**(32)**

Sub-item 1.3 "Due to customers", "Payables" column includes:

Interest expense on due to customers:	Total 31/12/2020	Total 31/12/2019
- current accounts	(3,744)	(5,394)
- savings deposits and time deposits	(8,864)	(8,685)
- repurchase agreements	-	-
- NewMic market loans	-	-
- deposits and accounts in foreign currency	(35)	(85)
- finance leases	(219)	(208)
Total	**(12,862)**	**(14,372)**

Sub-item 1.4 "Securities issued" includes the amount of Euro 6,653 thousand that mainly comprises interest on bonds issued of Euro 6,505 thousand and interest expense on certificates of deposit of Euro 133 thousand.

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on foreign currency liabilities

Item/Amounts	Total 31/12/2020	Total 31/12/2019
Interest expense on foreign currency liabilities	(38)	(87)

1.5 Differentials relating to hedging transactions

Item/Amounts	Total 31/12/2020	Total 31/12/2019
A Gains on hedging transactions:	2	-
B Losses on hedging transactions:	-	-
C. Balance (A-B)	**2**	-

Section 2 - Fees and commissions - Items 40 and 50

These items include the income and expense relating to the services that the bank provides to its customers and those received from third parties. These items do not comprise the costs recharged within the sphere of other operating income.

2.1 Fee and commission income: breakdown

Type of services/Amounts	Total 31/12/2020	Total 31/12/2019
a) guarantees given	1,046	980
b) credit derivatives	-	-
c) management, trading and consulting services:	19,924	17,988
1. trading of financial instruments	-	-
2. currency trading	361	445
3. individual portfolio management	-	-
4. custody and administration of securities	272	323
5. custodian bank	-	-
6. placement of securities	7,404	6,904
7. order transmission and receipt activities	911	941
8. consulting services	145	109
8.1 on investments	145	109
8.2 on financial structure	-	-
9. distribution of third party services	10,831	9,266
9.1. portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	8,057	6,311
9.3 other products	2,774	2,955
d) collection and payment services	8,177	8,569
e) servicing for securitisation transactions	604	664
f) factoring transaction services	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) current account management	10,693	9,931
j) other services	5,899	3,474
Total	**46,343**	**41,606**

Management/brokerage services, which include commissions from asset management, the placement of insurance policies and the distribution of other products, amounted to Euro 19.9 million compared to Euro 18.0 million in 2019; In particular, the placement of securities issued by third parties (mainly mutual funds) generated revenues of Euro 7.4 million compared to Euro 6.9 million, while the distribution of third-party services generated Euro 10.8 million compared to Euro 9.3 million. The "distribution of third-party services" includes the placement of insurance policies with commissions of Euro 8.0 million compared to Euro 6.3 million and the placement of other products - personal loans, in particular - of Euro 2.8 million compared to Euro 3.0 million.

Commissions for other services include income related to lease brokerage, government-backed loans under Italian Law 662/96, penalties charged to customers for early redemption of loans and amount to Euro 5.9 million compared to Euro 3.5 million in 2019; the strong % change in this item, as well as the increase in "Other services" in Fee and commission expense, are closely related to the mass of newgovernment-backed loans disbursed during the year. On the other hand, some types of commissions included in "collection and payment services" were actually affected by the partial shutdown due to Covid that occurred between the first and second quarter of the year, even if only partially, while commissions on keeping and management of accounts (Euro 10.7 million compared to Euro 9.9 million) increased significantly.

2.2 Fee and commission income: distribution channels of products and services

Channels/Amounts	Total 31/12/2020	Total 31/12/2019
a) at Bank branches:	**18,235**	**16,170**
1. portfolio management	-	-
2. placement of securities	7,404	6,904
3. third party products and services	10,831	9,266
b) out-of-branch offer:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party products and services	-	-
c) other distribution channels:	-	-
1. portfolio management	-	-
2. placement of securities	-	-
3. third party products and services	-	-

2.3 Fee and commission expense: breakdown

Services/Amounts	Total 31/12/2020	Total 31/12/2019
a) guarantees received	(217)	(108)
b) credit derivatives	-	-
c) management and trading services:	(1,655)	(1,305)
1. trading of financial instruments	-	-
2. currency trading	-	-
3. portfolio management:	(1,490)	(1,139)
3.1 own account	(1,490)	(1,139)
3.2 for third parties	-	-
4. custody and administration of securities	(165)	(166)
5. placement of financial instruments	-	-
6. out-of-branch offer of financial instruments, products and services	-	-
d) collection and payment services	(1,522)	(1,603)
e) other services	(3,864)	(2,613)
Total	**(7,258)**	**(5,629)**

Fee and commission expense was Euro 1.6 million higher than in 2019; it is related to management and brokerage services - mainly on our own securities for which management is outsourced - of Euro 1.7 million, collection and payment services of Euro 1.5 million and other services - for which the change has been justified in the paragraph on fee and commission income - of Euro 3.9 million.

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	**Total 31/12/2020**		**Total 31/12/2019**	
	Dividends	**Similar income**	**Dividends**	**Similar income**
A. Financial assets held for trading	4	-	-	-
B. Other financial assets mandatorily measured at fair value	303	75	92	19
C. Financial assets measured at fair value through other comprehensive income	1,148	-	1,028	-
D. Equity investments	-	-	-	-
Total	**1,455**	**75**	**1,120**	**19**

These are mainly dividends collected on equity securities recognised in the portfolio of "Financial assets measured at fair value through other comprehensive income”.

Section 4 - Net profit (loss) from trading activities - Item 80

The item includes:

a) the balance between the profits and losses on transactions classified under "financial assets held for trading" and "financial liabilities held for trading", including the results of the valuations of these transactions;

a) the balance between gains and losses on financial transactions, other than those designated at fair value and those for hedging, denominated in foreign currency, including the results of the valuations of these transactions.

4.1 Net profit (loss) from trading activities: breakdown

Transactions / Income components	Capital gains (A)	Trading income (B)	Losses (C)	Trading losses(D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial liabilities held for trading	**-**	**4,604**	**(45)**	**(28)**	**4,531**
1.1 Debt securities	-	3,933	-	-	3,933
1.2 Equity securities	-	16	(23)	(22)	(29)
1.3 UCIT units	-	-	(22)	-	(22)
1.4 Loans	-	-	-	-	-
1.5 Other	-	655	-	(6)	649
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	**-**	**-**	**-**	**-**	**(777)**
	-	-		-	
4.1 Financial derivatives:	-		-		-
On debt securities and interest rates		-		-	-
On equity securities and share indices	-	-	-	-	-
On currencies and gold					
1.3 Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges associated with fair value option	-	-	-	-	-
Total	**-**	**4,604**	**(45)**	**(28)**	**3,754**

The sub-item "1.5 financial assets held for trading: other" includes the gains and losses deriving from foreign currency trading.

Section 5 - Net hedging expense - Item 90

5.1 Net hedging expense: breakdown

The Bank has not carried out any hedging transactions over the last few years; therefore, the table belonging to the section is not drawn up.

Section 6 - Profit (Losses) on sale/repurchase - item 100

This section includes the positive and negative balances of the gains and losses generated by means of the sale of financial assets and liabilities other than those relating to trading and those designated at fair value.

6.1 Profit (loss) on sale/repurchase: breakdown

Items/Income components	Total 31/12/2020			Total 31/12/2019		
	Profit	Losses	Net gains (losses)	Profit	Losses	Net gains (losses)
A. Financial assets						
1. Financial assets measured at amortised cost:	11,424	(7,190)	4,234	5,490	(6,282)	(792)
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	11,424	(7,190)	4,234	5,490	(6,282)	(792)
2. Financial assets measured at fair value through other comprehensive income	22,300	(207)	22,093	12,591	(234)	12,357
2.1 Debt securities	22,300	(207)	22,093	12,591	(234)	12,357
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**33,724**	**(7,397)**	**26,327**	**18,081**	**(6,516)**	**11,565**
B. Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	(26)	(26)	3	(7)	4
Total liabilities (B)	**-**	**(26)**	**(26)**	**3**	**(7)**	**4**

The positive overall result from sale/repurchase activities amounted to Euro 26,301 thousand compared with Euro 11,561 thousand in 2019.

It includes the net profit of Euro 4.2 thousand registered on the disposal of a number of financial assets at amortised cost, (as the difference between the losses on the sale of non-performing loans of Euro 6.6 million and gains on the sale of debt securities of Euro 10.8 million), the overall profit of Euro 22.1 thousand deriving from the sale of the securities included in the portfolio of financial assets measured at fair value through other comprehensive income, mainly Government securities, and the loss of Euro 26 thousand from the repurchase of our bonds at a price higher on average than that recognised in the accounts at amortised cost.

Section 7 - Profits (Losses) on financial assets and liabilities measured at fair value - Item 110

The section shows the amount resulting from the measurement of financial assets measured at fair value held by the Bank and classified in asset items 20b and 20c.

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

Over the years, the Bank took out 3 insurance policies were for a total amount of Euro 11 million; the valuation difference of Euro 158 thousand, between 31 December 2020 and the previous year is recorded in this item of the income statement.

Transactions / Income components	Capital gains (A)	Gains on sales (B)	Losses (C)	Losses on sales (D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial assets	**158**	**-**	**-**	**-**	**158**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	158		-	-	158
2. Financial liabilities	-	-	-	-	-
2.1 Securities issued	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in currency: exchange rate differences	-	-	-	-	-
Total	**158**	**-**	**-**	**-**	**158**

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions / Income components	Capital gains (A)	Gains on sales (B)	Losses (C)	Losses on sales (D)	Net gains (losses) [(A+B) - (C+D)]
1. Financial assets	**1,125**	**3,460**	**(5,176)**	**(697)**	**(1,288)**
1.1 Debt securities	92	356	(744)	(43)	(339)
1.2 Equity securities	296	944	(441)	(481)	318
1.3 UCIT units	737	2,160	(3,991)	(173)	(1,267)
1.4 Loans	-	-	-	-	-
2. Foreign currency financial assets: exchange rate differences	-	**-**	**-**	**-**	**(299)**
Total	**1,125**	**3,460**	**(5,176)**	**(697)**	**(1,587)**

Net profit (loss) on purchases and sales and on the valuation of securities recognised within the portfolio of financial assets mandatorily measured at fair value was Euro -1.6 million as at 31 December 2020 compared to Euro +2.7 million in 2019.

Section 8 - Net impairment losses for credit risk - Item 130

The balances of impairment losses and reversals of impairment losses related to impairment of financial assets measured at amortised cost and FVOCI are shown here.

8.1 Net impairment losses for credit risk relating to financial assets at amortised cost: breakdown

Net impairment losses on loans and receivables are broken down as follows:

Transactions/Income components	Impairment losses (1)			Reversals of impairment losses (2)		Total 31/12/2020	Total 31/12/2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		write-off	Other				
A. Loans and receivables with banks	**(2)**	**-**	**-**	**18**	**-**	**16**	**(2)**
- loans	-	-	-	18	-	18	(6)
- debt securities	(2)	-	-	-	-	(2)	4
of which: acquired or originated impaired loans	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**(314)**	**(2,091)**	**(30,790)**	**371**	**5,802**	**(27,022)**	**(17,535)**
- loans	(64)	(2,091)	(30,790)	371	5,802	(26,772)	(18,296)
- debt securities	(250)	-	-	-	-	(250)	761
of which: acquired or originated impaired loans	-	-	-	-	-	-	-
Total	**(316)**	**(2,091)**	**(30,790)**	**389**	**5,802**	**(27,006)**	**(17,537)**

Note:

The "Stage 1 and 2" column includes the impairment losses/reversals of impairment losses relating to performing financial assets, while the "Stage 3" column includes impairment losses/reversals of impairment losses of non-performing financial assets.

Impairment losses in the "Stage 1 and 2" column are those pertaining to the year and derive mainly from lump-sum impairment losses applied to debt securities.

Impairment losses in the “Write-off” column derive from discharging events, while those in the “Other” column correspond to the amount booked to the income statement as a consequence of the analytical write-downs of non-performing loans and receivables, impairment inclusive of the discounting of the estimated future cash flows that populate the specific allowance for impairment.

The reversals of impairment losses in the "Stage 1 and 2" column mostly represent the adjustment to the overall risk assessment of loans recorded in the portfolio at amortised cost and their balancing entry is the allowance for impairment of performing loans and receivables; to a lesser extent, the valuation impact of loans and receivables that have become non-interest bearing or have returned to produce interest.

The reversals of impairment losses in the "Stage 3" column are those pertaining to the year and derive mainly from reversals of impairment losses applied to loans and receivables with customers for loans.

8.1a Net impairment losses for credit risk relating to financial assets at amortised cost subject to Covid-19 support measures: breakdown

	Net impairment losses			
		Stage 3		
	Stage 1 and 2	Write-off	Other	Total 31/12/2020
1. GL-compliant forborne loans	(93)		(679)	(772)
2. Other forborne loans	(117)		(44)	(161)
3. New loans	(1,201)		(57)	(1,258)
Total 31/12/2020	**(1,411)**		**(780)**	**(2,191)**

This table shows the impact through profit or loss of the impairment losses on new loans granted and on loans subject to a moratorium, loans granted and measures taken in relation to Covid-19, the equivalent values of which are shown in table 4.4a) of the assets and in part E "Information on risks".

8.2 Net impairment losses for credit risk relating to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Impairment losses (1)			Reversals of impairment losses (2)		Total 31/12/2020	Total 31/12/2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities	**(250)**	**-**	**(921)**	**-**	**-**	**(1,171)**	**(174)**
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-
Total	**(250)**	**-**	**(921)**	**-**	**-**	**(1,171)**	**(174)**

Key
A = from interest B = other reversals

The amount of Euro -1,171 thousand is related to impairment losses due to credit rating of debt securities classified in the FVOCI portfolio.

8.2a Net impairment losses for credit risk relating to loans measured at fair value through other comprehensive income subject to Covid-19 support measures: breakdown

As at 31 December 2020, there were no loans measured at fair value through other comprehensive income.

Section 9 - Modification gains (losses) without derecognition - Item 140

9.1 Modification gains (losses): breakdown

Item 140, which at 31 December 2020 shows a total loss of Euro 252 thousand, is envisaged by IFRS 9 and shows the difference between the book value and the current value of cash flows modified and discounted at the original interest rate.

Section 10 - Administrative expenses - Item 160

This section provides analysis of the “labour costs” and the “other administrative expenses” recorded during the year.

10.1 Labour costs: breakdown

Type of expense/Amounts	**Total 31/12/2020**	**Total 31/12/2019**
1) Employees	**(48,611)**	**(44,349)**
a) wages and salaries	(34,346)	(30,714)
b) social security charges	(8,977)	(8,269)
c) post-employment benefits	(447)	(486)
d) pension expenses	-	-
e) accrual for post-employment benefits	(35)	(88)
f) accruals for pension and similar provisions:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external supplementary pension funds:	(2,946)	(2,809)
- defined contribution	(2,946)	(2,809)
- defined benefits	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	(1,860)	(1,983)
2) Other personnel in service	**(840)**	**(603)**
3) Directors and statutory auditors	**(947)**	**(947)**
4) Retired personnel	-	-
5) Cost recoveries for employees seconded to other companies	-	-
6) Cost reimbursement for third party employees seconded to the bank	-	-
Total	**(50,398)**	**(45,899)**

Labour costs as at 31 December 2020 of Euro 50,398 thousand increased compared to 2019 (Euro 45,899 thousand) in relation to the salary and wage trends (renewal of CCNL 01/01/2020), as well as to the change in the workforce.
By the end of 2020, the company's staff reached a total of 689 units, compared to 645 units at the end of 2019, with a net increase of 44 resources. In detail, there were 72 hires and 28 terminations.

The sub-item “c) post-employment benefits” includes the amounts intended for the INPS Treasury Fund, in accordance with the provisions introduced by the welfare reform as per Italian Legislative Decree No. 252/2005 and Italian Law No. 296/2006 as well as the sums paid monthly in the payroll to employees who have opted for this alternative introduced by Italian Law 190/2014.
The sub-item “e) accrual for post-employment benefits - employees” includes the revaluation of the Post-employment benefits that has remained in-house (post-employment benefit fund) and the non-actuarial components of the IAS measurements.

The sub-item g) includes the portions relating to the supplementary pension fund paid by the Bank to the Supplementary Funds on a compulsory (portion relating to the post-employment benefits) and optional basis.
The sub-item 2) “other personnel” of Euro 840 thousand includes costs for atypical employment contracts, including those for “temp work” contracts of Euro 726 thousand.

The item 3) “Directors and statutory auditors” comprises:
- the fee, inclusive of VAT and contributions, if due, for the members of the Board of Directors totalling Euro 700 thousand;
- the fee, inclusive of VAT and contributions, for the Board of Statutory Auditors totalling Euro 247 thousand.

10.2 Average number of employees by category

Items		Total 31/12/2020	Total 31/12/2019
°	**Employees:**	**641**	**608**
	a) executives	9	9
	b) middle managers	322	286
	c) other employees	310	313
°	**Other personnel**	**10**	**12**

The exact number of employees at year end was by contrast the following:

Exact number of employees	Total 31/12/2020	Total 31/12/2019
Employees	676	634
of which part time	12	16
Under staff leasing	10	11
Other personnel	13	11

The exact number is indicated without weighting by 50% the part-time employees.
Other personnel includes the 10 directors and 3 external co-workers.

10.3 Defined benefit company pension funds: costs and revenues
There are no defined benefit company pension funds.

10.4 Other employee benefits
This item includes various types of expense, as broken down below:

Type of expense/Amounts	Total 31/12/2020	Total 31/12/2019
Luncheon vouchers	787	774
Insurance premiums	517	532
Training expenses	200	245
Redundancy incentives	287	378
Other	69	54
Total	**1,860**	**1,983**

10.5 Other administrative expenses: breakdown

Administrative expenses other than labour costs amounted to Euro 43,171 thousand at year end; the table below presents a comparison with the previous year:

Type of expense/Amounts	Total 31/12/2020	Total 31/12/2019
Contribution to resolution funds of banking crisis	(4,938)	(3,459)
Telephone, postal and data transmission expense	(2,326)	(2,318)
Maintenance expenses of fixed assets and software fees	(2,086)	(2,138)
Rentals payable on properties	(373)	(294)
Security, transportation and custody of valuables expenses	(590)	(880)
Transportation expenses	(274)	(292)
Expert appraisals and real estate documents	(301)	(288)
Legislative, procedural and other consulting	(1,588)	(1,366)
Costs for office materials and supplies	(640)	(672)
Electricity and heating costs	(657)	(735)
Advertising and entertainment expenses	(1,372)	(1,319)
Legal and debt collection costs	(2,296)	(3,033)
Insurance premiums	(3,680)	(3,071)
Costs for information and searches	(2,857)	(2,581)
Data processing centre	(7,486)	(6,948)
Indirect taxes	(7,696)	(7,659)
Cleaning services	(1,101)	(666)
Membership fees	(598)	(605)
Contributions for Treasury Service and sundry associations	(9)	(9)
Processing of bills, cheques and documents with third parties	(599)	(568)
Rented property maintenance and condo charges	(189)	(161)
Subscriptions and ads for newspapers and magazines	(166)	(200)
Purchase of promotional materials	(84)	(100)
Cost of the staff leasing contracts service	(93)	(44)
Expenses for travel and business trips involving personnel in service	(367)	(645)
Securitisation administrative expenses	(211)	(87)
Sundry minor costs and expenses for general meetings	(594)	(416)
Total	**(43,171)**	**(40,554)**

Administrative expenses, broken down in detail in the table below, amounted to Euro 43.2 million, an increase of about Euro 2.6 million compared to the previous year.

Much of the change is justified by the higher expenses incurred for the Resolution Fund in ordinary terms (debit received in May of Euro 1,992 thousand against Euro 1,422 thousand for the 2019 financial year) and in extraordinary terms (debit received of 629 thousand against Euro 521 thousand), as well as for what was charged by the Interbank Guarantee Fund in relation to the "depositors' guarantee" function and for the rescue of Carige and Popolare di Bari; the charge amounted to Euro 2,316 thousand, when last year we incurred an expense of Euro 1,516 thousand (a year in which there was no charge for the rescue of Popolare di Bari).
Another part of the increase is justified by the extraordinary expenses incurred for Covid-19 (masks, disinfectants, sanitisation) included in the income statement for the period for approximately Euro 400 thousand.

The costs for the Data Processing Centre recorded in 2020, although up compared to 2019, are in line with those incurred in the last part of that year. Insurance costs include both policies for the benefit of customers, for which the costs are partially passed on to them, and policies to protect the Bank.
On the contrary, the lower impact of legal expenses (Euro 2,296 thousand vs. Euro 3,033) is mainly due to the lower weight of non-performing loans compared to the past; legal expenses include the costs for recovering bad loans, both in terms of advice and taxes relating to court documents, and, to a lesser extent, the costs for enforcing MCC guarantees. Electricity, travel expenses, supervision/transportation/counting expenses were also down, mainly due to reduced branch activity in parts of the year as a result of the Covid-19 pandemic.
This item includes “Indirect taxes”, which, in addition to the stamp duty paid on behalf of customers, also includes other taxes pertaining to the Bank such as IMU, TARI, municipal taxes, registration taxes and sundry taxes; within this item, the main component refers to stamp duty of Euro 7,205 thousand in line with 2019, the recovery of which is recognised under item 200 "Other operating income and expenses".

Section 11 - Net accruals to provisions for risks and charges - Item 170

This item includes the balance, positive or negative, between the allocations and any re-assignments to the income statement of provisions deemed in excess, relating to the provisions as per sub-item a) "commitments and guarantees given" and b) "other provisions for risks and charges" in item 100 “provisions for risks and charges” under the liability items of the balance sheet.

11.1 - Net accruals to provisions for credit risk relating to commitments to grant finance and financial guarantees given: breakdown

11.2 - Net accruals to provisions relating to other commitments and other guarantees given: breakdown

Items	**Total 31/12/2020**	**Total 31/12/2019**
Analytical and collective write-downs for endorsement loans	(652)	(43)
Guarantees given and commitments	7	295
Revaluation of endorsement loans for collective	-	10
Total	**(645)**	**262**

11.3 - Net accruals to other provisions for risks and charges: breakdown

Items	**Total 31/12/2020**	**Total 31/12/2019**
Provision for legal disputes, compound interest and securities as well as for bankruptcy revocatory action	(681)	(257)
Return to income statement for settlement of disputes arising during core business activities	81	217
Total	**(600)**	**(40)**

Provisions for risks and charges show a negative imbalance between provisions and releases of Euro 1,245 thousand, consisting of net accruals to provisions for typical banking disputes of Euro 600 thousand and net accruals to provisions for commitments and guarantees given of Euro 645 thousand. Provisions for risks and charges, recognised as liabilities, amounted to Euro 3.7 million (Euro 2.6 million at the end of 2019); this is an estimate of the possible charges relating to pending revocatory actions, compound interests or other claims related to customer complaints, as well as write-downs applied to endorsement loans and credit margins.

Section 12 - Depreciation and net impairment losses on tangible assets - Item 180

The item comprises the balance between the depreciation and net impairment losses on operational tangible assets, including those relating to activities acquired through finance lease.

12.1 Depreciation and net impairment losses on tangible assets: breakdown

Assets/Income items	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Tangible assets				
1. Used in operations	(4,260)	-	-	(4,260)
- Owned	(2,511)	-	-	(2,511)
- Rights of use acquired through the lease	(1,749)	-	-	(1,749)
2. Investment property	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through the lease	-	-	-	-
3. Inventories	-	-	-	-
Total	**(4,260)**	-	-	**(4,260)**

The depreciation for 2020 amounted in total to Euro 4,260 thousand. Reference is also made to table 8.6 in Section 8 of the Balance Sheet - Assets “Tangible assets”.

In detail, the depreciation is broken down as follows:
• on properties Euro 947 thousand;
• on furniture and furnishings Euro 414 thousand;
• on electronic installations Euro 191 thousand;
• on rights of use and rents Euro 1,749 thousand;
• on the remaining assets Euro 959 thousand.

As at 31 December 2020, there were no assets held for sale and discontinued operations as per IFRS 5.

Section 13 - Amortisation and impairment losses on intangible assets - Item 190

This section comprises the balance between amortisation and impairment losses on intangible assets, other than goodwill, including those relating to assets acquired through finance lease assets provided under operating lease.

13.1 Amortisation and net impairment losses on intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned	(618)	-	-	(618)
- Generated internally	-	-	-	-
- Other	(618)	-	-	(618)
A.2 Rights of use acquired under leases	-	-	-	-
Total	**(618)**	-	-	**(618)**

The impairment losses refer to the amortisation of intangible assets with a definite useful life acquired externally.
Intangible assets are more fully described in Section 9 of the Balance Sheet - Assets "Intangible assets" in these explanatory notes

Section 14 - Other operating income/expense - Item 200

The costs and revenues not attributable to other items, which contribute to the formation of item 280 "Profit (Loss) from current operations net of taxation" are illustrated in this section.

14.1 Other operating expenses: breakdown

The breakdown of other operating expense is provided below.

Type of expense/Amounts	Total 31/12/2020	Total 31/12/2019
Extraordinary expense	(183)	(212)
Costs for leasehold improvements	(322)	(280)
Valuation of precious stones	-	(466)
Other	(201)	(192)
Total	**(706)**	**(1,150)**

The item "costs for leasehold improvements" includes the amortisation of improvements made to third party assets, in detail structural work necessary for the setting up of branches in rented properties; whereas the item "Other" mainly comprises costs of legal and similar transactions pertaining to the year.

14.2 Other operating income: breakdown

The breakdown of other operating income is provided below.

Type of income/Amounts	Total 31/12/2020	Total 31/12/2019
Rent receivable on properties	(5)	(14)
Recovery of taxes from customers	(7,174)	(7,180)
Recovery of insurance premiums from customers	(1,265)	(1,071)
Recovery of expenses on deposits and current accounts	(110)	(76)
Services provided to other Group companies	(20)	(20)
Recoveries on legal costs	(877)	(1,005)
Extraordinary income	(317)	(113)
Fast credit processing fees	(566)	(859)
Recovery of car expenses	(2)	(2)
Invitalia-Bando Impresa Sicura contributions	(150)	-
Other	(22)	(55)
Total	**(10,508)**	**(10,395)**

The item includes income of Euro 10.5 million, compared with Euro 10.4 million in 2019. The most significant income consists of: recovery of the stamp duty of Euro 7.2 million (same amount in 2019), fast credit processing fees of Euro 566 thousand (Euro 859 thousand as at 31 December 2019), recovery of customer insurance of Euro 1.3 million (1.1 million as at 31 December 2019), recovery of legal costs, including related taxes, of Euro 877 thousand (Euro 1 million as at 31 December 2019).

Section 15 - Net gains (losses) on equity investments - Item 220

15.1 Net gains (losses) on equity investments: breakdown

Income components/Amounts	Total 31/12/2020	Total 31/12/2019
A. Income	-	-
1. Revaluations	-	-
2. Gains on sale	-	-
3. Reversals of impairment losses	-	-
4. Other income	-	-
B. Expense	**(510)**	**(520)**
1. Impairment	(510)	(520)
2. Impairment losses	-	-
3. Losses on sale	-	-
4. Other expenses	-	-
Net gains (losses)	**(510)**	**(520)**

The item comprises the impairment on equity investment held in the subsidiary Valsabbina Real Estate S.r.l. (Euro 510 thousand).

Section 16 – Net profit (loss) from the fair value measurement of tangible and intangible assets - Item 230

This section is not drawn up since no events occurred during the year attributable to these items.

Section 17 - Goodwill impairment - Item 240

This section is not drawn up since no events occurred during the year attributable to these items.

Section 18 - Net gains (losses) on sales of investments - Item 250

18.1 Net gains (losses) on sales of investments: breakdown

Income components/Amounts	Total 31/12/2020	Total 31/12/2019
A. Property	**57**	-
- Gains on sale	100	-
- Losses on sale	(43)	-
B. Other assets	**31**	**(32)**
- Gains on sale	50	9
- Losses on sale	(19)	(41)
Net gains (losses)	**88**	**(32)**

Section 19 - Income taxes for the year from current operations - Item 270

This item discloses the tax liability - equal to the balance between the current taxation and the deferred taxation - relating to the profit for the year.

19.1 Income taxes for the year from current operations: breakdown

The breakdown of taxation for the year is provided below.

Current taxes were recognised on the basis of current tax regulations and tax rates (27.50% for Ires, 5.57% for IRAP); these taxes are calculated on the basis of the taxable base pertaining to the year for tax purposes.

	Income components/Amounts	**Total 31/12/2020**	**Total 31/12/2019**
1.	Current taxes (-)	(3,579)	(1,675)
2.	Changes in current taxes of prior years (+/-)	(201)	(106)
3.	Reduction in current taxes for the year (+)	-	-
3.bis	Reduction in current taxes for the year for credit taxes set forth in Italian Law no. 214/2011 (+)	-	-
4.	Change in prepaid taxes (+/-)	(5,564)	(3,614)
5.	Change in deferred taxes (+/-)	(16)	(27)
6.	Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(9,360)**	**(5,422)**

Current taxes have a total impact on the income statement of Euro 3,579 thousand. Also considering the impact on the income statement of prepaid/deferred taxes, a total tax impact of Euro 9,360 thousand is achieved.

19.2 Reconciliation between theoretical tax expense and actual tax expense

The following table shows the reconciliation of the effective tax expense (27.78%) with respect to the theoretical one calculated on the profit from current operations gross of taxation (income statement item 270).

IRES	**Taxable amount**	**Ires 27.5%**	**% incidence**
Profit gross of taxation (theoretical taxation)	33,699	(9,267)	27.50%
Permanent increases			
- non-deductibility of impairment of investment	510	(140)	0.42%
- other non-deductible expense	357	(98)	0.29%
Permanent decreases			
- dividends	(732)	202	(0.60%)
- equity increase (a.c.e.)	(1,551)	427	(1.27%)
- impairment of FTA receivables annual portion	(6,047)	1,663	(4.93%)
- other changes	697	(192)	0.57%
Effective IRES tax expense		**(7,407)**	**21.98%**
IRAP	**Taxable amount**	**IRAP 5.57%**	**% incidence**
Profit gross of taxation (theoretical taxation)	**33,699**	**(1,877)**	**5.57%**
Permanent increases			
- non-recoverable impairment of investment securities	510	(28)	0.08%
- other non-deductible expense (10% general expenses and other associated items)	7,539	(420)	1.25%
- non-recoverable tax loss			
Permanent decreases			
- dividends	(728)	40	(0.12%)
- IRAP recovery on prior impairment from sale of loans and receivables	(746)	42	(0.12%)
- impairment of FTA receivables annual portion	(6,047)	337	(1.00%)
- other changes	836	(47)	0.14%
Effective IRAP tax expense		**(1,953)**	**5.80%**
Total effective IRES and IRAP tax expense		**(9,360)**	**27.78%**

Section 20 - Profit (loss) from discontinued operations net of taxation - Item 290

The section is not drawn up in that there are no assets classified as such.

Section 21 – Other information

This section is not drawn up since it is deemed that the information provided previously is complete.

Section 22 - Earnings per share

The new international standards (IAS 33) require the returns indicator to be published on a mandatory basis: “earnings per share” (commonly known as “*EPS - earning per share*”), in the two versions:

• “Basic EPS”, calculated by dividing the net profit by the weighted average of the ordinary shares outstanding;

• “Diluted EPS”, calculated by dividing the net profit by the weighted average of the ordinary shares outstanding, also taking into account the classes of instruments with diluting effects.

22.1 Average number of ordinary shares with diluted share capital

There are no ordinary shares that will be issued in the future with diluting effects on the capital.

22.2 Other information

Items	Total 31/12/2020	Total 31/12/2019
Profit (Loss) for the year	24,339,380	20,302,494
Ordinary shares (weighted average)	34,271,589	34,352,949
Earnings per share	**0.710**	**0.591**

On the basis of sections 19 - 20 of IAS 33, with regard to the calculation of the basic earnings/loss per share, the number of the ordinary shares outstanding must be equal to the weighted average for the number of days the shares have been outstanding, therefore net of the own shares repurchased.

Part D – Statement of Comprehensive Income

This additional disclosure is required for presenting the not only the profit for the year but also the other income components that are not recognised in the income statement (basically those recorded as a change in the shareholders' equity valuation reserves).
In addition to the statement of comprehensive income shown after the financial statements, the following additional details are provided.

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME (in thousands of Euro)		
Items	**31/12/2020**	**31/12/2019**
10. Profit (Loss) for the year	**24,339**	**20,302**
Other comprehensive income without reversal to income statement	**(27)**	**(111)**
70. Defined benefit plans	(41)	(166)
100. Income taxes relating to other comprehensive income without reversal to income statement	14	55
Other comprehensive income with reversal to income statement	**3,315**	**1,478**
150. Financial assets (other than equity securities) measured at fair value through other comprehensive income:	6,171	4,086
a) fair value changes	2,435	(186)
b) reversal to income statement	3,736	4,272
- impairment losses for credit risk	1,171	(174)
- gains (losses) on sales	2,565	4,446
170. Portion of valuation reserves of equity-accounted investments:	(1,321)	(1,288)
a) fair value changes	(1,321)	(1,288)
180. Income taxes relating to other comprehensive income with reversal to income statement	(1,535)	(1,320)
190. Total other comprehensive income	**3,288**	**1,367**
200. Comprehensive income (10+190)	**27,627**	**21,669**

With regard to item 150 and 170, the breakdown of the fair value changes and the reversal to income statement deriving from gains (losses) on sales recognised in 2020 is as follows:

	Gross amount	**Income tax**	**Net amount**
a) fair value changes	**1,114**	**(645)**	**469**
Debt securities – Item 150	2,435	(1,068)	1,367
Equity securities – Item 170	(1,321)	423	(898)
b) reversal to income statement - gains (losses) on sales	**2,565**	**(848)**	**1,717**
Debt securities – Item 150	2,565	(848)	1,717

The amount of the income tax for Euro -1,521 thousand (item 180 net of item 100), is also indicated in the tables 10.5 and 10.6 of the "Tax assets", as follows:

10.5 Changes in prepaid taxes (through shareholders' equity)	
Increases	632
Decreases	(1,179)
10.6 Changes in deferred taxes (through shareholders' equity)	
Increases	(1,140)
Decreases	166
Effect of the income taxes on comprehensive income	**(1,521)**

Part E
Information on risks and the related hedging policies

Introduction

The Bank carries out its activities on a sound and prudent basis and with a contained propensity to risk, this in relation to:

- the need for stability associated with the performance of banking activities;
- the profile of its investors.

The overall propensity to risk is measured in summary form by identifying, as part of the Bank's equity ("own funds"), a capital component not intended for risk taking (unexpected losses), but oriented to pursue the following purposes:

- the business as a going-concern over the mid/long-term, gradually strengthening equity and maintaining conditions of operational flexibility (known as "strategic capital reserve");
- equity coverage of the impacts deriving from the occurrence of stress (known as "stress capital coverage").

The Internal Control and Risk Management System is defined as a set of rules, procedures and organisational structures allowing the identification, measurement, management and monitoring of the main risks. This system is integrated into the organisational and corporate governance structures adopted by the Bank.

In particular, the Bank's system of internal controls ensures the implementation of the corporate strategies and policies and is made up of a series of rules, procedures and organisational structures that aim to observe the standards of sound and prudent management.

The Corporate Bodies have the prime responsibility of ensuring, according to specific responsibilities, the completeness, adequacy, functionality and reliability of the internal control system.

The Bank has adopted a traditional type of governance model that envisages the presence of a Board of Directors, a Board of Statutory Auditors and General Management.

The Board of Directors is responsible for the strategic supervision function and for managing the Bank, accompanied also by the General Management, whereas the control functions are assigned to the Board of Statutory Auditors.

The Board of Directors defines the business model by approving the multi-year business plans and the annual budgets, with the awareness of the risks that this model exposes the Bank to and comprehension of the methods by means of which the risks are reported and assessed. The Board of Directors defines and approves the strategic guidelines and sees to their periodic review, establishes within the Risk Appetite Framework the propensity to risk and the related tolerance thresholds as well as the risk controlling policies, ensuring that the Bank's structure is consistent with the activities carried on and the business model adopted.

The risk controlling policies are formalised in specific regulations/policies that are promptly submitted for the approval of the Board of Directors.

The adoption of new products and services, the launch of new activities, introduction into new markets and, in general, the most significant operations are always approved by the Board of Directors.

The Board of Directors periodically assesses whether the risk profiles taken by the Bank in terms of capital adequacy, liquidity and risk return ratio of the operating activities are consistent with the propensity towards risk defined within the sphere of the strategic planning activities and with the regulatory levels. Furthermore, the Board of Directors assesses the observance of the operating limits defined for the taking of the various types of risks. The Board of Directors ensures the consistency between the strategic projections, the business model, the Risk Appetite Framework, the ICAAP-ILAAP process, the Budgets as well as the corporate organisation and the internal control system, taking into consideration the developments in the internal and external conditions under which the Bank operates.
During 2020, the “Risk Appetite Framework Policy” document was reviewed as usual further to the breakdown of the planned objectives for 2020, as part of the 2020-2022 three-year business plan, up-dating the types of risk that the Bank intends to assume, the risk objectives, any tolerance thresholds and possible operating limits.
In compliance with Directive (EU) 2014/59 Bank Recovery Resolution Directive (BRRD), the Bank has also adopted the Recovery Plan, i.e. the instrument dedicated to dealing promptly and effectively with crisis situations, regulating the measures to be taken to restore the Bank's economic, equity and financial equilibrium. In particular, the Plan, defined in 2019 and normally updated every two years, sets out the indicators to be assessed for the timely identification of crisis situations, the related methods for their periodic monitoring, as well as any actions to be taken to rebalance the company's situation.
The Board of Directors is supported by the Risks Committee, a body within the board that performs advisory and proposal-related functions with regard to risks and the system of internal controls.
General Management is fully aware of all the business risks, sees to the implementation of the strategic guidelines and the risk controlling policies defined by the Board of Directors. In particular, it proposes operating limits for the taking of the various types of risk, considering the stress tests carried out by the appointed units, in accordance with the matters envisaged by the Bank’s internal policies.
The General Management, with a view to facilitating the development and the divulgation - at all levels - of a culture of risk control, plans the training programmes for the Bank’s personnel on the basis of the proposals made by the HR Division.
The Board of Statutory Auditors carries out periodic checks so as to ascertain the completeness, adequacy, functionality and reliability of the internal control system.
When carrying out its tasks, the Board of Statutory Auditors uses suitable information flows provided by other Corporate Bodies and control functions. The regular attendance of the Board of Statutory Auditors during Board meetings, which are held every two weeks, represents a guarantee with regard to prompt information to the Control Body with regard to management events.

The sound and prudent management of the banks in ensured by a suitable business organisation, which envisages a complete and functional system of internal controls.
Specifically, the Bank’s System of internal controls is divided up into three different levels:

- line controls: aimed at ensuring proper execution of transactions. They are carried out by the production structures themselves or incorporated in the procedures and the IT systems, or carried out as part of back office activities.
  For the purpose of spreading within the entire structure deep-rooted awareness of the internal and external regulations, the Bank immediately communicated their updates to all relevant corporate functions using the dedicated electronic portal. Moreover, the controls to be implemented within each business process are broken down in the special “line control manual”. Finally, with the aim of harmonising the conduct of the operators facilitating the integration of the controls, the mapping of the main business processes is made available on-line for all the personnel by means of a specific application;

- controls on risks and on compliance (the “second-level controls”), aimed at ensuring, among other things:
  - the correct implementation of the risk management process;
  - the observance of the operating limits assigned to the various divisions;
  - the compliance of business operations with standards; including those concerning self-regulation.

  The second level controls are delegated by the organisational rules to the Risk Management, Planning & Control Service, the Compliance Service and the Anti-money Laundering Service. The functions in charge of these controls are different from those in charge of production; they contribute towards the definition of the risk governance policies and the risk management process;
- Internal audit (known as “third-level controls”): aimed at identifying violations of procedures and regulations as well as evaluating on a regular basis the completeness, adequacy, functions and reliability of the internal control system and of the IT system. These activities are carried out by the Internal Audit Service.

The company control functions seeing to the second and third level controls have the authority, resources and expertise necessary for the performance of their tasks.
The company organisation chart envisages - in compliance with the Supervisory regulations - the hierarchical and functional relationship of the company's control functions with regard to the Board of Directors.
The control functions have access to all the activities carried out by the Bank, both at the central offices and at the peripheral structures, as well as any information relevant for the performance of their tasks.

In 2020, the control activity, as declined in the three different levels described above, continued regularly despite the social distancing measures adopted in order to protect the health of employees, also making use of the remote communication tools adopted following the use of smart working. With reference to the activities envisaged under the internal control system, it should also be noted that the structure and extent of the checks have been carefully reviewed and calibrated following the changes made to the operating context as a result of the Covid-19 health emergency.

The function of Supervisory Body, established pursuant to Italian Law 231/01, is assigned to the Board of Statutory Auditors.
The Supervisory Body, established in accordance with Article 6 of Italian Legislative Decree No. 231/2001 has the task of assessing the proper functioning of the organisational controls envisaged in the Organisational, Management and Control Model adopted by the Bank so as to avoid involvement in events that could be subject to penalties pursuant to and for the purposes of Italian Law No. 231 of 2001.
The function of Supervisory Body has been assigned to the Board of Statutory Auditors as from 15 November 2017; this assignment completes the range of duties of the Board, which by law and by the articles of association is called upon to monitor the adequacy of the organisational, administrative and accounting structures of the company, simplifies the structure and allows for more timely controls.
During 2020, no reports were received regarding the commission of crimes and/or offences relevant under the regulations, as well as other information regarding violations or alleged violations of the rules of behaviour or procedures contained in the Organisational, Management and Control Model.
During the year, the Supervisory Body carried out specific audits – using the Risk Assessment method approved by the Bank and the support of the external consultant Unione Fiduciaria – concerning: 1) Corruption offences. 2) Tax offences associated with a risk related to money laundering. As a result of these checks, no specific critical issues were found.

By resolution of the Board of Directors of 16 December 2020, the Organisational, Management and Control Model was supplemented with the offences envisaged by Italian Law 133/2019 containing "Urgent provisions on the scope of national cybernetic security and the regulation of special powers in sectors of strategic importance" and with the changes introduced by Italian Legislative Decree 75/2020 "Tax Offences" in force since 30 July 2020, which amended Italian Legislative Decree 231/2001 by expanding the list of predicate offences and further extending the administrative liability of entities.

Compliance department

The risk of non-compliance is overseen by the Compliance Service. The activities of the compliance department include the monitoring of new regulations (also with the support of specialist functions), the assessment of impacts, the proposal of organisational and procedural changes aimed at ensuring adequate monitoring of identified non-compliance risks, as well as the checking of the efficacy of the organisational adaptations carried out by the operating units (structures, processes, procedures including operational and commercial) suggested for the prevention of the non-compliance risk. In detail, the Compliance Service works together with the other control functions (Internal Audit, Risk Management, Anti-money Laundering) for the purpose of developing its risk management methods in a consistent manner with strategies and business operations, checks whether situations involving conflicts of interest in "investment services", or the possible occurrence of such conflict, can be eliminated, reduced or managed, and submits the new cases for the attention of General Management, making suggestions for their overcoming or solution.
The Compliance Department sees to consulting and assistance vis-à-vis the Bank's Corporate Bodies with regard to all the matters in which the risk of non-compliance is relevant. Furthermore, the department collaborates in staff training activities on the provisions applicable to the activities carried out, for the purpose of spreading a corporate culture instilled with principles of honesty, correctness and respect of the spirit and letter of the law.
The "Compliance Service" monitors, according to a risk-based approach, the management of non-compliance risk with regard to business activities.

Anti-money Laundering Function

The Anti Money Laundering Service is hierarchically and functionally autonomous, compared to each operating structure of the Bank and acts autonomously and independently, reporting the results of the activity carried on to the Corporate bodies with objectivity and impartiality.
The Anti-money Laundering Service has the task of continually checking that the company procedures are consistent with the aim of preventing and contrasting money laundering and the financing of terrorism.

The operations of the Service pursue the twofold need of:

- implementing the fulfilments with regard to reporting of suspect transactions, carrying out checks with regard to the observance, of the provisions regarding anti-money laundering, notifying to the Ministry of the Economy and Finance any violations of the regulations on the use of cash and bearer securities as well as responding to the requests of the Authorities;
- providing advisory support to the organisational structures further to the issuance of new provisions regarding anti-money laundering having an impact on the Bank.

The guidelines adopted by the Bank with regard to anti-money laundering consider the provisions issued by the Bank of Italy. The "Anti-money laundering Policy", approved by the Board of Directors, brings together the guiding principles relating to the strategic stances and the government policies, the organisational and control safeguards for risk, appropriate checks, obligations to abstain and active collaboration vis-à-vis the Supervisory Authorities.

The Anti Money Laundering Service adopts, as an instrument for internal regulation of the specialist function, its own Regulations approved by the Board of Directors; internal regulations for use by all personnel is instead summarised in the form of a Manual, with the aim to collect together the operational principles and rules adopted by the Bank on the prevention of money laundering and terrorist financing risks.

The Anti-money Laundering Service, aided by the Compliance Service, takes steps to identify the external regulations applicable and, in collaboration with the competent Corporate Functions, assesses their impact on the process and the internal procedures.

The Anti-Money Laundering Service supports the Training division, which is headed by the HR Division, in the preparation and delivery of dedicated internal staff courses aimed at raising awareness on anti-money laundering and financing of terrorism within the Bank's established training plans.

Risk Management Department

The purpose of the Risk Management Department is to implement the risk control policies, by means of an appropriate process for identifying, measuring and monitoring such risks; this Department is assigned to the Risk Management, Planning and Control Service. The structure of the Service and its positioning within the organisational model of the Bank provide integrated oversight of the various risks to which the intermediary is exposed.

The Bank's Organisational Structure and the regulations of the Service regulate the following tasks:

- verify the adequacy of the RAF (Risk Appetite Framework) and, continuously, the adequacy of the management process of risks and operating limits;
- collaborate in defining and implementing the RAF, the risk governance policies and the various phases that make up the related management process as well as in fixing the operational limits to the taking of various types of risk;
- monitor the actual risk taken by the Bank and its compliance with the risk objectives as well as the compliance with the operating limits;
- see to the measurement/valuation of the individual Pillar I and II risks, both in situations of normal course of business and in situations of stress, by also analysing the other risks difficult to quantify. The Risk Management department also sees to the development of the instruments and the methods for handling and measuring the risks, reporting to the corporate bodies and the units involved with regard to the results of the analysis, ensuring the necessary disclosure;
- coordinating the internal process for determining capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP) and the adequacy of the governance and liquidity risk management system (Internal Liquidity Adequacy Assessment Process - ILAAP). In particular, as part of the ICAAP, the Bank carries out a capital planning process, assesses the overall risk exposure and consequently determines current and prospective capital requirements. On the other hand, as part of ILAAP, the Bank assesses the adequacy of the liquidity risk governance and management system and its exposure to such risk, planning the level of liquidity reserves to be maintained and the sources and channels of financing to be used;
- proposing the quantity and quality parameters required for defining the RAF (tolerance thresholds and operational limits), consistent with the methods used within the ICAAP-ILAAP process;
- collaborate in the drafting of the "Public disclosure" (Pillar III), as well as the additional disclosures introduced by the regulations also as a result of the current Health Emergency;

- coordinate the preparation and updating of the Recovery Plan, by supporting the Corporate Bodies in particular in the identification of the indicators, in the calibration of the thresholds for the activation of the Plan and in the identification of the recovery options.

The area of operations of the Risk Management Department includes the following types of risk:

- credit risk and counterparty risk;
- market risk (relating to both the trading book and the bank book);
- operational risk;
- concentration risk;
- interest rate risk of the banking book;
- liquidity risk;
- risk related to the portion of encumbered assets;
- risk of excessive leverage;
- reputational risk;
- strategic and business risk;
- residual risk;
- risks deriving from securitisations;
- IT risk.

As part of the periodic review activities on the risk monitoring perimeter the bank is subject to, the Risk Management, Planning and Control Service also checks the emergence of new types of risk arising from the adoption of new management choices, as well as from changes in the market environment.

The activity of the Department aims at identifying, assessing and monitoring the various types of risk taken or that can be assumed in the various business segments and proposing the appropriate mitigation and prevention, seizing - within an integrated logic - the interrelationships, reporting the records to the Corporate Bodies.

The Risk Management Department checks the adequacy and efficacy of the measures adopted to remedy the shortfalls noted in the risk management process, identifying any areas for improvement and providing disclosure also in the ICAAP-ILAAP Report.

In particular, in the update of the Self-Assessment Process concluded with the approval in June 2020 of the 2019 Report, the Bank, in order to adequately weigh the uncertainties on the development of the reference context caused by the health emergency, adopted a multi-scenario approach, differentiating the possible macroeconomic and financial market trends and the related impacts on the Bank's capital base and liquidity position.

However, the analyses carried out confirmed, even in the worst-case scenario, the Bank's capital adequacy as well as its liquidity risk management and governance system.

Finally, the Risk Management, Planning and Control Service constantly monitors the risk profile taken by the Bank compared to the risk appetite defined in the RAF, reporting to the Corporate Bodies. The risk objectives set out in the 2020 update of the RAF take due account of the Bank's forecasts on the development of expected economic, capital and financial parameters and consider the current pandemic environment.

Internal Audit Department

The Internal Audit department, as part of third-level controls carried out both remotely and at central and peripheral structures, operates autonomously and independently. The Internal Audit Department checks, based on the Supervisory Regulations and annual planning, the suitability and the efficiency of the Internal Control System, the regularity of the corporate operations and the observance of the policies adopted with regard to risk taking; it also checks the efficiency and the effectiveness of the second level controls assigned to the other corporate control functions and, in particular, those aimed at ensuring the containment of the business risks within the level deemed acceptable by the Bank. The department also takes steps to ascertain the removal of anomalies reported in the operating processes and in the functioning of the controls by means of follow up activities, and to carry out checks on the overall functioning of the Internal control system.

The unit presents the corporate bodies with an audit plan each year, indicating the planned control activities.

At the request or initiative of the Board of Directors, Board of Statutory Auditors or General Management, the Internal Audit Service also carries out checks on specific behaviour or irregularities. In conclusion, the tasks of the unit include the checking of the observance in the various operating sectors of the limits envisaged by the authorisation mechanisms, with particular reference to the Loans and Financial Sectors.

Section 1 - Credit risk

Qualitative information

1. General aspects

The business model adopted from day one by the Bank is essentially based on loan brokerage activities and is aimed at supporting families and the manufacturing sphere in the various areas of competence, according to the management guidelines outlined by the Board of Directors and in compliance with the statutory provisions.
The activity of credit disbursement mainly addresses the retail, small business and SME segments, in that they are entities that require a reference contact, capable of understanding and satisfying the needs; lending activities address the corporate segment to a lesser extent.

The Bank, in order to standardise the behaviour of the players involved in the credit granting process, defines the lending policies overseeing the quality of the loans both during the first loan proposal resolution and in the subsequent management of the relation.
The policies in the last few years have seen the splitting of the loans and the loans portfolio diversification as the strategic approach, favouring technical forms backed by collateral, in order to mitigate the impact on the overall credit risk of the Bank.
The lending policies adopted in 2020 took into account the sudden deterioration of the macroeconomic environment, as well as the economic and monetary policy measures defined by the Banks in order to support the real economy as it deals with the repercussions of the health emergency. The Bank's lending policies ensured the effective transmission of economic policy drives to businesses and consumer households, while also guaranteeing high levels of accuracy at the outset of the relationship and in its subsequent management.

In particular, during the year the Bank adequately supported the liquidity requirements of its customers, always carrying out accurate preliminary investigations and using the institutional guarantees made available by the economic policy measures to mitigate the risks, taking advantage of its ten years' experience in the use of these technical forms.
However, the Bank has not shied away from acquiring new customers, particularly in recently established areas, paying particular attention to the quality of the entrepreneurial projects underlying the financial intervention required of the Bank, the income-earning prospects of the business as well as the consequent ability to repay are evaluated, in particular.
During 2020, the management and monitoring of the loan already disbursed were aimed, in addition to identifying any potential irregular trend, at timely restructuring the relation in accordance with the changes in the economic and financial situation of the counterparties. In particular, preference was given to the forms of deferment envisaged by legislative decrees (e.g. "Cura Italia" moratoria) or by trade agreements ("Addendum ABI").
This monitoring was useful for preventing the effects of the deterioration in creditworthiness due to the worsening of the economic context as well as for promptly intervening with corrective actions in removing anomalies, trying to identify those subjects deserving financial support who are able, if adequately supported, to overcome the current pandemic context. The management of the credit facilities granted in the pandemic context was therefore based on the principles of utmost prudence, trying to pick up any sign of performance not in line with correct operations in order to implement the necessary actions.
Commercial policy is pursued through the branch network both in the geographical areas in which the Bank has a traditional presence, the objectives being the constant consolidation of its position and support its existing customers, and in new markets, with the aim of acquiring new market shares by diversifying its credit intermediation activities.

Please refer to the information in the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis" issued by the EBA (GL 2020/07) and regarding exposures subject to measures applied in the light of the Covid-19 crisis.

2. Credit risk management policies

2.1 Organisational aspects

The factors that give rise to credit risk are related to the possibility of an unexpected change in the creditworthiness of a counterparty to which there is credit exposure generating a corresponding unexpected change in the current value of such loan exposure.
Therefore, the credit risk is not only the possibility of insolvency of the counterparty but also the mere worsening of its creditworthiness.
As part of the adopted risk management and taking, initial supervision, even in the current emergency context, is in the Branch, both via constant and continual dialogue with the customers and availing itself of information sources of an internal and external nature, with the help also of the IT procedures. During the loan approval and review, the Bank analyses the financial requirements of the customer and the documents required for making an adequate assessment of the borrower's creditworthiness. Therefore, the decision to grant credit is based both on the analysis of the complete set of information relating to the economic subject and on the direct knowledge of customers and of the economic environment in which it operates. All the approval process activities concerning the operational process, which lead to the disbursement and periodic review of the position, are developed with the aim of disbursing a fair loan at individual name (and/or group) level, envisaging the most suitable technical forms of the credit facility and proper compensation for the risk taken.

The taking and management of the credit risk was regulated by means of the formalisation of the underlying process, detailing the role of the corporate bodies, the operations of all the parties involved, defining the first level controls and specifying the role of the control functions.

In particular, the Board of Directors defined, as part of the "Loan Regulations", the autonomous decision-taking systems of each body delegated to grant credit. The observance of the powers authorised by the Board of Directors is guaranteed by the automated checks provided in the data processing system with which the loan approval process is managed.
The General Management implements the loan policies issued by the Board of Directors and oversees the performance of the process, coordinating in particular the operations of the Loan Sector in the disbursement and management of credit facilities.
The control and management of loans and receivables showing signs of anomalies or impairment is the responsibility of the Anomalous Loan Division, including the Trend Monitoring, Pre-dispute, Legal and Disputes Services. The Anomalous Loan Division coordinates and supervises the operations of the various services with the aim of optimising the Bank's debt collection activities by taking care of the related reporting process to corporate bodies.
In particular, the "Performance Monitoring" Service is responsible for monitoring performing loans that show signs of anomalies, in coordination with the area network. This activity is aimed at encouraging an anticipatory management of the credit risk and implementing the management strategies for improving the Bank's credit quality. The management of relations classified as Past due Impaired and Unlikely To Pay is assigned to the Pre-dispute Service, while the management of positions classified as Bad is the responsibility of the Legal and Dispute Service.
The loan approval process relating to Past due Non-performing and Unlikely to pay positions envisages the granting of decision-making powers to the Pre-dispute Service, the Anomalous Loan Division and the Anomalous Loan Committee, replacing those previously granted to the Loan Sector and the Loans Committee with regard to performing loans. This structure of tasks and roles makes it possible to rationalise and optimise credit recovery and restructuring processes.

As part of the overall credit risk management process, second-level controls are included to check the correct monitoring of credit exposures by the Risk Management Service. Third level controls on the credit management process are entrusted to the Internal Audit Service.
The company functions involved in the credit process and the related tasks assigned are summarised below:

- the Loans Committee, whose mission involves guiding and optimising the Bank's loan policies, as part of the strategies established by the Board of Directors;
- the Anomalous Loan Committee, with the aim of supporting General Management in the formulation of strategies for recovery and handling of anomalous relationships and in the adoption of organisational and operative solutions directed at improving the supervision activities in the structures involved in the credit process and their co-ordination;
- the Business Division that, with the aid of the Strategic Planning and Special Project Sector, checks the sustainability of the lending policies adopted, making proposals to the General Management relating to:
  - the instruments and types of counterparty to which the loan is destined for the purpose of generating profitable and fractioned loans;
  - the technical forms to be preferred defining the maximum limits in terms of amount and maturity;
  - the business sectors and geographical areas to be preferred with a view to diversification of the risk;
- the Loans Sector that manages and checks the process for taking the risks related to the disbursement of credit, proposes the credit management policies and plans the consequent

activities, supporting the branch network both during the first origination and as part of the review of credit facilities granted;

- the Performance Monitoring Service that deals with the monitoring of performing positions with anomalies;
- the Pre-dispute Service that manages the loan portfolio classified as past due impaired and unlikely to pay of the Bank;
- the Legal and Dispute Service sees to the legal aspects of the cases classified as bad, with the aim of optimising the debt recovery phase also by means of the use of outside legal professional and collaborators;
- the Risk Management, Planning & Control Service that is entrusted with the checking of the correct performance of the trend monitoring on the loan exposures, in compliance with the matters envisaged by Bank of Italy Circular 285/2013 "Supervisory instructions for Banks";
- The Internal Audit Service that assesses the functionality and reliability of the entire internal control system and checks, amongst other aspects, that lending is carried out in accordance with the rules.

2.2 Management, measurement and control systems

The credit risk management, measurement and control systems develop within an organisational context that involves the entire credit process cycle, from the initial approval process to the periodic review stage, and up to the revocation and recovery stage.
The Bank also carries out quantitative and qualitative analysis for the purposes of the measurement and periodic control of the Credit Risk. In particular, the quantitative assessments use different instruments that provide information from an economic, financial and equity standpoint of the customer:

- financial statements and tax returns: assessments of the equity and financial balances, determination of the degree of indebtedness, determination of the net financial positions, analysis of the economic indicators;
- relation with the Bank: analysis of the current account transactions, the average use of the credit facilities agreed, checking of the regularity in repayment of loans;
- relations with other Banks: analysis of the Central Credit Register and of other external databanks:

At any given time, the Bank is aware of its exposure to each customer, since the information system adopted makes it possible for each counterparty (customer or group of associated customers) to use updated information and data each day.

Generally speaking, when providing credit, in addition to observance of the legal and supervisory provisions envisaged for financial brokers, the Bank resolves to achieve the following:

- the best knowledge of the contractual counterparties for the purpose of assessing the related current and future credit capacity;
- the use of the most appropriate technical form with regard to the loan requirement to be satisfied, taking into account the guarantees and the duration;

- the diversification of the credit risk, limiting the concentration of the exposures on groups of associated customers/groups of businesses or on individual sectors/branches of business activities;
- a suitable economic return from the relation compared to the risk taken;
- the control of the performance of the individual positions carried out by means of the periodic review of the cases and systematic monitoring activities;
- the best management of non-performing loans.

As part of the credit trend monitoring of individual exposures, both performing and non-performing, the Functions involved in the process are supported by specific operational procedures provided by the Outsourcer Cedacri.

In particular, the Bank, for merely internal management and operational purposes, adopted the rating model provided by the outsourcer Cedacri (CRS Credit Rating System), which is used in monitoring the credit quality of exposures previously granted and that, allowing a timely identification of the signs of credit impairment, represents a valid management support, both at the individual exposure level and at the overall portfolio level.

This model, broken down on a specific segmentation of customer portfolio, is based on a statistical analysis and on a careful selection of the indicators used for estimating the probability of default
In particular, the adopted model assigns a probability of default for each customer, through an internal statistical scoring system, based on the analysis of internal and external indicators. In particular, the credit relation is analysed on the basis of the following information:

- performance of the relation with the Bank;
- performance of the customer with the system (Central Credit Register);
- economic and financial performance of the customer (financial statements);
- customer's business segment (Private consumers, Small Businesses, SMEs, Large Corporate, Real Estate, Financial and Institutional).

Based on the estimated probability of default, each portion is assigned the corresponding rating. The rating scale used is defined by the IT outsourcer, on the basis of statistical studies.

The Bank also uses the "Credit Quality Management" application that supports the departments in charge of identifying the counterparties to be subjected to monitoring and managing the already anomalous positions.
In particular, the application divides the customers up into monitoring sub-portfolios according to the Bank's strategic guidelines; for each customer "cluster" identified, it is possible to associate different lending strategies, with a customisation of the process chosen in terms of players and actions to be undertaken, providing an integrated view of current operations and the historical analysis of the relations. The key elements of the procedure are: the definition of the status of the credit, the assignment of the risk classes and the identification of an operating process with various types of action practicable for each position surveyed by the application, also diversifying among the operational roles involved in the process.

The monitoring and management of Credit Risk is also carried out through specific portfolio analyses with the aim of assessing the overall quality of credit exposures and the main trends by checking their compliance with strategic objectives. Portfolio analyses are carried out using both the procedures adopted for monitoring individual exposures and the reworking of databases produced directly from the Bank's IT archives. The results of the portfolio analyses are periodically reported to the corporate bodies.

During 2020, the Bank further strengthened the process of monitoring credit exposures in view of the possible increase in the risk of impairment of the loan portfolio in the light of the emergency context. This strengthening concerned both the commercial network, through a campaign to raise awareness of credit recovery strategies and the prevention or removal of performance anomalies, and the central structures, through the definition of a structured framework for monitoring counterparties characterised by the presence of moratoria.

The campaign to raise awareness among the commercial network resulted in the organisation of specific meetings during which the following were presented: the situation of non-performing loans at Bank level and by individual area, the NPL management plan, regulatory developments and their impact on the objectives for managing non-performing loans. The strategic importance of this initiative is motivated by the current credit delegating system, whereby branches are responsible for assessing new applications for credit facility and reviewing and extending existing ones. The effects of this campaign were already evident during the year, when a significant decrease in past due non-performing positions was observed.

The new framework for monitoring counterparties with outstanding moratoria is based on portfolio analysis distinguishing between the private and business segments. For both segments, specific risk indicators and warning thresholds have been defined. With regard to the private segment, the indicators aim to check the sustainability of the debt in relation to the income received, the amount of monthly credits on the current account and the overall availability of the individual borrower. On the other hand, for businesses debt sustainability is checked both on the basis of monthly credits and on the basis of specific commonly adopted indicators (Debt Service Coverage Ratio, Debt/Equity ratio, Net Financial Position to EBITDA ratio, ratio used/agreed by the Central Credit Register). For the purpose of calculating the indicators, the final financial statement data was adjusted to take into account the expected development of the economic scenario, differentiating by macro-sector of activity, based on information obtained from some market studies. Positions with a significant number of indicators with trends worse than the defined thresholds are subject to further investigation by the head offices in charge, with the involvement of the branches managing the reports.
The business segment was also subject to a specific assessment in order to check the Bank's exposure to the economic sectors most affected by the crisis. This analysis shows a diversified credit portfolio with little focus on specific sectors, particularly those most affected by the pandemic. The analysis also considered the incidence of suspended payment positions in relation to overall exposure, showing no particular concentration of moratoria on specific sectors.

Therefore, the strategy adopted in the light of the current health emergency is aimed at preventing the possible impairment of the loan portfolio at an early stage; in this respect, further IT projects are being implemented to further strengthen the adopted early warning system.

The reporting activity was further implemented in order to closely monitor the level of credit risk taking with special reference to the trend in credit quality, compliance with the objectives for reducing non-performing loans set out in the NPL Plan, as well as comparing the overall risk taken with the Bank's capital endowment. In this regard, it should be noted that the objectives defined as part of the updated Operating Plan for the management of non performing loans take into account the changed operating context and the uncertainties related to the economic repercussions of the Covid-19 epidemic.

In particular, specific objectives and attention thresholds are defined both for indicators relating to the impact of non-performing loans and overall credit quality, and in terms of capital absorption with reference to credit risk.
The definition of risk objectives and limits is carried out on the basis of the expected management development within the RAF process, also taking into account the stress tests carried out in the ICAAP-ILAAP self-assessment process. In particular, the 2019 ICAAP-ILAAP process envisaged different stress scenarios over a two-year horizon in consideration of the possible evolution of the Covid-19 crisis and the consequent imairment of the credit quality of the Bank's portfolio. The stress tests carried out have an impact both on the performing loans portfolio by increasing the expected default rates and on the already impaired portfolio by increasing write-downs with negative effects on the capital endowment and on the value of risk-weighted loans.
As part of the credit risk limitation, credit policies are aimed at a careful diversification of risk and at limiting the level of exposures per borrower, per group of related customers and per sector of economic activity. Based on the credit policies, specific risk limits are calibrated within the RAF.
The RAF Process envisages a system of periodic monitoring of the objectives and limits set for all the Bank's significant risks, ensuring constant monitoring of risk taking and allowing for the timely start of any mitigation actions.

With regard to the determination of the capital requirement in the presence of credit risk (First Pillar), the Bank uses the standardised method envisaged by the Supervision Provisions, in line with the proportionality criteria. The related information is subject to quarterly reporting to the Bank of Italy.

The Bank calculates prudential requirements (First Pillar) and assesses the capital adequacy using the SDB Matrix application), integrating supervisory review measurements (Second Pillar) with the support of the procedure known as C.C.M. (Credit Capital Management).

2.3 Methods for measuring expected losses

The general approach defined by IFRS 9 for estimating impairment is based on a process designed to highlight the impairment of the credit quality of a financial instrument at the reporting date compared to the initial recognition date. In particular, at the end of each reporting period, financial assets other than those measured at fair value through profit or loss undergo an assessment to determine whether there is evidence that the carrying amount of the assets cannot be fully recovered.

The process of defining expected losses provides for the preliminary assignment of receivables to the various "stages" provided for by IFRS 9 ("staging" or "stage allocation") which takes place by identifying significant changes in credit risk also on the basis of the change in the creditworthiness of the counterparty at the reporting date compared to the initial recognition.
The classification of exposures determined the related expected loss together with the residual life of the financial asset and forward-looking information that may affect credit risk.
In detail, exposures are divided into three stages (known as "stage" or "Bucket") according to the increasing degree of their credit risk:
• "Bucket 1": this includes performing exposures characterised by the absence of a significant increase in the credit risk of the exposure compared to the initial recognition in the financial statements. For this bucket, the expected loss for one year is calculated on a collective basis;
• "Bucket 2": this includes performing exposures characterised by a significant increase in the credit risk of the exposure compared to the initial recognition in the financial statements. For this bucket,

the expected loss is calculated on a "life time" basis, i.e. with reference to the entire residual life of the instrument on a collective basis;

• "Bucket 3": this includes non-performing exposures corresponding to positions classified as Non-Performing. The expected loss on non-performing loans is calculated on an analytical basis for each individual position.

Therefore, the exposures included in "Bucket 1" and "Bucket 2" coincide with performing exposures, while the exposures included in "Bucket 3" coincide with non-performing exposures: past due impaired, unlikely to pay and bad.

The identification of the significant increase in credit risk for performing positions with a consequent classification of the exposure as Stage 2 is carried out by the Bank by monitoring the change in the rating class on the reporting date compared to the date of the first granting and/or renewal of the credit facilities assigned by the CRS model. Moreover, for the possible credit allocation in Bucket 2, the presence of past dues of more than 30 days, the presence of "forbearance measures" and other signs of anomalies defined by management are taken into account.

The expected loss for performing positions is estimated by applying a specific calculation model that takes into account the credit exposure, the probability of default and the potential loss discounted in the event of default.

The probability of default, which is a function of the creditworthiness of the counterparty, is estimated over a time horizon of one year for loans in Bucket 1, while considering a "life time" perspective for positions in Bucket 2.

The risk parameters are determined on the basis of statistical analyses carried out by the IT outsourcer and take into account the expected development of macroeconomic scenarios from a forward looking perspective.

Changes due to Covid

In 2020, in consideration of the changed macroeconomic environment, the Bank reviewed its assessment policies of loans and receivables with customers on a prudential basis and critically reassessed its business practices in this area. At the same time, the risk parameters for assessing past due and non-performing loans were updated prudently.

As part of the updating of the credit assessment policy, the criteria for classifying non-performing loans have been strengthened, further detailing the risk indicators (known as activation factors or "triggers") functional to the reclassification as unlikely to pay or bad. Moreover, the logic used for the classification from Bucket 1 to Bucket 2 and the related method of calculation of impairments were further clarified in detail.

Assessment of significant increase in credit risk (SICR)

With respect to the process of assessing the significant increase in credit risk, the Bank, confirming the stringent identification criteria of the SICR, carried out a careful assessment of positions affected by moratorium measures in order to identify those exposures for which Forbearance was deemed appropriate. It should be noted that almost 90% of the moratoria granted by the Bank are known as "EBA-Compliant Moratoria", i.e. of a legislative nature (granted on the basis of a legislative decree) or as part of agreements signed with major trade associations. The EBA Guidelines envisage that the granting of these types of moratoria is not a necessary and sufficient condition for being Forborne. The Bank, following a risk-based approach, has nevertheless carried out a critical assessment of whether the conditions for granting the forbearance measure are met on individual positions covered by these forms of facilities.

The Bank has also prudentially revalued the ratings assigned by the procedure to the positions subject to the moratorium in order not to take into account, when assigning the rating class, any benefits associated with the granting of the facilities.

Measuring expected losses

When determining the probability of default, the Bank implemented "multi-scenario" approaches in order to take due account of the extreme volatility that characterises the current forecasts on the development of macroeconomic variables. In particular, based on the compliance with the project of the Cedacri outsourcer developed with the help of the advisor Prometeia, an approach that envisages the definition of three different possible developments of the macroeconomic context over a three-year period was defined: the "base" scenario, the "worst" scenario and the "best" scenario.

The three scenarios differ due to the different expected development of macroeconomic variables (GDP, consumer price trends, employment and unemployment rates, dollar-euro exchange rates, Btp-Bund spread, Italian equity index, interbank interest rates, etc.). For all three scenarios, estimates on the trend of the selected variables were provided by Prometeia, a provider specialising in macroeconomic estimates based on the actual performance data as at 30 September 2020.

Under the baseline scenario, Prometeia assumed a recovery of Italy's GDP after the deep recession in 2020, but this will not allow Italy to recover its pre-crisis levels before 2023. Inflation is also expected to rise over the entire three-year period of analysis, but at less than 2%. The unemployment rate is also estimated to increase in 2021, to over 11%, before gradually decreasing in 2022 to around 10.3% in 2023. Interbank rates are also expected to remain negative for up to three years.

The "alternative" scenarios have been estimated by Prometeia with the help of econometric models that ensure full consistency between the various risk factors and macro-financial variables.

The worst-case scenario assumed a slower GDP recovery for Italy, with GDP reaching pre-Covid levels only in 2024 and unemployment approaching 13% in 2021, while the recovery of inflation would be weaker in the analysed three-year period than in the baseline scenario.

In the best-case scenario, GDP is expected to recover more strongly, reaching pre-pandemic levels by the end of 2022. Moreover, inflation growth is expected to be slightly higher than in the baseline scenario. The unemployment rate is estimated to fall over the three-year period to 7.9% at the end of 2023.

The three different scenarios were weighted to define the scenario to be adopted based on the results of the stochastic simulations. The "base" scenario was weighted at 50%, the "worst" scenario at 30% and the "best" scenario at 20%. Adjustment provisions calculated for total performing loans, both on-balance-sheet and off-balance-sheet, amount to Euro 24.6 million, based on the scenario weightings adopted. Assuming the adoption of the "worst" scenario tout court, the adjustment provisions would amount to Euro 26.4 million, while in the event of the full adoption of the "best" scenario, the adjustment provisions would amount to Euro 22.4 million.

Moreover, in order to accurately consider the increase in government-backed loans in the bank's loan portfolio as a result of the economic policy measures adopted by the Italian Government to deal with the economic emergency generated by the Covid-19 pandemic, the logics for defining Loss Given Default were also implemented, defining a specific LGD for the portion guaranteed by the central government. In particular, for the purpose of calculating the share of guaranteed loans, only the positions for which the Guarantee was requested and obtained at the stage of first disbursement were considered.

2.4 Credit risk mitigation techniques

The main levers for the mitigation of the credit risk are represented by the system of guarantees that assist the loan exposures, a contained degree of concentration with respect to the borrowers, as well as by a suitable level of diversification of the loan by credit type and commodities sector.

With regard to the management of guarantees, the Bank defined the related operational processes as part of internal regulations.
The method for managing the guarantees is integrated in the information system from which it is possible to infer the main information related to them for the purposes of effective monitoring of credit exposures and the correct determination of risk-weighted assets for the purposes of calculating capital requirements.
In fact, with a view to ensuring the observance of the specific requirements envisaged by the new Supervisory provisions, the Bank adopted a specific system for handling the guarantees implemented by Cedacri has been used, providing the instruments for the management of the processes and the data relating to the classification and assessment of the instruments guaranteeing the credit, in compliance with the Bank's management and strategic objectives.

The Bank, in order to mitigate credit risk, uses collaterals and personal guarantees. In particular, the main types of collaterals used are real estate mortgage liens and financial collaterals.
The Bank uses an ad hoc procedure, known as "Collateral", provided by the outsourcer Cedacri, so as to efficiently oversee the entire process for the acquisition, assessment, checking and realisation of the mortgage liens, identifying all the inherent information and the link between the assets provide as collateral and those entitled to the asset. The procedure also permits the periodic updating of the "current" value of said guarantee and the control of the consistency of the value of the guarantee with respect to the risk resolved. The relationship between the loan and the value of the asset provided as collateral is subject to monitoring, also through the statistical revaluation process of expert value. In this regard, the Bank adopted a specific internal framework for the valuation of real estate guarantees for both performing and non-performing loans.
As part of the collection of pledges on financial instruments, the Bank prefers the use of securities listed on regulated markets, also monitoring the change in their value compared to the secured credit exposures; in particular, specific prudential haircuts are applied during the evaluation of the guarantee depending on the type of financial instrument.
Personal guarantees consist for the most part in performance bonds granted by Central Fund for SMEs in pursuance of 662/1996. In this regard, it should be noted that since 2007 the Bank has been granting government-backed loans through Mediocredito Centrale, and has therefore gained consolidated experience in this form of lending that has enabled it during the year to respond promptly to the liquidity requests of SMEs affected by the Covid-19 crisis. The Bank also makes use of guarantees given by other institutional counterparties, including in particular the European Investment Fund, through specific upper limits, and other specialised entities (e.g. Confidi).
To date, the Group has not used credit derivatives to hedge or transfer the risk against the portfolio loans.

3. Non-performing credit exposures

3.1 Management strategies and policies

With regard to the classification of non-performing exposures, the Bank refers to the regulations issued by the Supervisory Authority, supplemented by internal provisions that establish criteria and rules for the classification of loans within the various risk categories.
Non-performing exposures are divided up into bad, unlikely to pay, past due and/or overdue non-performing categories, depending on the following rules:

- **Bad loans**: all the on and off-balance sheet exposures vis-à-vis a party in a state of insolvency (even if not legally declared so) or in essentially similar situations, irrespective of any loss forecasts formulated by the bank.
- **Unlikely to pay**: classification in this category is, first and foremost, the result of the opinion of the bank regarding the improbability that, without recourse to action such as enforcement of the guarantees, the debtor fully satisfies (in terms of principal and/or interest) its loan obligations. This valuation must be carried out independently from the presence of any amounts (or instalments) past due and unpaid. Therefore, it is not necessary to wait for an explicit symptom of anomaly (non-payment), if elements exist that imply a situation of default risk of the debtor (for example, a crisis in the industrial sector in which the debtor operates).
- **Past due and/or overdue non-performing loans**: cash exposures, other than those classified under bad or unlikely to pay, which, as at the reporting reference date, are past due or overrun by more than 90 days.

  The past due and/or overdue non-performing loans may be determined by making reference, alternatively, to the individual debtor or the individual transaction; the bank adopts a "by debtor" approach, as described below.

  The past due must be on-going. Specifically, in the event of exposures involving repayment in instalments, the instalment not paid that has the longest delay must be considered.

  If several past due and/or overdue exposures by more than 90 days refer to a debtor, it is necessary to consider the longest delay. In the event of openings of credit in current accounts upon revocation in which the credit facility limit agreed has been exceeded (also due to the capitalisation of the interest), the calculation of the overrun days starts - according to the case which occurs first - as from the first date of non-payment of the interest that leads to the overrun or as from the date of first request for repayment of the capital.

  The overall exposure vis-à-vis a debtor must be recognised as past due impaired if, as at the reporting reference date, the greatest between the following two values is equal to or greater than the threshold of 5%:

  a) average of the past due and/or overdue instalments of the entire exposure registered on a daily basis in the last previous quarter;

  b) past due instalment of the entire exposure referring to the reporting reference date.

In this regard, on 26 June 2019, the Bank of Italy updated Circulars 272 ("Accounts Matrix") and 285 ("Supervisory Provisions for Banks"), implementing the changes to the definitions of non-performing exposures introduced by Delegated Regulation (EU) No. 171/2018 and the Guidelines issued by the EBA on the subject: these updates came into force on 1 January 2021.
In particular, the new definition of default ("New Dod") requires that debtors be classified as non-performing (default) if at least one of the following conditions is met:

- the debtor is in arrears for more than 90 days (180 days for public administrations) with the payment of a material obligation;
- the bank considers it unlikely that the debtor will fully satisfy its obligation without recourse to action such as enforcement of guarantees.

For the purpose of counting overrun days, past due debt is considered to be material when the amount of the arrears exceeds both of the following thresholds:

- Euro 100 for retail exposures and Euro 500 for exposures other than retail (absolute threshold);
- 1 per cent of the total exposure to a counterparty (relative threshold).

Once both thresholds are exceeded, the counting of 90 consecutive past due days begins, beyond which the debtor is classified as in default. The main changes include the fact that it is no longer possible to offset past due amounts against open and unused credit lines (known as available margins). Therefore, starting from the last quarter of the year, the Bank began counting days past due on the basis of the new definition, in order to be able to identify the positions to be classified as non-performing past due with effect from the date on which the new regulations came into force. In order to mitigate the possible negative impacts caused by the entry into force of the New Dod, the Bank carefully monitored counterparties with overdrawn positions and promptly reported these positions to the commercial network in order to raise customer awareness.

Still with regard to the impacts related to the development of the regulatory framework, the entry into force of Calendar Provisioning, introduced by EU Regulation 630/2019,which provides for minimum coverage levels for prudential purposes for non-performing loans, is significant. The expected impacts of these new regulations are estimated to be negligible over the next two years 2021-2022, becoming more significant from 2023 onwards, although adequately controlled by the assessment policy already adopted; however, the Bank continuously monitors the effects that may result.

The management of non-performing loans is the responsibility of the Anomalous Loan Division by means of the Pre-dispute, Legal and Disputes Services. The Bank, as part of the regulation of the underlying process, adopted a special internal document called "Consolidated Law for the management of anomalous and non-performing loan" that defines the main tasks and the guidelines in this matter, which are further specified in the relevant service regulations.
The information relating to the non-performing exposures is supplemented in the information system with the aid of specific instruments that support the handling thereof and indicate the related status.
On the basis of the specific anomaly indices reported both with the IT procedures and on the basis of qualitative assessments and in the light of what is established by company regulations, the Pre-dispute Service governs, under the supervision of the Anomalous Loan Division, the classification process for the loan positions and the process of variation of the related status in compliance with the limits of autonomy established by the Board of Directors.
As part of the management of performing loans, the Anomalous Loan Division, through the Performance Monitoring Service controls the exposures showing a not fully regular trend of the loan relation. In particular, for operational purposes, the Bank has established a specific sub-class of loans called "Under Control", in which positions showing anomalous trends are classified.

The assessment of non-performing exposures is carried out according to analytical methods defined in a specific internal policy approved by the Board of Directors; this policy formalises the guidelines to be adopted in determining the expected loss by diversifying the approaches according to the type of credit, the technical form of the relationship and the type of guarantee supporting it. The document also sets out the methods for quantifying the parameters to be adopted for estimating impairment losses and their updating methods, which also take into account the historical analysis of recovery activities. In this regard, it should be noted that this Policy was revised during the year in order to update the assessment policies of loans and receivables with customers. In particular, both the classification by risk category of performing and non-performing loans and the staging rules (Bucket 1 and Bucket 2) for performing loans have been further clarified in detail.

The amount of the impairment losses on receivables is equal to the difference between the book value of the asset and the current value of expected future cash flows. Depending on the severity of the state of impairment and the significance of the exposure, the estimates of the recoverable amount consider a going concern approach, which assumes the going concern of the counterparty and the continuous generation of operating cash flows, or a gone concern approach: in the event of a scenario of termination of the asset in which the recovery of the receivable is substantially based on the value of the guarantees that assist the relation or on the realisable value of the assets, taking into account the amount of liabilities and any pre-emption rights.

Management strategies for non-performing loans are defined by the Board of Directors and are aimed at limiting non-performing loans and maximising recovery activity. During 2020, the Bank continued its strategic derisking actions, achieving a significant reduction in its stock of non-performing loans, outperforming the targets defined in the "Operating Plan for the management of non performing loans (2020-2022)", which had been updated during the first half of 2020 and which was therefore affected by the strong uncertainty regarding the possible development of macroeconomic scenarios. In consideration of the current economic context characterised by the pandemic crisis and therefore in continuous development, the Bank has already started the activities required to update the NPL Plan for the three-year period from 2021 to 2023.
The various management strategies that take into account the main characteristics of the Bank's credit portfolio were considered when defining the Plan's objectives. In particular, various recovery methods are envisaged: granting of forbearance measures aimed at credit restructuring, collections through agreements with counterparties, enforcement of guarantees, full and final settlement agreements and loan disposal transactions.
During 2020, non-performing loans were sold for a total of Euro 40 million, of which Euro 8 million related to positions classified as bad and Euro 32 million to unlikely to pay. These sales, together with ordinary credit recovery operations, enabled the Bank to reduce the Gross NPL Ratio (ratio of gross non-performing loans to gross loans) from 9.2% as at 31 December 2019 to approximately 7.3% at the end of 2020 and the net NPL Ratio (ratio of net non-performing loans to net loans) from 5.6% to 4.1%. In particular, the Bank achieved during the year the targets that the NPL Plan envisaged to be reached by the end of 2022, thus anticipating these results by two years, both in terms of the incidence of gross and net non-performing loans.

3.2 Write-off

The write-off procedure consists of the derecognition from the accounting records of credit exposures for which there are no longer reasonable expectations of recovery. The procedure may be carried out before the legal actions for the recovery of the loan by the Bank are completed and does not involve the legal waiver of the loan by the Bank. The write-off can cover the entire amount of the financial asset or a portion of it.

The write-off can be carried out if the recovery procedures performed or still in progress show that it is impossible to recover the contractual cash flows from the exposure or if there is no economic advantage to recover and manage the loan. The write-off usually concerns Bad loans and is proposed following the assessment made by the Legal and Dispute Service.

The write-off for non-recoverability is assessed on the occurrence of events that demonstrate the significant probability that the receivable may not be recovered, in whole or in part, including: the absence of recoveries from completed enforcement procedures, ascertained insufficiency of assets in the event of insolvency proceedings, unsuccessful outcome of numerous attempts to recover on the obligor or guarantors, also taking into account the date of the bad loans.

The write-off for lack of cost-effectiveness is proposed if the analyses carried out show that the costs to be incurred for the continuation of recovery actions are higher than the recoverable amount of the financial asset.

3.3 Acquired or originated impaired financial assets

As indicated by the accounting standard "IFRS 9 - Financial Instruments", in some cases, a financial asset is considered impaired upon initial recognition because the credit risk is very high and, in case of purchase, it is acquired with significant discounts (compared to the initial disbursement value). If the financial assets in question, based on the application of the classification drivers (i.e. SPPI test and Business model), are classified as assets measured at amortised cost or fair value through other comprehensive income, they are classified as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to a special treatment. In particular, from the date of initial recognition and for their entire life, impairment losses equal to the Expected credit loss (ECL) lifetime are recorded. In the light of the above, the POCI financial assets are initially recognised in stage 3, without prejudice to the possibility of being subsequently moved to performing loans, in which case an expected loss equal to the ECL lifetime (stage 2) will continue to be recognised. Therefore, a "POCI" financial asset is qualified as such in the signalling and expected loss calculation (ECL) processes.

4. Financial assets subject to commercial renegotiations and forbearance exposures

The legislation defines forbearance measures as changes to the original contractual terms and conditions, or the total or partial refinancing of the debt, which are granted to a debtor who finds themselves or is close to finding themselves in difficulty when meeting their financial commitments. Moreover, the legislation, contained in Bank of Italy Circular no. 272/2008 and Regulation (EU) 680/2014, requires that the relationships subject to forbearance measures be identified both within the sphere of performing and non-performing loans, respectively defining the categories “Forborne performing exposures” and “Non-performing exposures with forbearance measures”.
Within the sphere of the three categories of non-performing loans, in compliance with legislation, the relationships subject to “forbearance measures” (“Non-performing exposures with forbearance measures”) are identified.
The capacity of “forborne non performing” does not therefore represent a reporting category in itself within the sphere of the non-performing loans, but rather an additional transversal attribution to the three categories above.
The Bank adopted a specific policy aimed at recognising "forborne exposures" under which the various types of forbearance measures were defined, distinguishing between contractual changes with effect in the "short term" (temporary suspension of payments of principal and/or interest) or in the "long term" (renegotiation of the contractual conditions and duration of the loan). The Bank, based on the characteristics of the exposure and the objective assessment of the level of financial distress of the customer, assesses the most suitable forbearance measures in order to make repayment of the debt exposure sustainable.
Forborne performing loans are classified in bucket 2 and the expected loss is assessed, in a "life time" logic, considering the residual duration of the loan. Forborne non-performing loans are assessed analytically on the basis of the measurement criteria for non-performing loans.

On the other hand, commercial renegotiations are carried out in the absence of an objective financial distress and are aimed at maintaining the contractual relationship with the customer. The decision-making bodies, on the basis of the autonomy in force, assess the requests for renegotiation taking into account the changes in the average market conditions, while safeguarding the risk/return ratio of the loan relation.

In the pandemic context that characterised the year just ended, in line with the entire Italian banking system, the credit portfolio was strongly affected by the use of Covid-19 support measures. In particular, as at 31 December 2020, there are approximately Euro 709 million of positions subject to moratoria, granted both in the Covid-19 period and before; as mentioned above, it should be noted that these moratoria, granted in order to mitigate the negative effects of the pandemic crisis, were granted as part of legislative decrees or trade association agreements in almost all cases (90% in terms of the amount subject to moratoria).

With reference to the SICR's valuation processes and the measurement of expected losses for positions that benefited from moratorium measures during the year, reference should be made to the paragraph above *2.3: Methods for measuring expected losses*.

Quantitative information

A. Credit quality

A.1 Non-performing and performing loans: amounts, impairment losses, trend, business distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book values)

Portfolios/Quality	Bad loans	Unlikely to pay	Past due non-performing exposures	Past due performing exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	81,596	48,870	9,251	18,574	4,850,464	5,008,755
2. Financial assets measured at fair value through other comprehensive income	-	-	76	-	532,433	532,509
3. Financial assets designated at fair value	-	-	-	-	11,932	11,932
4. Other financial assets mandatorily measured at fair value	-	-	-	-	90,017	90,017
5. Discontinued financial assets	-	-	-	-	-	-
Total 31/12/2020	**81,596**	**48,870**	**9,327**	**18,574**	**5,484,846**	**5,643,213**
Total 31/12/2019	**96,063**	**66,781**	**13,767**	**51,394**	**4,642,550**	**4,870,555**

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

Portfolios/Quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Total impairment losses	Net exposure	total partial write-offs (*)	Gross exposure	Total impairment losses	Net exposure	
1. Financial assets measured at amortised cost	261,310	121,593	139,717	11,638	4,894,036	24,998	4,869,038	5,008,755
2. Financial assets measured at fair value through other comprehensive income	996	920	76	-	533,075	642	532,433	532,509
3. Financial assets designated at fair value	-	-	-	-	-	-	11,932	11,932
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-	90,017	90,017
5. Discontinued financial assets	-	-	-	-	-	-	-	-
Total 31/12/2020	**262,306**	**122,513**	**139,793**	**11,638**	**5,427,111**	**25,640**	**5,503,420**	**5,643,213**
Total 31/12/2019	**303,447**	**126,836**	**176,611**	**11,770**	**4,563,516**	**25,520**	**4,693,944**	**4,870,555**

Portfolios/Quality	Assets with evidently low credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	441
2. Hedging derivatives	-	-	-
Total 31/12/2020	**-**	**-**	**441**
Total 31/12/2019	**-**	**-**	**348**

A.1.3 Distribution of financial assets by portfolio and credit quality (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 to 30 days	From 30 to 90 days	Beyond 90 days	Up to 30 days	From 30 to 90 days	Beyond 90 days	Up to 30 days	From 30 to 90 days	Beyond 90 days
1. Financial assets measured at amortised cost	4,085	-	-	1,624	10,275	2,590	370	3,461	104,373
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Discontinued financial assets	-	-		-	-	-	-	-	-
Total 31/12/2020	**4,085**	**-**	**-**	**1,624**	**10,275**	**2,590**	**370**	**3,461**	**104,373**
Total 31/12/2019	**19,722**	**-**	**-**	**8,225**	**16,814**	**6,633**	**963**	**4,318**	**142,741**

A.1.4 Financial Assets, commitments to grant finance and financial guarantees given: trend in total impairment losses and in total provisions

Reasons/risk stages	Total impairment losses													Total provisions on commitments to grant finance and financial guarantees given			Total
	Assets included in stage 1				Assets included in stage 2				Assets included in stage 3				Of which: acquired or originated impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets measured at fair value through other	of which: individual	of which: collective impairment	Financial assets measured at amortised cost	Financial assets measured at fair value through other	of which: individual impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening total impairment losses	**(14,905)**	**(329)**	-	**(15,234)**	**(10,220)**	**(62)**	-	**(10,282)**	**(126,836)**	-	**(126,836)**	-	**(1,360)**	**(205)**	**(23)**	**(16)**	**(152,596)**
Increases from acquired or originated financial assets	(7,584)	(182)	-	(7,766)	(1,470)	(40)	-	(1,510)	(733)	(11)	(744)	-	(148)	(406)	(61)		(10,487)
Derecognitions other than write-offs	1,288	-	-	1,288	361	-	-	361	623	11	634	-	-	196	92		2,571
Net impairment losses for credit risk (+/-)	5,403	179	-	5,582	2,131	(208)	-	1,923	(3,166)	(921)	(4,085)	-	(816)	154	(221)	(23)	3,329
Modification gains (losses) without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	-	-	-	8,517	-	8,517	-	95	-	-	-	8,517
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing total impairment losses	**(15,798)**	**(332)**	-	**(16,130)**	**(9,198)**	**(310)**	-	**(9,508)**	**(121,594)**	**(921)**	**(122,514)**	-	**(2,229)**	**(261)**	**(213)**	**(39)**	**(148,666)**
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	(2,394)	-	(2,394)	-	-	-	-	-	(2,394)

A.1.5 Financial Assets, commitments to grant finance and financial guarantees given: transfers between different stages of credit risk (gross and nominal values)

Portfolios/risk stages	Gross values / nominal value					
	Transfers from stage 1 to stage 2		**Transfers from stage 2 to stage 3**		**Transfers from stage 1 to stage 3**	
	From stage 1 to stage 2	**From stage 2 to stage 1**	**From stage 2 to stage 3**	**From stage 3 to stage 2**	**From stage 1 to stage 3**	**From stage 3 to stage 1**
1. Financial assets measured at amortised cost	226,144	65,079	15,512	1,699	10,466	627
2. Financial assets measured at fair value through other comprehensive income	8,641	-	-	-	996	-
3. Discontinued financial assets	-	-	-	-	-	-
4. Commitments to grant finance and financial guarantees given	10,807	9,029	614	30	1,540	19
Total 31/12/2020	**245,592**	**74,108**	**16,126**	**1,729**	**13,002**	**646**
Total 31/12/2019	**157,257**	**107,812**	**16,355**	**16,707**	**21,992**	**614**

A.1.5a Loans subject to Covid-19 support measures: transfers between different stages of credit risk (gross amounts)

This table shows the gross amount of loans, which is subject to a moratorium granted during the Covid-19 period and which is outstanding at the end of the reporting period, or constitutes new liquidity provided through public guarantee mechanisms, broken down by portfolio (amortised cost and fair value through other comprehensive income), when the risk stage at which the exposures are included at the end of the reporting period is different from the stage at which the exposures were included at the beginning of the reporting period (or at the date of initial recognition if subsequent to the beginning of the reporting period).

Portfolios/risk stages	Gross amounts					
	Transfers from stage 1 to stage 2		Transfers from stage 2 to stage 3		Transfers from stage 1 to stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
A. Financial assets at amortised cost	**31,045**	**15,250**	**1,335**	**539**	**1,613**	**365**
A.1 GL-compliant forborne loans	23,911	13,652	1,015	289	1,399	351
A.2 Other forborne loans	4,416	-	320	92	163	-
A.3 New loans	2,718	1,598	-	158	51	14
B. Loans measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1 GL-compliant forborne loans	-	-	-	-	-	-
B.2 Other forborne loans	-	-	-	-	-	-
B.3 New loans	-	-	-	-	-	-
Total 31/12/2020	**31,045**	**15,250**	**1,335**	**539**	**1,613**	**365**

A.1.6 On and off-balance sheet exposures with banks: gross and net values

Type of exposure/values	Gross exposure		Total impairment losses and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Bad loans	-	-	-	-	-
- of which: forbearance exposures	-	-	-	-	-
b) Unlikely to pay	-	-	-	-	-
- of which: forbearance exposures	-	-	-	-	-
c) Past due non-performing exposures	-	-	-	-	-
- of which: forbearance exposures	-	-	-	-	-
d) Past due performing exposures	-	-	-	-	-
- of which: forbearance exposures	-	-	-	-	-
e) Other performing exposures	-	180,719	82	180,637	-
- of which: forbearance exposures	-	-	-	-	-
TOTAL A	**-**	**180,719**	**82**	**180,637**	**-**
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	-	-	-	-	-
b) Performing	-	14,733	-	14,733	-
TOTAL B	**-**	**14,733**	**-**	**14,733**	**-**
TOTAL A+B	**-**	**195,452**	**82**	**195,370**	**-**

A.1.7 On- and off-balance sheet exposures with customers: gross and net values

Type of exposure/values	Gross exposure		Total impairment losses and total provisions	Net exposure	Total partial write-offs*
	non-performing	performing			
A. ON-BALANCE SHEET CREDIT EXPOSURES					
a) Bad loans	172,979	-	91,383	81,596	11,638
- of which: forbearance exposures	28,751	-	12,829	15,922	-
b) Unlikely to pay	77,413	-	28,543	48,870	-
- of which: forbearance exposures	48,001	-	16,869	31,132	-
c) Past due non-performing exposures	11,914	-	2,587	9,327	-
- of which: forbearance exposures	7,623	-	1,154	6,469	-
d) Past due performing exposures	-	19,520	946	18,574	-
- of which: forbearance exposures	-	3,766	268	3,498	-
e) Other performing exposures	-	5,328,822	24,612	5,304,210	-
- of which: forbearance exposures	-	62,076	2,267	59,809	-
TOTAL A	**262,306**	**5,348,342**	**148,071**	**5,462,577**	**11,638**
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	5,213	-	528	4,685	-
b) Performing	-	1,687,446	875	1,686,571	-
TOTAL B	**5,213**	**1,687,446**	**1,403**	**1,691,256**	**-**
TOTAL A+B	**267,519**	**7,035,788**	**149,474**	**7,153,833**	**11,638**

On-balance sheet net exposures include, in addition to loans and receivables with customers of Euro 4,864.7 million, bonds in the FVOCI portfolio of Euro 497.9 million (asset item 30), debt securities in the portfolio of Financial assets mandatorily measured at fair value of Euro 88.1 million (item 20c), insurance policies in the portfolio of Financial assets designated at Fair Value (asset item 20b) of approximately Euro 11.9 million. Gross loans and receivables and related impairment losses are shown net of the value of default interests.

A.1.7a - Loans subject to Covid-19 support measures: gross and net values

This table shows, with regard to loans that are subject to a moratorium granted during the Covid-19 period and outstanding at the end of the reporting period, or that constitute new liquidity granted through public guarantee mechanisms, the breakdown of the gross amount and of total impairment losses, as well as information on net exposure and total partial write-offs, for the different categories of non-performing/performing assets.

Type of loans/ values	Gross exposure	Total impairment losses and total provisions	Net exposure	Total partial write-offs*
A. Bad loans:	-	-	-	-
a) GL-compliant forborne loans	-	-	-	-
b) Other forborne loans	-	-	-	-
c) New loans	-	-	-	-
B. Unlikely to pay loans:	**4,301**	**(963)**	**3,338**	**-**
a) GL-compliant forborne loans	4,173	(918)	3,255	-
b) Other forborne loans	77	(21)	56	-
c) New loans	51	(24)	27	-
C. **Past due non-performing loans:**	**1,848**	**(268)**	**1,580**	**-**
a) GL-compliant forborne loans	1,147	(165)	982	-
b) Other forborne loans	483	(70)	413	-
c) New loans	218	(33)	185	-
D. Other past due performing loans:	**3,566**	**(128)**	**3,438**	**-**
a) GL-compliant forborne loans	2,361	(105)	2,256	-
b) Other forborne loans	13	(2)	11	-
c) New loans	1,192	(21)	1,171	-
E. Other performing loans:	**1,113,875**	**(6,828)**	**1,107,047**	**-**
a) GL-compliant forborne loans	615,904	(5,444)	610,460	-
b) Other forborne loans	6,509	(203)	6,306	-
c) New loans	491,462	(1,181)	490,281	-
Total (A+B+C+D+E)	**1,123,590**	**(8,187)**	**1,115,403**	**-**

A.1.8 On-balance sheet exposures with banks: changes in gross non-performing exposures

A.1.8bis On-balance sheet exposures with banks: changes in gross forbearance exposures broken down by credit quality

The tables are not drawn up as there were no non-performing loans and receivables with banks as at 31 December 2020.

A.1.9 On-balance sheet exposures with customers: changes in gross non-performing exposures

Causes/Categories	Bad loans	Unlikely to pay	Past due non-performing loans
A. Gross opening exposure	**184,838**	**102,979**	**15,630**
- of which: exposures transferred and not derecognised	-	454	725
B. Increases	**24,663**	**46,038**	**25,717**
B.1 inflows from performing exposures	212	25,293	20,891
B.2 inflows from acquired or originated impaired financial assets	-	-	39
B.3 transfers from other categories of non-performing exposures	21,544	8,382	36
B.4 modification gains (losses) without derecognition	-	-	-
B.5 other increases	2,907	12,363	4,751
C. Decreases	**36,522**	**71,604**	**29,433**
C.1 outflows to performing exposures	116	3,109	15,061
C.2 write-off	10,193	-	-
C.3 collections	14,962	16,820	3,557
C.4 gains on sales	2,156	11,828	-
C.5 losses on sales	1,326	5,740	-
C.6 transfers to other categories of non-performing exposures	-	20,269	9,693
C.7 modification gains (losses) without derecognition	-	-	-
C.8 other decreases	7,769	13,838	1,122
D. Gross closing exposure	**172,979**	**77,413**	**11,914**
- of which: exposures transferred and not derecognised	-	793	616

The line “Other increases” includes, in general:
- with regard to bad loans, the charge of expenses, outstanding amounts and other similar cases on positions recorded in previous years;
- with regard to the other categories, in particular for unlikely to pay, also the account transfer between accounts relating to it carried out after the date of inclusion in the category (e.g. advance transactions subject to collection).

The row "Other decreases" includes, among other things, gross amounts relating to exposures sold in excess of the algebraic sum of the realisable value and any loss on sale.

For this table, as for the following A1.9bis and A1.11, the rows relating to "Exposures transferred and not derecognised" include gross loans and receivables and impairment losses relating to securitised loans recorded in portfolios sold but not derecognised (self-securitisations).

A.1.9bis On-balance sheet exposures with customers: gross forbearance exposures broken down by credit quality

Causes/Quality	Forbearance exposures: non-performing	Other forbearance exposures: performing
A. Gross opening exposure	**89,116**	**81,750**
- of which: exposures transferred and not derecognised	67	20,720
B. Increases	**22,975**	**39,873**
B.1 inflows from performing non-forbearance exposures	473	18,928
B.2 inflows from performing forbearance exposures	6,261	-
B.3 inflows from non-performing forbearance exposures	-	1,026
B.4 inflows from non-performing non-forbearance exposures	9,767	21
B.5 other increases	6,474	19,898
C. Decreases	**27,716**	**55,781**
C.1 outflows to performing non-forbearance exposures	-	26,401
C.2 outflows to performing forbearance exposures	1,026	-
C.3 outflows to non-performing forbearance exposures	-	6,261
C.4 write-off	1,862	-
C.5 Collections	11,261	20,847
C.6 gains on sale	3,666	-
C.7 losses on sale	756	-
C.8 other decreases	9,145	2,272
D. Gross closing exposure	**84,375**	**65,842**
- of which: exposures transferred and not derecognised	496	18,917

A.1.10 Non-performing on-balance sheet exposures with banks: total impairment losses

There are no non-performing exposures to banks as at 31 December 2020; therefore, the relevant table is not drawn up.

A.1.11 Non-performing on-balance sheet exposures with customers: total impairment losses

Causes/Categories	Bad loans		Unlikely to pay		Past due non-performing loans	
	Total	of which: forbearance exposures	Total	of which: forbearance exposures	Total	of which: forbearance exposures
A. Opening total impairment losses	**88,775**	**10,677**	**36,198**	**17,933**	**1,863**	**1,084**
- of which: exposures transferred and not derecognised	-	-	112	-	83	8
B. Increases	**24,266**	**5,223**	**18,591**	**5,321**	**1,899**	**589**
B.1 impairment losses from acquired or originated impaired financial assets	-	-	829	-	33	-
B.2 other impairment losses	19,500	3,862	11,573	4,235	1,866	589
B.3 losses on sale	1,326	448	5,740	756	-	-
B.4 transfers from other categories of non-performing exposures	3,266	913	400	330	-	-
B.5 modification gains (losses) without derecognition	-	-	-	-	-	-
B.6 other increases	174	-	49	-	-	-
C. Decreases	**21,658**	**3,071**	**26,246**	**6,385**	**1,175**	**519**
C.1 reversals of impairment losses due to valuation	3,053	334	1,896	703	257	70
C.2 reversals of impairment losses due to collection	2,657	103	541	513	139	56
C.3 gains on sale	110	227	257	-	-	-
C.4 write-off	10,070	1,633	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	2,887	845	779	393
C.6 modification gains (losses) without derecognition	-	-	-	-	-	-
C.7 other decreases	5,768	774	20,665	4,324	-	-
D. Closing total impairment losses	**91,383**	**12,829**	**28,543**	**16,869**	**2,587**	**1,154**
- of which: exposures transferred and not derecognised	**-**	**-**	**225**	**11**	**92**	**68**

"Other decreases" mainly includes uses of existing allowance for impairment, uses attributable to positions sold during the year.

A.2 Classification of financial assets, commitments to grant finance and financial guarantees given based on internal and external ratings

A.2.1 Breakdown of financial assets, commitments to grant finance and financial guarantees given: by external rating class (gross values)

On the basis of the guidelines envisaged by the Bank of Italy, the table in question was not drawn up since the amount of the exposures with external ratings is exclusively referable to Government securities, in that the Bank has chosen to avail itself of the rating issued by the authorised agencies for just these assets, as per the specific resolution of the Board of Directors.

A.2.2 Breakdown of financial assets, commitments to grant finance and financial guarantees given: by internal rating class (gross values)

The table is not drawn up in that, to date, the rating models provided by the outsourcer are used only for management purposes as a tool for classifying, analysing and monitoring the customers.

A.3 Distribution of secured exposures by type of guarantee

A.3.1 On and off-balance sheet secured credit exposures to banks

The table is not drawn up because there are no secured exposures to banks as at 31 December 2020.

A.3.2 On- and off-balance sheet secured credit exposures with customers

			Collaterals (1)				Personal guarantees (2)									
							Credit derivatives					Endorsement loans				
								Other derivatives								
	Gross exposure	Net exposure	Properties - Mortgage loans	Properties - Finance leases	Securities	Other collaterals	CLN	Central counterparties	Banks	Other financial companies	Other parties	Public administration authorities	Banks	Other finan. comp.	Other parties	Total (1)+(2)
1. On-balance sheet secured credit exposures:	**2,967,520**	**2,852,312**	**1,256,906**	**-**	**68,051**	**105,415**	**-**	**-**	**-**	**-**	**-**	**870,841**	**49,306**	**33,584**	**313,589**	**2,697,692**
1.1 fully secured	2,148,685	2,044,443	1,246,371	-	61,525	86,888	-	-	-	-	-	321,556	8,792	19,978	293,202	2,038,312
- of which impaired	211,032	123,676	98,349	-	370	834	-	-	-	-	-	4,218	32	549	18,956	123,308
1.2 partially secured	818,835	807,869	10,535	-	6,526	18,527	-	-	-	-	-	549,285	40,514	13,606	20,387	659,380
- of which impaired	15,856	7,317	1,081	-	106	1	-	-	-	-	-	2,153	379	121	1,530	5,371
2. Off-balance sheet secured credit exposures:	**322,212**	**321,517**	**3,852**	**-**	**11,513**	**12,968**	**-**	**-**	**-**	**-**	**-**	**1,286**	**684**	**1,108**	**270,507**	**301,918**
2.1 fully secured	267,953	267,478	3,852	-	7,866	5,766	-	-	-	-	-	354	559	660	248,248	267,305
- of which impaired	2,003	1,684	8	-	65	137	-	-	-	-	-	-	-		1,474	1,684
2.2 partially secured	54,259	54,039	-	-	3,647	7,202	-	-	-	-	-	932	125	448	22,259	34,613
- of which impaired	156	156	-	-	34	3	-	-	-	-	-	-	-	2	29	68

B. Distribution and concentration of credit exposures

B.1 Distribution of on and off-balance sheet credit exposures with customers by business segment

Exposures/Counterparties	Public administration authorities		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	275	127	-	-	52,128	70,909	29,192	20,347
- of which: forbearance exposures	-	-	41	56	-	-	9,383	10,474	6,497	2,299
A.2 Unlikely to pay	-	-	-	-	-	-	26,068	20,272	22,802	8,270
- of which: forbearance exposures	-	-	-	-	-	-	14,560	10,919	16,572	5,951
A.3 Past due non-performing exposures	-	-	-	-	-	-	5,634	1,916	3,692	671
- of which: forbearance exposures	-	-	-	-	-	-	4,014	711	2,456	443
A.4 Performing exposures	1,746,901	684	464,275	2,010	11,932	-	2,191,544	17,725	920,063	5,139
- of which: forbearance exposures	-	-	381	7	-	-	37,994	1,800	24,932	728
Total (A)	**1,746,901**	**684**	**464,550**	**2,137**	**11,932**	**-**	**2,275,374**	**110,822**	**975,749**	**34,427**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	73	-	-	4,290	339	395	115
B.2 Performing exposures	8,797	-	64,395	-	-	-	1,333,388	828	86,407	47
Total (B)	**8,797**	**-**	**64,395**	**73**	**-**	**-**	**1,337,678**	**1,167**	**86,802**	**162**
Total (A+B) 31/12/2020	**1,755,698**	**684**	**528,945**	**2,210**	**11,932**	**-**	**3,613,052**	**111,989**	**1,062,551**	**34,589**
Total (A+B) 31/12/2019	**1,261,550**	**1,045**	**551,068**	**1,199**	**-**	**-**	**3,200,041**	**116,649**	**1,016,414**	**34,143**

B.2 Distribution of on and off-balance sheet credit exposures with customers by geographical segment

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of world	
	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On-balance sheet credit exposures										
A.1 Bad loans	81,594	91,367	2	16	-	-	-	-	-	-
A.2 Unlikely to pay	48,871	28,543	-	-	-	-	-	-	-	-
A.3 Past due non-performing exposures	9,248	1,667	76	921	-	-	2	-	-	-
A.4 Performing exposures	5,231,039	25,174	66,395	290	19,516	87	4,177	5	1,657	2
Total (A)	**5,370,752**	**146,751**	**66,473**	**1,227**	**19,516**	**87**	**4,179**	**5**	**1,657**	**2**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	4,685	527	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,492,222	875	366	-	393	-	5	-	-	-
Total (B)	**1,496,907**	**1,402**	**366**	**-**	**393**	**-**	**5**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**6,867,659**	**148,153**	**66,839**	**1,227**	**19,909**	**87**	**4,184**	**5**	**1,657**	**2**
Total (A+B) 31/12/2019	**5,956,928**	**152,862**	**57,261**	**140**	**14,041**	**31**	**241**	**1**	**601**	**1**

B.3 Distribution of on- and off-balance sheet exposures to banks by geographical segment

Exposures/Geographical areas	Italy		Other European countries		America		Asia		Rest of world	
	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment	Net exposure	Total impairment
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past due non-performing exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	163,613	69	12,551	9	769	-	2,058	-	1,645	4
Total (A)	**163,613**	**69**	**12,551**	**9**	**769**	**-**	**2,058**	**-**	**1,645**	**4**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	14,174	-	4	-	-	-	238	-	318	-
Total (B)	14,174	-	4	-	-	-	238	-	318	-
Total (A+B) 31/12/2020	**177,787**	**69**	**12,555**	**9**	**769**	**-**	**2,296**	**-**	**1,963**	**4**
Total (A+B) 31/12/2019	**149,811**	**67**	**33,888**	**12**	**331**	**-**	**2,805**	**-**	**1,557**	**-**

B.4 Large exposures

As defined in EU Regulation 575/2013 (CRR), “Large exposures” are exposures to a customer or a group of related customers when their value is equal or greater than 10% of eligible capital of the body (Article 392), without applying weighting amounts.
Whereas limit to large exposures (Article 395 CRR), considering the mitigating effect of credit risk (weighted values), means 25% of the eligible capital of the Bank; if the customer is a body, or if within the group of related customers there is a body, the limit is increased to Euro 150 million if the value calculated at 25% is less than the above-mentioned amount.

The term exposure includes both on- and off-balance sheet loans and receivables; in any case, the aggregate amounts include exposures to Central European Governments, those represented by debt securities, in particular.

As at 31 December 2020, the eligible capital amounted to Euro 407.4 million. “Large exposures” included 8 counterparties for a total nominal value of Euro 3,265.8 million and a weighted amount of Euro 192.4 million:
- no. 3 exposures to customers for a nominal amount of Euro 157.1 million and a weighted amount of Euro 76.6 million;
- the exposure to Italian government (Ministry of the Treasury) of Euro 2,659.3 thousand, weighted Euro 43.7 thousand; this item includes, in addition to the exposure for debt securities, credit for tax assets;
- no. 1 exposure to financial intermediaries for 100% weighted amount of Euro 72.1 million, as liquidity from securitised mortgages and temporarily deposited with other entities;
- other exposures to financial intermediaries and central banks, mainly for repurchase agreements, of Euro 377.3 million nominal, weighted 0%.

C. Securitisation transactions

Securitisation transactions in which the Bank is the originator and for which the total liabilities issued by the special purpose vehicles were fully subscribed by the Bank at the time of issue are not recognised in this Part. For an illustration of this type of transaction for which as at 31 December 2020 there were two different self-securitisations, please refer to the section of Part E of the Explanatory Notes relating to liquidity risk.

Qualitative information

The Bank has exposures to securitisation transactions originated by third parties or multi-originators acquired for investment and banking book purposes related to liquidity management and stable support to net interest income.
Investment in asset-backed securities is carried out in compliance with the policies and procedures relating to credit risk and, in general, in compliance with the risk appetite established in the framework of ABS investment limits and rules defined by the General Management and the Risk Management Service.
The Division that identifies the investment opportunity, following the positive feedback from the Management to go ahead, starts the assessment and due diligence phase in order to assess the risk characteristics of the operation and the structural characteristics involving, if necessary, the other competent Sectors. Evidence of the analyses carried out during the due diligence process is set out in a summary document that contains the substantial aspects required to provide the Corporate bodies with the elements supporting any resolution.
Subsequently, the Bank maintains, on an ongoing basis, a complete understanding of the risk characteristics of the pool underlying the transaction, its structural aspects and compliance with the expected flows with respect to the analyses carried out during the assessment.

Adequate reporting to the Management Bodies as well as to the Risk Management Service for the performance of second-level controls is carried out at least on a quarterly basis.
The Internal Audit Service ensures periodic checks on the reliability and effectiveness of the process and makes recommendations to the Corporate bodies based on the checks carried out.

The Bank has adopted rules and regulations to regulate the process of managing securitisations of loans to the Public Administration in which it acts as an investor. The regulations clearly define the operational processes related to the process of structuring and managing investment programmes in securities issued by special purpose vehicles established pursuant to Italian Law 130/99.

During the year, the Bank carried out a securitisation of loans to SMEs backed by a guarantee issued by the Central Guarantee Fund pursuant to Italian Law 662/96, with the subsequent deconsolidation of the transferred loans from the assets. The related securities, issued by the special purpose vehicle Valsabbina SME Platform S.r.l., were subscribed by the Bank to the extent of 5% for the Senior security, 50% for the Mezzanine security and 5% for the Junior security (retained).

As at 31 December 2020, the Bank held a portfolio of securities deriving from third-party or multi-originator securitisations of Euro 204 million. Of these, Euro 115 million represent exposures to senior securities while the exposure to mezzanine securities is Euro 12 million. On the other hand,

Commentato [YP1]: @marco: nominale delle note. Verificare con il valore contabile.

exposure to "mono-tranche" securitisations amounts to Euro 77 million. Note that the latter transactions are not considered securitisation positions for prudential supervision purposes. Finally, the Bank holds securities of Euro 975 thousand deriving from its own securitisation. In particular, the exposure to Senior securities is equal to Euro 285 thousand, the exposure to Mezzanine securities is equal to Euro 647 thousand and the exposure to Junior securities is equal to Euro 43 thousand.

Own transactions

In 2020, the Bank completed the "Valsabbina SME Platform" transaction, a traditional securitisation transaction with a nominal value of Euro 58.5 million, the underlying assets of which are made up of loans deriving from performing loans to Small and medium-sized enterprises guaranteed by the Central Guarantee Fund established by Law no. 662/96 and originated by Banca Valsabbina S.p.c.A. The originated portfolios will be sold on pre-defined dates, for a consideration, subject to specific eligibility criteria.

Originator	Banca Valsabbina S.C.p.A.
Arranger	Phinance Partners S.p.A.
Servicer	Banca Valsabbina S.C.p.A.
SubServicer	NSA S.p.A.
Back Up Servicer	Banca di Asti S.p.A.
Corporate Servicer	Centotrenta Servicing S.p.A.
Representative of the Noteholders	Centotrenta Servicing S.p.A.
Calculation Agent	Centotrenta Servicing S.p.A.
Account Bank BNP Paribas	BNP Paribas Securities Services
Paying Agent	BNP Paribas Securities Services

The first portfolio of receivables - for a residual value of Euro 7.125 million plus accrued interest - was sold on 6 November 2020 at a price of Euro 7.212 million, generating revenue under item "100" Profit (loss) on sale/repurchase of financial assets measured at amortised cost" of Euro 71.3 thousand. As at 31 December 2020, the portfolio consisted of 28 variable-rate unsecured loans granted to SMEs of which more than 70% were located in the regions of Northern Italy, while the remaining 30% of the companies were located in Central Italy.

Commentato [YP2]: @Marco: mettiamo questa frase? Se non sbaglio è richiesto da 262

The purchases are financed by the SPV through the issue of partly paid Asset Back Securities divided into three classes:

- Senior security equal to approximately 75% of the sold - nominal Euro 44 million - TV EUR 3M+ 1.60%;
- Mezzanine security equal to approximately 15% of the sold - nominal Euro 8.7 million - TF 3.85%;
- Junior security equal to approximately 10% of the sold - nominal Euro 5.8 million - TF 8% plus variable remuneration if any.

The related securities, issued by the special purpose vehicle Valsabbina SME Platform S.r.l., were subscribed by the Bank to the extent of 5% for the Senior security, 50% for the Mezzanine security and 5% for the Junior security (retained) while the surplus was placed with third parties.

The transfer of the risks and benefits deriving from the transaction was checked through specific technical reports, approved by the Board of Directors and through the request of the Significant Risk Transfer to the Supervisory Authority, in compliance with the applicable regulations.

As part of the transaction, the Originator, as Servicer, is responsible for managing the collection and recovery of the assigned receivables in the name and on behalf of the SPV, as well as for providing periodic information on the portfolio, necessary for monitoring by the parties involved in the transaction. As at 31 December 2020, the commissions collected related to the position are not material.

Within the Bank, the Business Division, with the support of the Strategic Planning and Special Project Sector, monitors credit quality and the related cash flows deriving from the Portfolio on a quarterly basis, while the Board of Directors is informed of the progress of the operation on a quarterly basis.

Third-party transactions

The main characteristics of the various third-party transactions whose securities were subscribed by the Bank are set out below:

• Valsabbina Investimenti" securitisation: this is a "mono-tranche" securitisation of trade receivables claimed by companies from the Public Administration, which began in 2016. The "partly paid" note issued for a nominal value of Euro 500 million was fully subscribed by the Bank. As at 31 December 2020 the security held amounted to Euro 68 million. With regard to the economic aspects, the security involved the recognition of interest income of Euro 3.2 million. Note that this transaction does not comply with the characteristics identified by Regulation 2017/2402 for its applicability in that the subordination of the segments is considered necessary. For prudential purposes, the transaction is not recognised as a securitisation position;

Commentato [YP3]: Comprensivo di VR

• Atlas" securitisation : this is a "mono-tranche" securitisation of trade receivables claimed by companies from the Public Administration, which began in 2018. The "partly paid" note issued for a nominal value of Euro 100 million was fully subscribed by the Bank. As at 31 December 2020 the security held amounted to Euro 9.1 million. With regard to the economic aspects, the security involved the recognition of interest income of Euro 113 thousand. Note that this transaction does not comply with the characteristics identified by Regulation 2017/2402 for its applicability in that the subordination of the segments is considered necessary. For prudential purposes, the transaction is not recognised as a securitisation position;

• "Vittoria–Serie II" securitisation: this is a securitisation of trade receivables claimed by companies from the Public Administration with a nominal value of Euro 143 million. The Bank participates as Senior Noteholder by subscribing 50% of the senior tranches for a value of Euro 49 million as at 31 December 2020. With regard to the economic aspects, the security involved the recognition of interest income of Euro 1.5 million;

• "Polluce–Serie I" securitisation : this is a securitisation of trade receivables claimed by companies from the Public Administration with a nominal value of Euro 100 million. The Bank participates as Senior Noteholder by subscribing 100% of the senior tranches. As at 31 December 2020 the security held amounted to Euro 5.6 million. With regard to the economic aspects, the security involved the recognition of interest income of Euro 295 thousand;

• "Polluce–Serie II" securitisation : this is a securitisation of trade receivables claimed by companies from the Public Administration with a nominal value of Euro 100 million. The Bank participates as Senior Noteholder by subscribing 100% of the senior tranches. As at 31 December 2020, the security was completely repaid. With regard to the economic aspects, the security involved the recognition of interest income of Euro 176 thousand;

• "Vitruvio" securitisation: this is a securitisation of trade receivables claimed by companies from Consorzio Stabile SIS S.c.p.A. - parent company of Società di Progetto Superstrada Pedemontana Veneta S.p.A. - and trade receivables claimed by professionals registered with Inarcassa from the Public Administration, a security with a nominal value of Euro 50 million. The Bank participates as Senior Noteholder by subscribing 45% of the Class A senior tranches. As at 31 December 2019 the security held amounted to Euro 18.6 million. During 2020, the vehicle issued a new partly paid Senior note with a nominal value of Euro 15 million, which was fully subscribed by the bank.

The total exposure to the securitisation as at 31 December 2020 was Euro 33.6 million. The P&L impact from interest income was Euro 677 thousand.

- "Eridano II" securitisation: this is a third-party securitisation and in particular an operation completed in November 2018 by Vivibanca S.p.A. (originator). The securitisation refers to CQSP performing loans (all backed by guarantees) - the ramp-up period ended in May 2020. Vivibanca S.p.A. maintains a net economic interest in the transaction of at least 5%, carried out through the vertical slice pursuant to Article 6, paragraph 3, a) of Regulation 2402/2017. The Bank subscribed part of the Mezzanine tranche issued for a nominal value of Euro 25.4 million - as at 31 December 2020, the security held amounted to Euro 12 million. With regard to the economic aspects, the security involved the recognition of interest income of Euro 287 thousand. Note also that in September 2020, the transaction was restructured and the Mezzanine tranche was rated A2 by Moodys, A by DBRS and A by Scope Ratings. The transaction also obtained the STS label;
- "P2P LendIT" and "P2P LendIT II" securitisations: these are third-party securitisations and in particular transactions completed by Prestiamoci S.p.A. (originator). Securitisations concern non-performing personal loans. The first transaction concluded the contractually agreed purchase period. The Bank subscribed part of the Senior tranche and as at 31 December 2020 the security held amounted to Euro 5.7 million whereas, with regard to the economic aspects, it contributed to the interest margin by Euro 245 thousand. The second transaction was launched in November 2020; as at 31 December 2020, the senior security held amounted to Euro 2.3 million. Prestiamoci S.p.A. maintains a net economic interest in the transactions as it is the subscriber of the Junior share;
- "Auxilio" securitisation: this is a third-party securitisation with a nominal value of Euro 100 million concerning loans to SMEs backed by a guarantee from the Central Guarantee Fund 662/96. The loans are provided through the peer-to-peer lending platform Borsadelcredito.it by a direct lending fund. The originator maintains a net economic interest in the transaction of at least 5%, carried out through the vertical slice pursuant to Article 6, paragraph 3, a) of Regulation 2402/2017. The purchase period is until June 2022. The Bank subscribed part of the Senior security and total exposure as at 31 December 2020 amounted to Euro 15.2 million whereas, with regard to the economic aspects, it contributed to the interest margin by Euro 139 thousand;
- "2R Plus" securitisation: this is a multi-originator securitisation with a nominal value of Euro 100 million. The transaction is related to the sale of non-performing loans purchased by Italian Large Corporates. In December 2020, the Bank subscribed 95% of the Senior security while 5% was subscribed by Vivibanca S.p.A. - the sponsor of the transaction - as a retention. As at 31 December 2020, the security held amounted to Euro 3.5 million.

As at 31 December 2020, the Senior security relating to the "Multiseller NPL" securitisation for which a summary description is provided in subsection "C. Financial assets sold and fully derecognised" in section "E - transfers" had been fully redeemed.

Commentato [YP4]: @Marco: se vogliamo lasciare questa impostazione scrivere che il valore residuo è pari a zero in Parte E

Note also that the Bank subscribed 2 ABS securities issued by the vehicles:

- EBB S.r.l. – security held amounting to Euro 1.9 million;
- EBB Export S.r.l. – security held amounting to Euro 1.2 million;

guaranteed by a pool of bonds issued by SMEs belonging to Borsa Italiana's Elite Programme (known as minibonds). In case of EBB Export, the underlying debt securities are guaranteed by SACE.

Finally, in 2020 the ABS security issued by the vehicle Viveracqua Hydrobond S.r.l. was subscribed, guaranteed by a pool of bonds issued by companies belonging to Consorzio Viveracqua. The security held at 31 December 2020 was Euro 2 million.

Quantitative information

C.1 Exposures originating from the main "own" securitisations with breakdown by securitised asset type and exposure type

Type of assets securitised/Exposures	On-balance sheet exposures						Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Impair. losses/Rev. of impair. losses	Book value	Impair. losses/Rev. of	Book value	Impair. losses/Rev. of	Net exposure	Impair. losses/Rev. of	Net exposure	Impair. losses/Rev. of impair. losses	Net exposure	Impair. losses/Rev. of	Net exposure	Impair. losses/Rev. of	Net exposure	Impair. losses/Rev. of impair. losses	Net exposure	Impair. losses/Rev. of
A. FULLY DERECOGNISED	285	-	647	-	43	-	-	-	-	-	-	-	-	-	-	-	-	-
B. PARTIALLY DERECOGNISED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. NOT DERECOGNISED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.2 Exposures originating from the main third-party securitisations with breakdown by securitised asset type and exposure type

ISIN	Title	Type of assets securitised/Exposures	On-balance sheet exposures						Guarantees given						Credit lines					
			Senior*		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
			Book value	Impair. losses/Rev. of impair. losses	Book value	Impair. losses/Rev. of	Book value	Impair. losses/Rev. of	Net exposure	Impair. losses/Rev. of	Net exposure	Impair. losses/Rev. of	Net exposure	Impair. losses/Rev. of	Net exposure	Impair. losses/Rev. of	Net exposure	Impair. losses/Rev. of	Net exposure	Impair. losses/Rev. of
IT0005204422	VALSABBINA 31/7/3	PA loans	67,624	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005326662	ATLAS SPV 31/3/33	PA loans	9,148	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005338766	VITRUV 9/23	PA loans/Trade Receivables	18,570	(125)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005416976	VITRUVIO 12/23 A2	PA loans/Trade Receivables	14,855	(100)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005350456	POLLUCE 12/28	PA loans	5,574	(38)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005377723	VITTORIA 7/31 TV -A-	PA loans	48,946	(328)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005349193	P2P LEND 6/25 A	Personal loans	5,684	(38)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005432395	P2P LEND 6/25 2.85A	Personal loans	763	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005426314	P2P LEND 6/25 2.85A	Personal loans	1,526	(10)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005421000	AUXILIO	SME loans	15,136	(101)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005429797	2R Plus	NPL	3,514	(24)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005316697	EBB 22/12/33 4% CL A	Minibond	1,870	(13)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005367849	EBB 9/5/28 TV CL A	Minibond	1,196	(8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005424319	VIVERACQUA HYDRO BOND	Minibond	1,995	(13)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005422727	Eridano II SPV FRN 28/05/2035	CQS loans	-	-	12,002	-	-	-	-	-		-	-	-	-	-	-	-	-	-
			196,401	**(798)**	**12.002**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* Valsabbina PA, Atlas SPV, both EBBs and Viveracqua securities are "*mono-tranche*"

C.3 Special purpose vehicle for securitisation

Securitisation/Special purpose vehicle name special purpose vehicle	Registered office	Consolidation	Main assets - nominal value			Liabilities - Securities*		
			Receivables	Debt securities	Other	Senior	Mezzanine	Junior
Valsabbina Investimenti S.r.l.	Via Vittorio Alfieri,1 - 31015 Conegliano (TV)	No	62,958	-	-	67,624	-	-
Atlas SPV S.r.l.	Via Vittorio Betteloni, 2 - 20131 Milan	No	17,408	-	-	9,148	-	-
Vittoria SPE S.r.l.	Via San Prospero, 4 - 20121 Milan	No	109,115	-	-	98,336	7,080	35,204
Polluce SPE S.r.l.	Via San Prospero, 4 - 20121 Milan	No	192,392	-	-	5,601	-	7,400
Vitruvio SPV S.r.l.	Via San Prospero, 4 - 20121 Milan	No	70,048	-	-	55,000		13,750
Eridano II SPV S.r.l	Via Vittorio Alfieri, - 31015 Conegliano (TV)	No	344,483	-	-	304,525	25,400	83,520
P2P Lendit S.r.l.	Via degli Olivetani, 10/12 - 20123 Milan	No	19,058	-	-	15,166	-	4,257
2R Plus SPV	Via Vittorio Alfieri, - 31015 Conegliano (TV)	No	50,295	-	-	3,720	-	2,480
Auxilio SPV	Via San Prospero, 4 - 20121 Milan	No	44,842	-	-	36,250	-	9,264
Valsabbina SME Platform	Via San Prospero, 4 - 20121 Milan	No	7,140	-	-	5,700	1,295	863
EBB S.r.l.	Via Vittorio Alfieri, - 31015 Conegliano (TV)	No	-	114,750	-	114,750	-	-
EBB Export S.r.l.	Via Vittorio Alfieri, - 31015 Conegliano (TV)	No	-	50,000	-	50,000	-	-
Viveracqua Hydrobond 2020 S.r.l.	Via Vittorio Alfieri, - 31015 Conegliano (TV)	No	-	50,000	-	50,000	-	-

*Valsabbina PA, Atlas SPV, both EBBs and Viveracqua securities are "*mono-tranche*"

C.5 Servicer activity - own securitisations: collections of securitised loans and redemptions of securities issued by the special purpose vehicle for securitisation

Special purpose vehicle	Securitised assets (end-of-period data)		Loan collections during the year		Percentage of redeemed securities (end-of-period)					
					senior		mezzanine		junior	
	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing
SME PLATFORM		7,140								

With reference to the collections during the year, there are no collections of principal but only of interest amounting to Euro 59,537.

D. Information on structured entities not consolidated for accounting purposes (other than special purpose vehicles for securitisation)

Qualitative information

Quantitative information

The section is not drawn up because the Bank does not use structured entities not consolidated for accounting purposes other than special purpose vehicles for securitisation.

E. Transfers of assets

A. Financial assets sold but not fully derecognised

Qualitative information
Quantitative information

E.1 Financial assets transferred recognised in full and associated financial liabilities: book values

	Financial assets transferred recognised in full				**Associated financial liabilities**		
	Book value	**of which: subject matter of securitisation transactions**	**of which: subject matter of reverse repurchase agreements**	**of which impaired**	**Book value**	**of which: subject matter of securitisation transactions**	**of which: subject matter of reverse repurchase agreements**
A. Financial assets held for trading	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
4. Derivatives	-	-	-	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	-	-	-	-	-	-	
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-	-
3. Loans							
E. Financial assets measured at amortised cost	130,544	-	130,544	-	(131,802)	-	(131,802)
1. Debt securities	130,544	-	130,544	-	(131,802)	-	(131,802)
2. Loans	-	-	-	-	-	-	-
Total 31/12/2020	**130,544**	**-**	**130,544**	**-**	**(131,802)**	**-**	**(131,802)**
Total 31/12/2019	**139,650**	**-**	**139,650**	**-**	**(137,923)**	**-**	**(137,923)**

B. Financial assets sold and fully derecognised with recognition of continuing involvement

As at 31 December 2020, the Bank had no such transactions in place.

C. Financial assets sold and fully derecognised

During 2020, the Bank completed the "Valsabbina SME Platform" transaction, which is better described in Section C "Securitisation transactions" above.
In December 2015, as part of a multi-originator securitisation transaction (Multiseller NPL), the Bank factored bad loans without recourse for a gross amount of Euro 5.8 million (net Euro 2.2 million) at a price of around Euro 2 million; to cover the credit claimed, the Bank received in part liquidity and in part a security with underlying bad loans assigned by various banks (including ours). The security, originally recorded at Euro 1.5 million, has a residual value as at 31 December 2020 equal to zero having been fully redeemed.

F. Credit risk measurement models

The models and the procedures aimed at classifying the customers in risk classes are used, as previously mentioned, for a more accurate management of the credit risk.
These models are not used at present for the purposes of calculating the capital ratios, since, for such purposes, the Bank uses the standardised method.

Section 2 - Market risk

2.1 Interest rate risk and price risk - regulatory trading book

Qualitative information

A. General aspects

For the purpose of drawing up this section, just the financial instruments included in the “regulatory trading book” were taken into consideration, as defined in the regulations relating to the regulatory reports on market risks.
The investment activity in securities is carried out alternately with a view to receiving only the contractual cash flows, in a "held to collect" (HTC) business model logic, or with a joint view to collecting contractual cash flows and any capital gains from disposal, in a "held to collect and sell" business model logic.
On the other hand, securities transactions involving the trading portfolio during the year were marginal and concerned a portfolio of limited amounts and for limited periods of time.

B. Management process and measurement methods for the interest rate risk and the price risk

The internal regulations establish the operating limits (in terms of consistency of the portfolio and composition by type of securities) both with regard to exposure to rate risk (in terms of financial duration) and credit risk (in terms of rating and counterparties).

In consideration of the non-significance of the trading book, the measurement of interest rate risk and price risk was carried out solely on the banking book.

Quantitative information

1. ***Regulatory trading book: distribution by residual maturity (by re-pricing date) of on-balance sheet financial assets and liabilities and financial derivatives - Currency: EURO***

Type/Residual duration	on demand	up to 3 months	from 3 months to 6 months	from 6 months to 1 year	from 1 year to 5 years	from 5 years to 10 years	beyond 10 years	unspecified maturity
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**63**	**(5)**	**2**	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	63	(5)	2	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	63	(5)	2	-	-	-	-
+ long positions	-	2,074	827	459	-	-	-	-
+ short positions	-	2,011	832	457	-	-	-	-

1. ***Regulatory trading book: distribution by residual maturity (by re-pricing date) of on-balance sheet financial assets and liabilities and financial derivatives - Currency: OTHER CURRENCIES***

Type/Residual duration	on demand	up to 3 months	from 3 months to 6 months	from 6 months to 1 year	from 1 year to 5 years	from 5 years to 10 years	beyond 10 years	unspecified maturity
1. On-balance sheet assets	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**(28)**	**8**		-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	(28)	8	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(28)	8	-	-	-	-	-
+ long positions	-	2,031	823	448	-	-	-	-
+ short positions	-	2,059	815	448	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity securities and share indices for the main countries in the listing market

As at 31 December 2020, the trading portfolio included a value of Euro 295 thousand relating to equity securities listed on the Italian stock exchange.

3. Regulatory trading book: internal models and other sensitivity analysis methods

The methods for analysing the sensitivity are applied to the banking book.

2.2 Interest rate risk and price risk - banking book

Qualitative information

A. General aspects, management procedures and methods of measuring interest rate risk and price risk

The interest rate risk is generated by the imbalance between the maturities (repricing) of the asset and liability items belonging to the banking book. The latter is made up of all the financial instruments, assets and liabilities, not included in the trading book as per the supervisory legislation indicated in section 2.1.
General Management is responsible for the interpretation of the guidelines for the management of the banking book, on a consistent basis with the strategic policies defined by the Board of Directors and the monitoring of the trend in its management.
The Business Division proposes to General Management any operations for the management and mitigation of the interest rate risk of the banking book.
The mitigation of the interest rate risk is pursued by means of the integrated management of the bank assets and liabilities and is aimed at stabilising the net interest income and safeguarding the economic value of the bank book.
In particular, the management of the bond portfolio is oriented towards a business model aimed at collecting contractual cash flows (Held to collect) or collecting them together with the realisation of capital gains from the sale of financial instruments (Held to collect and sell).
The measurement of the interest rate risk is carried out by the Risk Management, Planning and Control Service. The assessment takes place on a monthly basis; in particular, for each sensitive item identified in the time period chosen for the analysis, account is taken of the specific repricing methods.
The ERMAS procedure makes it possible to monitor all the Bank's activities associated with the transformation of the maturities of the balance sheet assets and liabilities and to quantify the equity and income statement effects, induced by hypothetic shocks of the market rates. Said shocks are processed as part of macro-economic scenarios, or rather theoretic shifts of the market rate curves.
By means of the use of the ERMAS application it is possible to analyse the impact that unexpected changes in the external market conditions have on the Bank's profitability, also offering the possibility of estimating the change in the expected net interest income and the business value of assets, based on the monthly balance sheet data.
For the purpose of measuring the variability of the net interest income, determined by positive and negative changes in the rates over a time period of 365 days, the differences between asset and liability items of the financial statements are monitored, grouped according to the maturity or rate redefinition date. The method used is "gap analysis, through several approaches that allow to reach increasingly accurate estimates. The techniques for the operational measurement of the rate risk are constantly implemented by the Risk Management, Planning & Control Service.
In detail, in the measurement for operational purposes of the rate risk, the behavioural model created for the on-demand funding and lending items is used.
The measurement of the sensitivity of the economic value of assets and liabilities of the Bank to changes in interest rates is carried out through the "Duration Gap" and "Sensitivity Analysis".

With regard to the quantification of the price risk with reference to the securities belonging to the Bank, a model is used based on the Value at Risk (VaR) concept, in order to express, synthetically

and in monetary terms, the maximum probable loss incurred by a static portfolio with reference to a specific time horizon and a specific level of confidence in normal market conditions. For the calculation of the VaR, the Risk Management, Planning and Control Service uses the ERMAS application The financial information necessary for the determination of VaR (volatility, correlations, forward structure of the interest rates, exchange rates, stock and benchmark indices) is provided by the Risk Size product. The VaR model adopted is parametric and it prudentially uses a confidence interval of 99% and a time period of 10 days. The measurement of the VAR takes place by taking into consideration the link that exists between the individual instrument and the related risk factor.
The Risk Management, Planning and Control Service calculates the V.a.R. separately on a daily basis for the securities portfolio managed internally by the Financial Sector of the Bank and for the portfolio assigned under management to two external operators.
Backtesting analysis has also been prepared (or rather an accurate comparison of the portfolio V.A.R. with the daily changes in the banking book), aimed at checking the reliability of the VaR model in envisaging the quantification of (any) loss on the trading book. The calculation method adopted envisages that the theoretical losses/gains registered during the day are compared with the VaR of the previous day. The theoretical losses/gains are determined by revaluing the "t" time of the day end positions at "t-1" (hypothesising that the positions remain unchanged).
According to the "backtesting" analysis carried out in 2020, VaR was exceeded in four cases, calculated for the securities portfolio managed internally, whereas with reference to portfolios under management to external operators, there was only one case of overrunning. The overruns of risk measurements were recorded coinciding with times of tension in the financial markets, mainly due to the spread of the Covid-19 pandemic in February-March. In any case, the backtesting activities confirm, even in a year characterised by extreme market volatility, the reliability of the measurement of risk made via the V.a.R.

For the quantification of price risk, stock market prices (for listed securities) are constantly monitored. For securities not listed on regulated markets, specific measurements are made based on transactions that may have taken place during the year on the same or comparable instruments, or using alternative measurement models, which consider data from different sources. The policies pertaining to the methods for measuring the financial instruments in the portfolio are defined in the document entitled "Fair value policy".

The duration of the Bank's securities portfolio as at 31 December 2020 net of external management was equal to 3.79 years.

Quantitative information

1. Banking book: distribution by residual maturity (by re-pricing date) of financial assets and liabilities - Currency: EURO

Type/Residual duration	on demand	up to 3 months	from 3 months to 6 months	from 6 months to 1 year	from 1 year to 5 years	from 5 years to 10 years	beyond 10 years	Unspecified maturity
1. On-balance sheet assets	**1,287,781**	**1,922,630**	**798,530**	**58,321**	**596,689**	**750,525**	**199,833**	**-**
1.1 Debt securities	2,911	449,111	739,840	5,527	184,696	605,616	78,561	-
- with early repayment option	1,337	84,638	1,549	1,139	60,185	22,053	11,019	-
- other	1,574	364,473	738,291	4,388	124,511	583,563	67,542	-
1.2 Loans to banks	23,794	100,925	-	-	-	-	-	-
1.3 Loans to customers	1,261,076	1,372,594	58,690	52,794	411,993	144,909	121,272	-
- Current account	319,390	7	244	687	7,955	7,636	-	-
- other loans	941,686	1,372,587	58,446	52,107	404,038	137,273	121,272	-
- with early repayment option	805,881	1,217,436	56,628	51,845	401,746	133,656	111,273	-
- other	135,805	155,151	1,818	262	2,292	3,617	9,999	-
2. On-balance sheet liabilities	**3,152,611**	**303,694**	**121,735**	**259,140**	**1,641,244**	**8,246**	**-**	**-**
2.1 Due to customers	3,152,208	265,650	118,405	225,553	316,732	59	-	-
- Current account	3,128,001	133,545	118,040	224,822	312,956	-	-	-
- other payables	24,207	132,105	365	731	3,776	59	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	24,207	132,105	365	731	3,776	59	-	-
2.2 Due to banks	321	-	-	-	1,204,403	-	-	-
- Current account	321	-	-	-		-	-	-
- other payables	-	-	-	-	1,204,403	-	-	-
2.3 Debt securities	20	38,044	3,330	33,587	120,109	8,187	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	20	38,044	3,330	33,587	120,109	8,187		-
2.4 Other liabilities	62	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	62	-	-	-	-	-	-	-
3. Financial derivatives	**(315,371)**	**(295,901)**	**25,593**	**67,310**	**387,837**	**90,760**	**40,732**	**-**
3.1 With underlying security	-	(4)	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(4)	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	4	-	-	-	-	-	-
3.2 Without underlying security	(315,371)	(295,897)	25,593	67,310	387,837	90,760	40,732	-
- Options	(315,371)	(296,861)	25,593	67,310	387,837	90,760	40,732	-
+ long positions	-	20,092	37,430	67,919	387,837	90,760	40,732	-
+ short positions	315,371	316,953	11,837	609	-	-	-	-
- Other derivatives	-	964	-	-	-	-	-	-
+ long positions	-	964	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**(61,669)**	**61,669**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	112,885	61,669	-	-	-	-	-	-
+ short positions	174,554	-	-	-	-	-	-	-

1. Banking book: distribution by residual maturity (by re-pricing date) of financial assets and liabilities - Currency: OTHER CURRENCIES

Type/Residual duration	on demand	up to 3 months	from 3 months to 6 months	from 6 months to 1 year	from 1 year to 5 years	from 5 years to 10 years	beyond 10 years	Unspecified maturity
1. On-balance sheet assets	**9,626**	**11,026**	**975**	**984**	**3,488**	**1,445**	**1,092**	-
1.1 Debt securities	-	1,128	975	984	3,488	1,445	1,092	-
- with early repayment option	-	758	-	-	-	-	-	-
- other	-	370	975	984	3,488	1,445	1,092	-
1.2 Loans to banks	9,168	7,336	-	-	-	-	-	-
1.3 Loans to customers	458	2,562	-	-	-	-	-	-
- Current account	423	-	-	-	-	-	-	-
- other loans	35	2,562	-	-	-	-	-	-
- with early repayment option	35	2,562	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**18,586**	**-**	-	-	-	-	-	-
2.1 Due to customers	18,586	-	-	-	-	-	-	-
- Current account	18,586	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- Current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(966)**	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	(966)	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(966)	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	966	-	-	-	-	-	-
4. Other off-balance sheet transactions	**-**	**-**	-	-	-	-	-	-
+ long positions	-	5,705	-	-	-	-	-	-

+ short positions		5,705	-	-	-	-	-	-

The valuation of the long and short positions shown in the financial derivatives is mainly attributable to the loan relationships with the customers that contractually envisage the acknowledgement of an index-linked interest rate with a minimum and/or maximum threshold (floor and cap).

2. Banking book: internal models and other sensitivity analysis methods

The measurement of the interest rate risk according to the second pillar is first of all carried out on the basis of the standard algorithms set out in the 32nd update of Bank of Italy Circular No. 285 of 2013, distinguishing the calculation in terms of changes in economic value (annexe C) and in terms of changes in net interest income (annexe C-bis). The Bank is continuing to implement these methods of calculation, which will be finalised when the 2020 ICAAP-ILAAP report is prepared.
The Bank has always maintained the risk ratio at a level lower than the warning thresholds established by the regulations in force, equal to 20% of Own Funds for the +/- 200 bps shock and 15% of Tier 1 Capital for the other scenario analyses. In particular, as at 31 December 2020 the Bank would not suffer any reduction in the economic value of its banking book compared to the scenarios of an increase/reduction in rates of +/- 200 bps. The change in the economic value of the banking book was also calculated against non-parallel shifts in the interest rate curve, also based on the risk scenarios provided for in the guidelines issued by the European Banking Authority (EBA). Applying these interest rate stress assumptions, the Bank would be exposed to interest rate risk in the "steepener" and "99th percentile upside scenario", which would result in a change in the economic value of the banking book of 3.43% and 0.90% of Common Equity Tier 1 capital (Cet1) respectively.
In particular, on 31 December 2020 the negative change in the value of the banking book, even in the most adverse scenarios, would in any case be lower than the warning thresholds defined by the Supervisory Authorities and mentioned above.
With reference to the analyses carried out in terms of changes in net interest income, applying the parallel shocks +/-200 bps, the Bank would be exposed to the stress assumption -200 bps that would result in a reduction in net interest income compared to Own Funds of 0.67%.
The estimates take into account the application of the behavioural models defined by the Bank in order to quantify the sensitivity of on-demand items to changes in market rates.
The measurement of the interest rate risk carried out also for internal management purposes on a monthly basis by using the ERMAS procedure that allows to quantify, on each asset and liability item, the effects, both on the net value of the banking book and on the expected net interest income, resulting from hypothetical shocks in market rates.

2.3 Exchange-rate risk

Qualitative information

A. General aspects, management processes and measurement methods for exchange-rate risk

The Bank is exposed to the exchange-rate risk to a marginal extent, since it is always focused on the daily break-even of the currency positions, which is obtained by considering both the spot positions and the forward ones. The forward transactions, recorded under trading derivatives and financial trading liabilities, offset the specific request of the customer and without taking any risk positions.
The exchange-rate risk is managed by means of operating limits, intraday and day end; furthermore, the internal regulations establish stop loss operating limits both on single positions and on the overall position assumed by the Bank.
The exchange-rate risk taken by the Bank during the year mainly derives from investments in securities denominated in currencies other than the Euro, as part of the mandates given to external managers, in which the limits to the taking of the exchange risk are defined.

B. Exchange-rate risk hedging

The primary objective of the Bank is to prudently manage the exchange-rate risk, by hedging properly the transactions carried out directly with customers.

Quantitative information

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	US dollars	Yen	Swiss francs	Rouble	Sterling	Other currencies
A. Financial assets	**26,128**	**3,087**	**1,199**	**966**	**350**	**1,123**
A.1 Debt securities	5,682	1,553	-	961	-	916
A.2 Equity securities	2,344	1,523	349	-	-	-
A.3 Loans to banks	15,801	11	131	5	350	207
A.4 Loans to customers	2,301	-	719	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**133**	**10**	**91**	**-**	**93**	**57**
C. Financial liabilities	**18,046**	**-**	**41**	**-**	**460**	**39**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	18,046	-	41	-	460	39
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**146**	**-**	**13**	**-**	**-**	**-**
E. Financial derivatives	**(41)**	**-**	**(883)**	**-**	**16**	**(77)**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	(41)	-	(883)	-	16	(77)
+ long positions	3,221	-	-	-	33	49
+ short positions	3,262	-	883	-	17	126
Total assets	**29,482**	**3,097**	**1,290**	**966**	**476**	**1,229**
Total liabilities	**21,454**	**-**	**937**	**-**	**477**	**165**
Difference (+/-)	**8,028**	**3,097**	**353**	**966**	**(1)**	**1,064**

2. Internal models and other sensitivity analysis methods

Steps are not taken to analyse the sensitivity of the currency risk because the asset and liability positions, spot and forward, are deemed as balanced.

Section 3 - Derivative instruments and hedging policies

3.1 Trading derivatives

A. Financial derivatives

A.1 Trading financial derivatives: year-end amounts

Underlying assets/ Type of derivatives	Total 31/12/2020				Total 31/12/2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counter parties	Without central counterparties			Central counter parties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rates	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
2. Equity securities and share indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	**6,249**	-	-	-	**3,108**	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	6,249	-	-	-	3,108	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	**6,249**	-	-	-	**3,108**	-

A.2 Trading financial derivatives: positive and negative gross fair value - breakdown by product

Types of derivatives	Total 31/12/2020				Total 31/12/2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	88	-	-	-	10	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	353	-	-	-	338	-
Total	-	-	**441**	-	-	-	**348**	-
1. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	51		-	-	17	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	-	-	**51**	-	-	-	**17**	-

A.3 OTC trading financial derivatives: notional amounts, positive and negative gross fair value by counterparty

Underlying assets	Governments and central banks	Banks	Other financial companies	Other parties
Contracts not included in netting agreements				
1) Debt securities and interest rates	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	
- negative fair value	-	-	-	-
2) Equity securities and share indices	-	-	**336**	**17**
- notional amount	-	-	-	-
- positive fair value	-	-	336	17
- negative fair value	-	-	-	-
3) Currencies and gold	-	**3,769**	-	**2,619**
- notional amount	-	3,714	-	2,535
- positive fair value	-	4	-	84
- negative fair value	-	51	-	-
4) Commodities	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
Contracts included in netting agreements				
1) Debt securities and interest rates	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and share indices	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Others	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of OTC trading derivatives: notional amounts

Underlying assets/Residual life	Up to 1 year	From 1 year to 5 years	Beyond 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity securities and share indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	6,249	-	-	**6,249**
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2020	**6,249**	**-**	**-**	**6,249**
Total 31/12/2019	**3,108**	**-**	**-**	**3,108**

Section 4 - Liquidity risk

Qualitative information

A. General aspects, management processes and measurement methods for liquidity risk

The management of the liquidity risk is carried out mainly by the Business Division by means of the Financial Sector, with the aim of checking the Bank's ability to efficiently meet any liquidity requirements and avoid finding itself in situations of excessive and/or insufficient liquidity, with the consequent need to invest and/or raise funds at unfavourable rates with respect to market rates.

The overall model adopted by the bank for managing and monitoring the liquidity risk is divided up into three distinct areas according to the reference scope, time horizon and the analysis frequency:
- the management of the intraday liquidity, or rather the management of the daily settlements of the debit and credit positions in the various settlement, payment and clearing systems the Bank takes part in;
- the management of the operating liquidity, or rather the management of the most volatile events that impact the Bank's liquidity position over a period between 1 day and up to 6 months, with the primary objective of maintaining the Bank's ability to meet its ordinary and extraordinary payment commitments, minimising the costs. In this context, the recognition of imbalances between incoming and outgoing sources as well as the related system of supervisory limits, focus in particular on the maturities up to six months;
- the management of the structural liquidity, or rather the management of all the events of the bank book that impact the Bank's overall liquidity position in the period especially beyond 6 months, with the primary objective of maintaining a suitable dynamic ratio between medium/long-term assets and liabilities.

Significant support for the management of the liquidity risk derives from the monitoring carried out by the Risk Management/Planning and Control Service, by means of an internal model that has the aim of reporting the effects of the investment/financing transactions by means of the distribution by maturity of the transactions. Operations are measured by using the Asset and Liability Management (A.L.M) method, via the ERMAS application, which makes it possible to measure and manage both any liquidity requirement/surplus of the Bank generated by the imbalance between incoming and outgoing flows, and the structural balance deriving from the correct composition by maturity of the sources and the uses.

In line with national and international best practice and the prudent supervisory indications, the model adopted by the Bank for the management and monitoring of the operational liquidity is based on the “Maturity Mismatch” approach, which presupposes the construction of a maturity ladder and on the allocation of the certain and estimated flows on its various time brackets, for the purpose of calculating the cumulative GAP for each maturity bracket.
As part of the liquidity policy, the Bank - on a consistent basis with the risk tolerance threshold established by the Board of Directors - defined operating limits both for the management of the operating liquidity (even assuming stress scenarios) and the structural liquidity.
With regard to the management of the operational liquidity, the limits are defined in terms of absolute value of the cumulative GAPs, on the various maturities. Moreover, in line with the Recovery Plan, the Bank defined a recovery threshold for the gap accumulated over one month, the "Recovery Plan" is activated when the threshold is exceeded.
The Bank continually checks the value of the Counterbalancing capacities (CBC), understood as the availability of assets that can be reimbursed, sold or used in refinancing transactions with the interbank system and that therefore make it possible to generate liquidity rapidly and efficiently. The monitoring of the Counterbalancing Capacity (CBC) confirmed the continuous adequacy of the liquidity reserve available to the Bank, even during periods of increased volatility in financial markets as a result of the health emergency.
The limit adopted by the Bank for the monitoring of the structural liquidity risk is by contrast defined in terms of ratio between the assets and liabilities with a maturity of more than one year. The definition of this limit has the aim of ensuring the maintenance of a structural liquidity profile consistent with the strategy for financing the assets over the mid/long-term with liabilities of the same duration.

The Bank's liquidity risk management framework envisages specific processes to be activated in the event of a deviation of risk taking from the objectives set. In particular, the Risk Appetite Framework, “Contingency Funding Plan” and the Recovery Plan provide details of the services and structures responsible for the implementation of the extraordinary funding policies in the event of need, as well as the actions to be adopted to remedy them, in accordance with the regulatory requirements envisaged by the supervisory regulations.

The Bank sends the measurement of the short-term liquidity indicator "Liquidity Coverage Ratio" (LCR) to the Supervisory Authority on a monthly basis, monitoring its development over time.
With regard to the “Net Stable Funding Ratio” (NSFR) indicator, representing a longer-term structural balance, the Bank has implemented an operational-type measurement based on the provisions of EU Regulation 2019/876.
This Regulation introduced a minimum level for the NSFR of 100% as from the reporting date of 30 June 2021.
During 2020, the Bank increased the proportion of stable deposits through the use of TLTRO III auctions.

The quarterly reporting related to the ALMM (Additional Liquidity Monitoring Metrics) was also made to the Supervisory Authority, as additional liquidity monitoring metrics to allow a comprehensive view of the Bank's risk profile.

The management of company liquidity is optimised with a continuous monitoring of the assets that can be readily liquidated or used in refinancing transactions with the ECB. During 2020, the Bank increased the proportion of stable deposits through the use of TLTRO III auctions; it also carries out repurchase agreements with financial intermediaries as part of its funding strategies.

In order to cope with possible impacts on liquidity, since the beginning of the emergency the Bank adopted preventively all the necessary management and control measures aimed at mitigating the possible worsening of liquidity conditions in the system. In particular, special attention was paid to the enhancement of the assets pledged as collateral for refinancing operations. The liquidity position has always remained solid thanks to the broad availability of liquid reserves and the high level of customer deposits.

The regulatory indicators - Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) - were always higher than regulatory requirements and internally defined operating limits.

During 2020, the Bank updated the ILAAP self-assessment, confirming the assessment of the adequacy of its liquidity risk management and governance system. This assessment was reported to the Supervisory Authority in the ICAAP-ILAAP Report.

As mentioned in section I - "Credit risk", subsection C "Securitisations", the Bank put together two self-securitisation transactions, for the purpose of increasing its financing ability with the system. Self-securitisation transactions do not involve the derecognition of the underlying receivables from the financial statements.
These transactions were called "Valsabbina SPV 1" and "Valsabbina SME 2" and were finalised in 2012 and in 2019, respectively, with the intention of disposing of securities that could be set aside so as to be able to establish funding transactions with the Central European Bank. The "Valsabbina SME" transaction, completed in 2016, was closed in 2019.
The "Valsabbina SPV 1" transaction was concluded with the transfer of a portfolio of performing residential mortgage loans by the Bank, as originator, and the subscription by the originator of the securities issued by the special purpose vehicle.
In January 2015, the size increase of the previous securitisation was concluded, with an additional sale of residential mortgage loans; in connection with this sale, the amount of the senior security recorded an increase of Euro 156,701 thousand, whereas the value assigned to the junior security remained unchanged. A second "size increase" was completed in July 2018, leading to an increase in the senior share of Euro 328,942 thousand, keeping the amount of the junior share unchanged.

On the other hand, the "Valsabbina SME 2" transaction involved the sale to Valsabbina SME SPV Srl of two initial portfolios, in July and September 2019, respectively. Mortgage and unsecured loans to SMEs sold amount to a total of Euro 825.5 million.
In connection with the sale of mortgage loans, the vehicle issued a tranche of bonds secured by mortgages that, fully subscribed by our Bank (Self-Securitisation), were used in refinancing transactions with the European Central Bank.

In order to support the amount of mortgages collateral to the bond of Valsabbina SME 2, the transaction envisaged for the two-year period from 2019 to 2021 on a quarterly basis, the possibility of selling additional mortgage loan portfolios disbursed to SMEs (revolving). In 2020, 4 additional disposals were concluded in order to support the value of the Senior Note.

The related details are provided below for the sake of completeness.

"Valsabbina Spv1" securitisation transaction

- Special purpose vehicle: Valsabbina Spv 1 S.r.l.
- Date of assignment of the receivables: 12 December 2011, 22 January 2015 and 12 July 2018
- Type of receivables assigned: Residential mortgage loans
- Quality of receivables assigned: *Performing*
- Guarantees on the receivables assigned: Senior mortgage
- Geographical area of receivables assigned: Italy
- Business activities of the assigned debtors: Private parties
- Number of receivables assigned 1st sale: 7,401
- Price of receivables assigned 1st sale: Euro 284,703 thousand
- Nominal value of receivables assigned 1st sale: Euro 284,053 thousand
- Interest accrued on receivables assigned 1st sale: Euro 650 thousand
- Number of receivables assigned 2nd sale: 1,355
- Price of receivables assigned 2nd sale: Euro 151,511 thousand
- Nominal value of receivables assigned 2nd sale: Euro 151,376 thousand
- Interest accrued on receivables assigned 2nd sale: Euro 135 thousand
- Number of receivables assigned 3rd sale: 1,189
- Price of receivables assigned 3rd sale: Euro 286,938 thousand
- Nominal value of receivables assigned 3rd sale: Euro 286,935 thousand
- Interest accrued on receivables assigned 3rd sale: Euro 3 thousand

As part of the above-mentioned transaction, the ABS securities indicated below were issued, all subscribed by the originator*:*
• senior tranche for a nominal value of Euro 4,985,100 thousand (fully subscribed by the Bank) with an external rating assigned by Moody's ("Aa2") and DBRS ("AA") with a return index-linked to the 3-month Euribor plus 40 bps;
• junior tranche of Euro 100,100 thousand (fully subscribed by the Bank) without any rating.

As at 31 December 2020, the relevant activities of the vehicle as part of the "Valsabbina Spv1" operation included the residual value of the receivables acquired of Euro 314,616 thousand, with accrual of Euro 12 thousand in addition to cash of Euro 23,672 thousand, of which Euro 16,182 thousand collected by the Bank in January 2021.
Liabilities include the residual debt of securities issued of:
• senior tranche of nominal Euro 236,685 thousand;
• junior tranche of nominal Euro 100,100 thousand,
in addition to unpaid interest accrued on the junior tranche of Euro 1,125 thousand.

"Valsabbina SME 2" securitisation transaction

- Special purpose vehicle: Valsabbina SME SPV S.r.l.
- Date of assignment of the receivables: 5 July 2019, 6 September 2019, 18 October 2019 (1st revolving)
- Type of receivables assigned: Unsecured and mortgage loans to SME

- Quality of receivables assigned: *Performing*
- Guarantees on the receivables assigned: Mortgage, MCC Guarantee (as per Law 662/96), Confidi Guarantee
- Geographical area of receivables assigned: Italy
- Business activities of the assigned debtors: SMEs
- Number of receivables assigned 1st sale: 2,186
- Price of receivables assigned 1st sale: Euro 423,816 thousand
- Nominal value of receivables assigned 1st sale: Euro 423,452 thousand
- Interest accrued on receivables assigned 1st sale: Euro 278 thousand
- Number of receivables assigned 2nd sale: 3,788
- Price of receivables assigned 2nd sale: Euro 401,412 thousand
- Nominal value of receivables assigned 2nd sale: Euro 401,169 thousand
- Interest accrued on receivables assigned 2nd sale: Euro 244 thousand

As part of the above-mentioned transaction, the ABS securities indicated below were issued, all subscribed by the originator*:*

• senior tranche of Euro 542.2 million (fully subscribed by the Bank) with an external rating assigned by Moody's ("A1") and DBRS ("A low") with a return index-linked to the 3-month Euribor plus 50 bps;

• junior tranche of Euro 318.3 thousand (fully subscribed by the Bank) without any rating.

In 2020, in order to support the collateralisation of the Senior security issued in the Valsabbina SME 2 Transaction, revolving sales began on a quarterly basis. This mechanism made it possible to avoid the amortisation of the senior security, allowing the Bank to benefit from a higher amount that could be refinanced at the ECB. Receivables amounting to € 194 million were assigned in 2020.

As at 31 December 2020, the relevant activities of the vehicle as part of the "Valsabbina SME 2" operation included the residual value of the receivables acquired of Euro 786,089 thousand, with accrual of Euro 576 thousand in addition to cash of Euro 51,392 thousand, of which Euro 2,812 thousand collected by the Bank in January 2020.

Liabilities include the outstanding amount of securities issued of:

• senior tranche of nominal Euro 526,460 thousand;

• junior tranche of nominal Euro 309,060 thousand,

in addition to unpaid interest accrued on the junior tranche of Euro 173 thousand.

Both transactions allowed to improve the liquidity profile of the Bank by increasing the "collateral" that can be used in refinancing transactions with the ECB.

As at 31 December 2020, the Senior securities from both transactions permitted an overall refinancing margin with the ECB of approximately Euro 699 million.

Quantitative information

1. Distribution over time of financial assets and liabilities by residual contractual maturity - Currency: EURO

Items/Time periods	on demand	from 1 to 7 days	from 7 to 15 days	from 15 days to 1 month	from 1 to 3 months	from 3 months to 6 months	from 6 months to 1 year	from 1 year to 5 years	Beyond 5 years	Unspecified maturity
On-balance sheet assets	**484,028**	**3,757**	**33,706**	**105,430**	**207,654**	**132,381**	**243,584**	**2,360,520**	**2,144,392**	**100,887**
A.1 Government securities	-	-	484	-	1,887	4,696	6,109	696,359	964,436	-
A.2 Other debt securities	8,880	33	167	131	1,165	4,493	3,583	119,344	297,765	-
A.3 UCIT units	99,855	-	-	-	-	-	-	-	-	-
A.4 Loans	375,293	3,724	33,055	105,299	204,602	123,192	233,892	1,544,817	882,191	100,887
- banks	23,812	-	38	-	-	-	-	-	-	100,887
- customers	351,481	3,724	33,017	105,299	204,602	123,192	233,892	1,544,817	882,191	-
On-balance sheet liabilities	**3,154,056**	**108,424**	**38,613**	**39,505**	**117,940**	**124,754**	**262,928**	**1,643,300**	**8,059**	**-**
B.1 Deposits and current accounts	3,153,522	3,073	11,337	39,080	79,186	118,742	226,437	312,123	-	-
- banks	321	-	-	-	-	-	-	-	-	-
- customers	3,153,201	3,073	11,337	39,080	79,186	118,742	226,437	312,123	-	-
B.2 Debt securities	207	298	503	425	38,415	5,606	35,680	117,401	8,000	-
B.3 Other liabilities	327	105,053	26,773	-	339	406	811	1,213,776	59	-
Off-balance sheet transactions	**(92,037)**	**61,718**	**-**	**864**	**1,461**	**245**	**62**	**9,606**	**19,101**	**-**
C.1 Financial derivatives with exchange of principal	-	49	-	464	511	(5)	2	-	-	-
- long positions	-	649	140	702	1,548	827	459	-	-	-
- short positions	-	600	140	238	1,037	832	457	-	-	-
C.2 Financial derivatives w/o exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-		-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	(61,669)	61,669	-	-	-	-	-	-	-	-
- long positions	-	61,669	-	-	-	-	-	-	-	-
- short positions	61,669	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	(30,368)	-	-	400	950	250	60	9,606	19,101	-
- long positions	82,517	-	-	400	950	250	60	9,606	19,101	-
- short positions	112,885	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

1. Distribution over time of financial assets
and liabilities by residual contractual maturity - Currency: OTHER CURRENCIES

Items/Time periods	on demand	from 1 to 7 days	from 7 to 15 days	from 15 days to 1 month	from 1 to 3 months	from 3 months to 6 months	from 6 months to 1 year	from 1 year to 5 years	Beyond 5 years	Unspecified maturity
On-balance sheet assets	**11,150**	**-**	**141**	**3,384**	**6,446**	**425**	**1,089**	**5,009**	**2,195**	**-**
A.1 Government securities	5	-	-	-	10	46	54	1,897	2,195	-
A.2 Other debt securities	-	-	-	-	31	379	1,035	3,112	-	-
A.3 UCIT units	1,523	-	-	-	-	-	-	-	-	-
A.4 Loans	9,622	-	141	3,384	6,405	-	-	-	-	-
- banks	9,169	-		2,446	4,894	-	-	-	-	-
- customers	453	-	141	938	1,511	-	-	-	-	-
On-balance sheet liabilities	**18,587**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	18,587	-	-	-	(1)	-	-	-	-	-
- banks	-	-	-	-	-	-	-	-	-	-
- customers	18,587	-	-	-	(1)	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**-**	**(52)**	**-**	**(463)**	**(480)**	**8**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	(52)	-	(463)	(480)	8	-	-	-	-
- long positions	-	645	136	231	1,019	823	448	-	-	-
- short positions	-	697	136	694	1,499	815	448	-	-	-
C.2 Financial derivatives w/o exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	-	-	-	-	-	-	-	-	-	-
- long positions	-	5,705	-	-	-	-	-	-	-	-
- short positions	-	5,705	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Section 5 - Operational risks

Qualitative information

A. General aspects, management processes and measurement methods for operational risk

The operational risk is defined as the risk of incurring losses resulting from inadequacy or inefficiency of procedures, human resources and internal systems, or from external events. This risk is inherent to the performance of banking activities and can be generated and reside therefore in all the company processes.
In general, the main sources of manifestation of the operational risk are attributable to internal fraud, external fraud, employment and work safety relationships, professional obligations vis-à-vis the customers, damages from external events, the malfunction of the IT system and the execution, consignment and management of the processes.

The Bank has defined a series of organisational processes for the supervision and management of the types of operational risk, within which it avails itself of specific functions:
- the Internal Audit, whose activities, on the one hand, are aimed at checking the regularity of the operations and the trend of the risks, and on the other hand, at assessing the functioning of the overall internal control system;
- the Control Body pursuant to Legislative Decree No. 231/2001, within the adopted Organisational, management and control model;
- Risk Management, which responds to the need to report and measure the typical risks of the banking business by means of constant monitoring of those taken and those potentially generated by the investment, lending and service policies;
- the Compliance unit, tasked with the supervision and control of observance of the regulations, providing support for the prevention and management of the risk of incurring legal or administrative sanctions and/or suffering significant losses consequent to the violation of internal or external legislation.

To support the Operational Risk management model, the Bank has adopted the following operating processes, which are regulated in a specific internal policy:
- "Loss Data Collection" – process for collecting the operational losses manifesting within the Bank (active since 2012);
- "Risk Self Assessment" – self-diagnostic process for the forward-looking assessment of the operational risks aimed at identifying the possible risk events estimating the possible potential impacts.

Specifically, the Loss Data Collection process achieved is broken down into the following components:
- Collection of data on the operational loss events (Loss Event Collection): this represents the collection and registration process for the operational loss data that has taken place within the Bank;

- Creation of a database of the events (Loss Data Collection) that generate losses used to carry out statistical processing of the losses that have occurred and the causes that have led to the same.

The organisational model adopted has the following levels of responsibility:
- Reporter (all the organisational units);
- Manager (Internal Audit Service);
- Validator (Risk Management, Planning & Control Service).

The role of reporter of a possible or potential operational risk is carried out by all the organisational units, whether they be branches or head office. On occurrence of a loss event, a report is drawn up and sent to the Internal Audit Service that sees to the management of the report and its insertion in the procedure (Loss Data Collection). The validation and the consolidation are carried out by the Risk Management/Planning and Control Service.

As part of the "Loss Data Collection" activities, the events indexed over the last nine years, and in relation to which steps were taken to record the related operational loss, have been catalogued by type of operational loss (event type).
The types of event were subsequently assigned to the business lines and to the loss events on the basis of the classifications envisaged by the Bank of Italy Circular No. 285/2013 and Regulation No. 575/2013 (CRR).

The objectives intended to be pursued by means of the above-mentioned process are:
- identify the causes of the detrimental events that underlie the operational losses and consequently increase the business profitability;
- improve the efficiency of the management, by means of the identification of the critical areas, their monitoring and the optimisation of the control systems;
- optimise the risk mitigation and transfer policies;
- develop the culture of the operational risk at Bank level, raising the awareness of the entire structure.

For the purpose of supplementing the operations that are already carried out afterwards with the collation of the operating losses, the Bank implemented - with the support of a leading consulting company - a self-assessment process functional for estimating on a forecast basis the Bank's exposure to the operating risk ("Risk Self Assessment"). Specifically, this involves an estimation self-diagnostic process that sets out to assess the degree of the exposure to the risk by means of a combination of opinions expressed in terms of impact, probability of occurrence, efficacy of the controls. The process represents a further monitoring of operational risk as it allows to identify potential risk scenarios and therefore to evaluate appropriate mitigation actions.
Within the sphere of the risk management processes, the mitigation activities are first of all pursued by means of legislative, organisational, procedural and training measures. The main operating processes are also mapped and regulated, with the consequent definition of tasks and responsibilities. Any critical areas, identified by means of the prior and subsequent analysis carried out, are looked at in-depth with the competent Units so as to evaluate the appropriate corrective measures.

During 2020, the Bank did not record any negative events directly attributable to possible operational discontinuities arising from the outbreak of the Covid-19 emergency. In this regard, note that a specific committee has been set up with the aim of supporting the General Management in planning and coordinating interventions related to the management of the current health crisis.

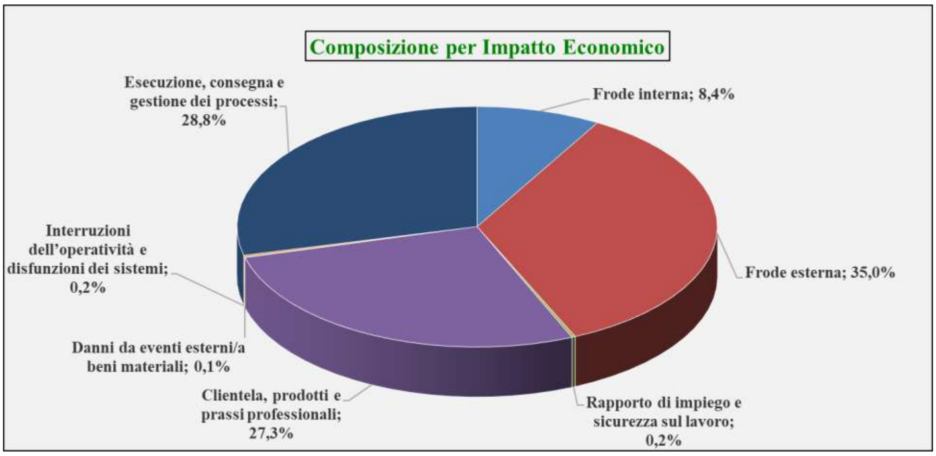
In detail, the committee supports the General Management in:

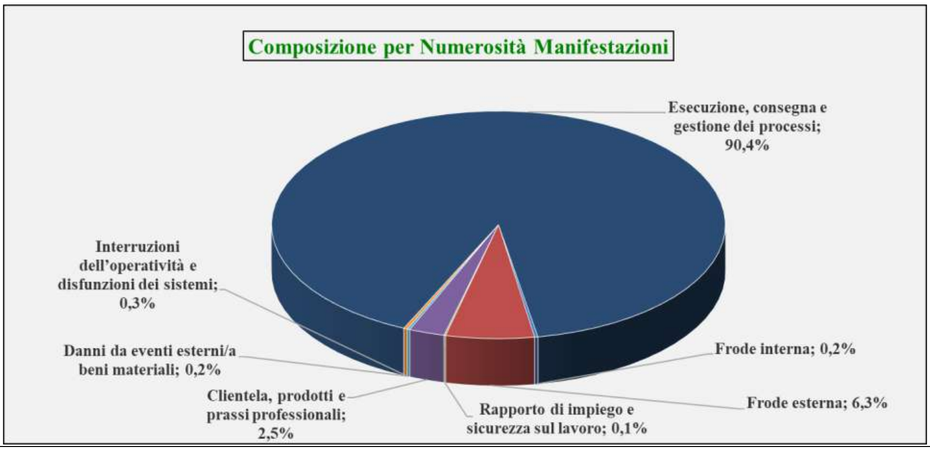
- defining the necessary safety measures to safeguard the health of employees and third parties accessing the Bank's premises;
- coordinating the activities necessary to correctly implement the obligations contained in the legal/regulatory provisions issued by national and/or local authorities;
- identifying business risks related to the current emergency and in formulating proposals to mitigate these risks;
- ensuring the adequacy of information flows and internal communication to both the central and peripheral structures of the Bank.

The Bank adopted, for the calculation of the capital requirement in the presence of operational risk, the Basic Indicator Approach (BIA), which envisaged that the capital covering this type of risk equates to 15% of the average of the "basic indicator" of the last three financial years, calculated pursuant to Articles 315 and 316 of the CRR Regulations.
The capital absorption for this type of risk as at 31 December 2020 came to Euro 18,756 thousand.

Quantitative information
With regard to the loss data, inserted in the Bank’s Loss Data Collection archive in the years from 2012 to 2020, the distribution by type of loss is presented below, with indication by impact to the income statement and by number of occurrence, according to the classification of the events envisaged by the new Supervisory provisions.

Incidence of the operational losses by type of event (2012 - 2020 survey)





Furthermore, by way of disclosure, the historical trend in robberies and claims is presented below, indicating the number of the events and the cost the Bank must cover, recorded under operating expense (amounts in thousand of Euro):

	Robberies		**Claims**		
	No.	**Amount Euro 000**	**No. received**	**No. accepted**	**Reimbursements Euro 000**
2013 financial year	2	26	109	26	231
2014 financial year	2	2	153	33	38
2015 financial year	2	66	161	25	251
2016 financial year	1	12	223	33	99
2017 financial year	1	1	97	43	187
2018 financial year	1	13	76	29	63
2019 financial year	-	-	97	23	59
2020 financial year	-	-	113	36	77

The provisions for risks and charges are provided in relation to legal actions suffered of Euro 1,471 thousand.

Public disclosure

The information regarding capital adequacy, exposure to risks and the characteristics of the systems in charge of the identification, measurement and management of these risks envisaged by the New prudential supervisory provisions for banks (Circular No. 285 of 17 December 2013), in Section III “Public disclosure”, is published on the Bank’s website:www.lavalsabbina.it.

PART F - Information on equity

Section 1 - Corporate equity

A. Qualitative information

The Bank's equity corresponds to the algebraic sum of the items 110 "Valuation reserves", 140 "Reserves", 150 "Share premium reserve", 160 "Share capital", 170 "Own shares (-)" and 180 " Profit/loss for the year" under liabilities in the balance sheet.
The amount and the trend of equity represent one of the Bank's strategic priorities, both in relation to the growth and development prospects of the risk and in relation to regulatory legislation.
Therefore, also with regard to the future, the capital requirements are determined:
- by the observance of the capital requirements laid down by supervisory regulations;
- by the supervision of the risks related to the banking business;
- by business development projects;
- by assessments on the amount of profits to be distributed to the shareholders and to be capitalised.

Part B - Liability Section 12 of these explanatory notes provides disclosure regarding the components, amounts, origin, degree of availability and distributable nature of the various items.

B. Quantitative information

B.1 Company equity: breakdown

Item/Amounts		Total 31/12/2020	Total 31/12/2019
1.	Share capital	106,550	106,550
2.	Share premium reserve	230,299	230,299
3.	Reserves	17,303	(2,510)
	- income-related	20,395	582
	a) legal	27,744	25,713
	b) statutory	46,076	28,304
	c) own shares	12,014	12,014
	d) other	(65,439)	(65,449)
	- other	(3,092)	(3,092)
4.	Capital instruments	-	-
5.	(Own shares)	(9,617)	(9,379)
6.	Valuation reserves	4,762	1,475
	- Equity securities designated at fair value through other comprehensive income	1,767	2,665
	- Hedging of equity securities designated at fair value through other comprehensive income	-	-
	- Financial assets (other than equity securities) measured at fair value through other comprehensive income	2,476	(1,737)
	- Tangible assets	-	-
	- Intangible assets	-	-
	- Hedging of investments in foreign operations	-	-
	- Cash flow hedges	-	-
	- Hedging instruments (elements not designated)	-	-
	- Exchange rate gains (losses)	-	-
	- Non-current assets held for sale and disposal groups	-	-
	- Financial liabilities designated at fair value through profit or loss (change in the Bank's creditworthiness)	-	-
	- Actuarial gains/loss on defined-benefit pension plans	(460)	(432)
	- Share of valuation reserves relating to investee companies carried at equity	-	-
	- Special revaluation laws	979	979
7.	Profit (Loss) for the year	24,339	20,302
	Total	**373,636**	**346,737**

The change in the reserves as per point 3. of the table above (financial statement item 140) is described in the following table:

	Balances as at 31 December 2019	Shareholders' resolution for approval of 2019 financial statements			Reversal to income-related reserves from the sale of equity securities FVOCI portfolio	Closing balances as at 31 December 2020
		Allocation to reserves	Assignment of own shares to supplement dividend	Reintegration and increase of Provision for purchase of own shares		
Income-related reserves:	582	19,803	-	-	10	20,395
a) legal	25,713	2,031	-	-	-	27,744
b) statutory	28,304	17,772	-	-	-	46,076
c) own shares	12,014	-	-	-	-	12,014
d) other	(65,449)	-	-	-	10	(65,439)
"Other" reserves	(3,092)	-	-	-	-	(3,092)
Item 140 reserves	**(2,510)**	**19,803**	**-**	**-**	**10**	**17,303**

IFRS 9 became effective on 1 January 2018; the balancing entry for the changes made to the accounting items affected by the standard during the transition is the "income-related reserve", which changed in this regard in negative terms by Euro 66.5 million in 2018.
The amount recorded under Reserves "Other" represents the merger difference deriving from the incorporation of Credito Veronese in 2012.

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

	Asset/Amounts	Total 31/12/2020		Total 31/12/2019	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1.	Debt securities	2,713	(237)	505	(2,242)
2.	Equity securities	3,257	(1,490)	3,104	(439)
3.	Loans	-	-	-	-
	Total	**5,970**	**(1,727)**	**3,609**	**(2,681)**

The valuation reserves are assigned both the positive and negative fair value changes registered in financial assets measured at fair value through other comprehensive income.
The impact of the creditworthiness assessment associated with debt securities in the FVOCI portfolio is also attributed, offset in the income statement; for the change in this component, see the rows "Net impairment losses for credit risk" in the following table.

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

		Debt securities	Equity securities	Loans
1.	**Opening balances**	**(1,737)**	**2,665**	**-**
2.	**Increases**	**5,627**	**153**	**-**
2.1	Fair value gains	2,456	153	-
2.2	Impairment losses for credit risk	1,171	-	-
2.3	Reversal to income statement of negative reserves on sales	2,000	-	-
2.4	Transfers to other shareholders' equity components (equity securities)	-	-	-
2.5	Other changes	-	-	-
3.	**Decreases**	**1,414**	**1,051**	**-**
1.3	Fair value losses	1,090	1,051	-
3.2	Reversals of impairment losses for credit risk	-	-	-
3.3	Reversal to income statement from positive	283	-	-
	reserves: on sales	-	-	-
3.4	Transfers to other shareholders' equity components (equity securities)	-	-	-
3.5	Other changes	41	-	-
4.	**Closing balances**	**2,476**	**1,767**	**-**

B.4 Valuation reserves related to defined benefit plans: annual changes

The actuarial reserve relating to the future defined benefit pension plans, recorded under Valuation reserves net of the tax effects recorded under prepaid taxes, presented a negative balance of Euro 460 thousand as at 31 December 2020, in line with the end of 2019, when it amounted to Euro - 432 thousand, decreasing by Euro 28 thousand (Euro 41 thousand without the tax effect).

The actuary carried out the calculation on the basis of the following financial assumptions: annual discount rate of 0.34% compared to 0.77% for 2019, (rate determined, consistently with section 83 of IAS 19, with reference to the average yield curve that derives from the IBOXX Eurozone Corporates AA index with a duration of 10+ struck on 31 December 2020, rate considered as the best expression of yields of businesses of primary standing), annual rate of inflation 0.80% compared to 1.20% and annual Post-employment benefit rate 2.10% compared to 2.40%.

Section 2 - Own funds and capital ratios

In addition to the information in these sections, reference should be made to the information on own funds and capital adequacy contained in the public disclosure ("Third pillar"), where required individually.

2.1 Own funds

A. Qualitative information

Own funds and capital ratios were calculated on the basis of the book values determined with the application of the regulations envisaged by the IAS/IFRS international accounting standards; moreover, the specific regulations issued by the European Union on Prudential Supervision (CRR 575/2013 regulation, CRRII 876/2019, CRD IV of 2013, CRDV of 2019, “Quick fix” 873/2020 regulation, 2176/2020 regulation, implementing regulation 680/2014 as supplemented) implemented by the Bank of Italy in its Circulars, no. 285 and no. 286 of 2013, in particular, are taken into consideration.

1. Common Equity Tier 1 capital (CET1)

The Common Equity Tier 1 capital (CET1) before the application of deductions and prudential filters consists of the share capital, share premium reserves, reserves, including valuation reserves; this aggregate also includes the regulatory reduction envisaged for own shares, equal to the maximum amount authorised for the repurchase of Euro 10.1 million. The portion of the result for the year that will be allocated to the reserve after the Shareholders' Meeting resolution is not taken into account.
The items to be deducted include goodwill (net of the relevant deferred taxation), other intangible assets (with the exception of multi-year software investment costs that, in accordance with EU Regulation 2176/2020, have been recognised under Other assets with a 100% weighting ratio) and the prepaid taxation related to the second exemption of goodwill from incorporation of Credito Veronese.

With the entry into force of IFRS 9, a transitional arrangement (art. 473 bis) was introduced in the EU 575/2013 - CRR Regulation, which defers in time the impact on own funds deriving from the application of the new impairment model introduced by the same accounting standard. After exercising the option communicated to the Supervisory Body on 1 February 2018, the above regulations envisage the possibility of including in Common Equity Tier 1 capital a transitional positive component equal to a portion of the increase suffered by impairment losses recognised in the financial statements as a result of the first-time adoption of IFRS 9; this share is decreasing over time over a five-year period: 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022.

As a result of the Covid-19 emergency and with Regulation 873/2020, the following were also introduced:

- a new dynamic system (replacing what was originally envisaged by Article 473a of the CRR on this issue) that allows the sterilisation of the increase in collective impairment on performing loans at the reporting date compared to the collective impairment in place as at 1 January 2020.

This sterilisation percentage is decreasing over time over a five-year period according to the following percentages: 100% for the years 2020 and 2021, 75% for the year 2022, 50% for the year 2023 and 25% for the year 2024;

- the redefinition of the "PMI supporting factor" for exposures to companies classified as SMEs at the prudential level. This regulatory change was made earlier than originally planned because it was to be introduced at the same time as the CRRII;
- an optional transitional regime that allows for the sterilisation of the delta between 31 December 2019 and the reference date of the Valuation Reserves on government securities held in the FVOCI portfolio. The bank exercised its option in August 2020.

The tables in part "*B. Quantitative information*" of this section show both the capital values and the coefficients in application of the transitional regime (phase in), a regime to which the Bank has complied with, both for IFRS9 write-downs (art 473bis CRR) and for the sterilisation of the change in FVOCI reserves (reg. 873/2020), and in application of the ordinary regime (fully loaded).

2. Additional Tier 1 capital (AT1)

There are no Additional Tier 1 capital elements.

3. Tier 2 capital (Tier 2 - T2)

The Tier 2 capital is made up of subordinated bonds. The securities observe the stringent requirements laid down by the European regulations, including:
- original duration of at least 5 years;
- no provision of early repayment incentive.

The part eligible for supervisory purposes has been calculated according to a payment plan that results in a constant decrease in the portion over the last 5 years of the residual life of the instruments, as provided for by article 64 of the CRR.
The Bank of Italy authorised a maximum repurchase amount related only to subordinated loans of Euro 1.05 million.
During the year, a subordinated bond included in Own Funds was issued for a nominal amount of Euro 8,000,000, maturing on 1 January 2026, at a rate of 4.675%.

B. Quantitative information

	Total 31/12/2020		Total 31/12/2019	
	Transitional regime	**Fully loaded**	**Transitional regime**	**Fully loaded**
A. Common Equity Tier 1 capital (CET1) before the application of prudential filters	**348,814**	**348,814**	**325,714**	**325,714**
of which instruments of CET1 subject to transitional provisions	-	-	-	-
B. CET 1 prudential filters (+/-)	-	-	-	-
C. CET1 gross of elements to be deducted and of the effects of the transitional regime (A+/-B)	**348,814**	**348,814**	**325,714**	**325,714**
D. Elements to be deducted from CET1	**(9,347)**	**(9,347)**	**(10,172)**	**(10,172)**
E. Transitional regime - Impact on CET1 (+/-)	**39,634**	**-**	**51,973**	**-**
F. Total Common Equity Tier 1 capital (CET1) (C-D+/-E)	**379,101**	**339,467**	**367,515**	**315,542**
G. Additional Tier 1 capital (AT1) gross of elements to be deducted and of the effects of the transitional regime	**-**	**-**	**-**	**-**
of which instruments of AT1 subject to transitional provisions	-	-	-	-
H. Elements to be deducted from AT1	**-**	**-**	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**	**-**	**-**	**-**
L. Additional Tier 1 capital (AT1) (G-H+/-I)	**-**	**-**	**-**	**-**
M. Tier 2 capital (Tier 2 - T2) gross of elements to be deducted and of the effects of transitional regime	**28,369**	**28,369**	**34,394**	**34,394**
of which instruments of T2 subject to transitional provisions	-	-	-	-
N. Elements to be deducted from T2	**(24)**	**(24)**	**(234)**	**(234)**
O. Transitional regime - Impact on T2 (+/-)	**-**	**-**	**-**	**-**
P. Total Tier 2 capital (Tier 2 - 2) (M-N+/-O)	**28,345**	**28,345**	**34,160**	**34,160**
Q. Total own funds (F+L+P)	**407,446**	**367,812**	**401,675**	**349,702**

Row "E. Transitional regime - Impact on CET1" includes the filter relating to the components deriving from the adoption of IFRS 9 (Euro 42.8 million) and that relating to the sterilisation of the Valuation Reserves for government securities of the FVOCI portfolio (Euro -3.2 million), according to the options adopted by the Bank; in the absence of these options, envisaged by Article 473 bis of the CRR, Own funds would be Euro 39.6 million lower and would amount to Euro 367.8 million, instead of Euro 407.4 million.
As at 31 December 2019, total Own funds amounted to Euro 401.7 million and CET1 to Euro 367.5 million.

2.2 Capital adequacy

Qualitative information

The prudent regulations according to the Basel Agreement on Capital are based on three Pillars as already indicated in the section "The Risk Management System" in the report on operations.
For the valuation of the equity soundness and the observance of the minimum ratios on an on-going basis, the Bank implements a series of controls that result in the production of the "ICAAP" and "RAF" reports. Among other things, stress tests are carried out useful for understanding the evolution of the prudent ratios further to any impairment in the market conditions.

Quantitative information

Categories/Values	Unweighted amounts 31/12/2020		Weighted amounts/requirements 31/12/2020	
	Transitional regime	Fully loaded	Transitional regime	Fully loaded
A. RISK ASSETS	**6,324,671**	**6,285,038**	**2,123,820**	**2,081,152**
A.1 CREDIT AND COUNTERPARTY RISK	**6,324,671**	**6,285,038**	**2,123,820**	**2,081,152**
1. Standardised approach	6,197,122	6,157,489	2,101,692	2,059,024
2. Internal rating method	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	127,549	127,549	22,128	22,128
B. REGULATORY CAPITAL REQUIREMENTS			-	-
B.1 CREDIT RISK AND COUNTERPARTY RISK			**169,906**	**166,492**
B.2 CREDIT RATING ADJUSTMENT RISK			**1**	**1**
B.3 SETTLEMENT RISK			-	-
B.4 MARKET RISK			**1,845**	**1,845**
1. Standardised approach			1,845	1,845
2. Internal models			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			**18,756**	**18,756**
1. Basic indicator approach			18,756	18,756
2. Standardised approach			-	-
3. Advanced approach			-	-
B.6 OTHER CALCULATION ELEMENTS			-	-
B.7 TOTAL PRUDENTIAL REQUIREMENTS			**190,508**	**187,094**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,381,348	2,338,680
C.2 Common equity tier 1 capital/Risk-weighted assets (CET1 capital ratio)			15.92%	14.51%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio)			15.92%	14.51%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			17.11%	15.73%

Categories/Values	Unweighted amounts 31/12/2019		Weighted amounts/requirements 31/12/2019	
	Transitional regime	Fully loaded	Transitional regime	Fully loaded
A. RISK ASSETS	**5,432,317**	**5,380,167**	**2,320,807**	**2,261,888**
A.1 CREDIT AND COUNTERPARTY RISK	**5,432,317**	**5,380,167**	**2,320,807**	**2,261,888**
1. Standardised approach	5,355,620	5,303,560	2,291,073	2,232,181
2. Internal rating method	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	76,697	76,607	29,734	29,707
B. REGULATORY CAPITAL REQUIREMENTS			-	-
B.1 CREDIT RISK AND COUNTERPARTY RISK			**185,666**	**180,952**
B.2 CREDIT RATING ADJUSTMENT RISK			**7**	**7**
B.3 SETTLEMENT RISK			-	-
B.4 MARKET RISK			**1,039**	**1,039**
1. Standardised approach			1,039	1,039
2. Internal models			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			**17,001**	**17,001**
1. Basic indicator approach			17,001	17,001
2. Standardised approach			-	-
3. Advanced approach			-	-
B.6 OTHER CALCULATION ELEMENTS			-	-
B.7 TOTAL PRUDENTIAL REQUIREMENTS			**203,713**	**198,999**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,546,407	2,487,488
C.2 Common equity tier 1 capital/Risk-weighted assets (CET1 capital ratio)			14.43%	12.69%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio)			14.43%	12.69%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			15.77%	14.06%

As at 31 December, the Bank presented a ratio of Tier 1 capital to risk-weighted assets (CET 1 Capital Ratio) of 15.92% (14.43% as at 31 December 12), whereas the ratio of Own Funds to risk-weighted assets (Total Capital Ratio) was 17.11% (15.77% as at 31 December 2019).

If the Bank had not adopted the granted transitional regimes, the solvency ratios would have been 14.51% for CET1 and 15.73% for the Total capital ratio.

At the end of the supervisory review for the year 2019, in a letter dated 15 June 2020 the Bank of Italy communicated the following capital requirements for our Bank.

The overall requirements to be applied further to the process are quantified as follows:

- CET 1 Ratio equal to 7.45%, of which 4.5% for minimum regulatory requirements, 0.45% for the additional S.R.E.P. requirement and 2.5% by way of capital conservation reserve (previous ratio 8.00%);
- Tier 1 Ratio equal to 9.15%, of which 6% for minimum regulatory requirements, 0.65% for the additional S.R.E.P. requirement and 2.5% by way of capital conservation reserve (previous ratio 9.85%);
- Total Capital Ratio equal to 11.35%, of which 8% for minimum regulatory requirements, 0.85% for the additional S.R.E.P. requirement and 2.5% by way of capital conservation reserve (previous ratio 12.35%).

A "Target Component" (known as the P2G, second pillar component) of 0.50% was also notified to the Bank as an increase to all the ratios detailed above. The resulting total ratios (CET1 7.95%, Tier 1 9.65% and Total Capital Ratio 11.85%) represent the Supervisory Authority's expectation that the Bank will hold additional resources.

The ratios measured as at 31 December 2020 are above the thresholds required, both in the Phase in and in the Fully Phased version.

The capital conservation buffer requirement, as envisaged by directive (EU) no. 36/2013 (CRD IV) is 2.5% definitively as from 1 January 2019.

PART H - RELATED PARTY TRANSACTIONS

Section 1 - Information on remuneration of key executives

The following table discloses the fees for the year of the directors and statutory auditors, as well as the remuneration paid to key executives over the last two years:

Item/Amounts	31/12/2020	31/12/2019
Directors	600	600
Statutory Auditors	202	202
Key executives	1,241	1,097

The fees for the Directors refer to the matters established by the Shareholders' meeting held on 30 March 2019, net of VAT and social security charges if due.
The emolument of the Board of Statutory Auditors is equal to that resolved by the Shareholders' meeting held on 14 April 2018 for the three year period from 2018 to 2020, again net of VAT and the social security charges when due.
The amount is detailed in the comments on the income statement, part C of the explanatory notes - section 10.1 - labour costs.
The amount indicated for "key executives" includes the amount of the remuneration disbursed to those who have held the office, as well as the social security and welfare charges payable by the Bank and the portion of the post-employment benefit accrued during the year. With regard to the executives, no incentive payments linked to the profits achieved are envisaged; no pension plans are envisaged other than those enjoyed by employees; and no stock option incentive plans are envisaged.

Section 2 - Information on transactions with related parties

Related parties, as defined by the international standard IAS 24, are the following:
1. Subsidiary companies, parent companies or those subject to joint control;
2. The companies that may exercise significant influence over the company that draws up the financial statements;
3. Associates;
4. Joint ventures in which the company that draws up the financial statements invests;
5. The Directors, statutory auditors and key executives of the company that draws up the financial statements.
6. Close family members of one of the parties as per point 5;
7. Subsidiary companies, jointly controlled companies or parties subject to the significant influence of one of the parties as per points 5 and 6;
8. Pension funds of employees or any other body related to them.

Close family members are understood to be those who it is expected may influence, or be influenced by, the party concerned in their dealings with the company such as spouses not legally separated and common-law spouses, offspring and dependent individuals of the party, the spouse not legally separated and the common-law spouse.
On the basis of the legislation on industrial co-operative banks, there is no controlling party or a party that exercises management and co-ordination activities over Banca Valsabbina S.C.p.A.

The Bank wholly-owns Valsabbina Real Estate S.R.L., a single-shareholder company.

Related party transactions are regulated on the arms'-length basis envisaged for individual transactions or aligned, if the requirements are met, to the conditions applied to employees.
No specific provisions have been made for losses on loans/receivables during the year, vis-à-vis related parties.
The risks outstanding with related parties, including companies in which the directors and statutory auditors cover management and audit positions, were as follows at year end:

Directors, Statutory auditors, Key executives	31/12/2020	31/12/2019
On-balance sheet loans and receivables	36,677	43,866
Endorsement loans	880	968

The ratio of on-balance sheet loans and receivables with related parties to total loans and receivables in the financial statements is 1.07% compared to 1.40% of the previous year.
The balance sheet ratios, as well as the income statement balances as at 31 December, with the subsidiary company are illustrated in the table below:

Financial statement items	Valsabbina Real Estate	
	31/12/2020	31/12/2019
Balance sheet amounts: assets	**1,609**	**2,754**
Loans and receivables with customers	1,609	2,754
Balance sheet amounts: liabilities	-	**81**
Income statement figures	**45**	**68**
Interest income	25	48
Other operating income and expense	20	20

Part L - Segment reporting

This part is not drawn up since the banking activities carried out by the Bank predominantly concern retail customers resident in the province of Brescia and residually in other provinces.

Publication of the fees for the auditing and of other services differing from the audit as per the Consob Issuers' Regulations Article 149 duodieces

The following table, prepared pursuant to Article 149-duodecies of the Consob Issuers' Regulations, shows the fees paid in 2020 for services provided by the Independent Auditing Firm.

Type of services	Subject who supplied the service	Recipient	Fees due in 2020 (in Euro 000)
Audit	Mazars Italia S.p.A.	Banca Valsabbina S.C.p.A.	(1)34
Certification services	Mazars Italia S.p.A.	Banca Valsabbina S.C.p.A.	(2)20

(1) Includes fees for carrying out a limited audit of the interim financial statements and for verifying that the accounts are properly kept.

(2) Certification services relating to checks on the submission of the non-financial statement and the tax credit on advertising investments

Part M - Disclosure on leases

Section 1 - Lessee

IFRS 16 defines a lease as an agreement by which a party (lessor) grants another party (lessee/user) the right to use a specific asset, against payment of a fee, for a specified period of time. If, at the end of the period, the user can return the asset or become its owner by paying the difference between what has already been paid and the value of the asset, this is a lease contract in the strict sense, while if the user can only return it or extend the contract, it is a rental contract, a type of contract that in any case falls under IFRS 16 effective as from 1 January 2019.
The leased asset is subject to the application of IFRS 16 if the following conditions are met:
-control: an asset is controlled when you manage its use, in other words when you have the operational management of the asset, and when you are able to obtain the benefits of its use;
-identifiability: the contract identifies the asset subject to the right of use. An asset is not considered to be identified if there is a substantial right of replacement during the contractual period.

The application of IFRS 16 for existing contracts is always due, except for contracts with an original duration of 12 months or less or for contracts for which the value of the underlying asset is of low value, value determined internally in Euro 10,000.

The accounting guidelines used are described in the "Accounting policies" in the section on "Tangible assets"; for the discounting of lease/rental payments, the fixed rate for real estate leasing was used, a rate published by Mef in the third quarter of each year. Conventionally and in line, new contracts entered into up to 30 September of year N will be discounted at the rate published at 30 September of year N-1.

At IFRS 16 level, as at 31 December 2020, 53 rental contracts for buildings (branches) meeting its conditions were negotiated; the following items are shown in the financial statements for these contracts:

Item/Amounts Euro 000	**31/12/2020**	**31/12/2019**
Rights of use - gross value	8,805	7,424
Accumulated depreciation	(3,310)	(1,688)
Rights of use - net value	**5,495**	**5,736**
- due within one month	218	211
- due beyond 1 month and within the year	1,399	1,280
- due beyond one year and within two years	1,397	1,397
- due after two years	2,438	2,756
Total lease payables	**5,452**	**5,644**
Depreciation of rights of use	**1,749**	**1,689**
Finance costs on liabilities IFRS 16	**219**	**208**

Section 2 - Lessor

The bank does not lease assets and as at 31 December 2020 there were no rentals receivable to be dealt with under IFRS 16.

Valsabbina Real Estate srl – Financial statements as at 31 December 2020

BALANCE SHEET	**31/12/2020**		**31/12/2019**	
Assets				
B) Intangible fixed assets				
I – Intangible fixed assets		-		-
Total Fixed assets (B)		-		-
C) Current assets				
I – Inventories		1,716,000		2,868,873
Property	1,716,000		2,868,873	
II – Loans and Receivables		230,759		162,662
within the next financial year	15,272		80,699	
beyond the next financial year	215,487		81,963	
Total Current assets (C)		1,946,759		3,031,535
D) Accruals and deferrals		-		-
Total assets		**1,946,759**		**3,031,535**
Liabilities and shareholders' equity				
A) Shareholders' equity		126,721		187,476
I - Capital		100,000		100,000
IV - Legal reserve		2,826		2,826
VI – Payments to cover losses		534,649		619,516
VIII – Retained earnings (losses)		-		-
IX – Profit (Loss) for the year		(510,754)		(534,866)
D) Payables		1,815,922		2,840,356
within the next financial year	233,548		86,221	
beyond the next financial year	1,582,374		2,754,135	
E) Accrued expenses and deferred income		4,116		3,703
Total liabilities and shareholders' equity		**1,946,759**		**3,031,535**
INCOME STATEMENT	**31/12/2020**		**31/12/2019**	
A) Value of production		671,201		1,671,173
1) revenues from sales	665,500		1,626,000	
5) other income and revenue	5,701		45,173	
B) Cost of production		(1,292,110)		(2,239,082)
6) for raw materials, consumables and goods for resale	-		(101,197)	
7) for services	(103,935)		(148,686)	
8) for use of third party assets	(3,441)		(3,441)	
10) amortisation, depreciation and write-downs	-		-	
11) changes in inventories of goods	(1,152,873)		(1,929,409)	
14) other operating costs	(31,861)		(56,349)	
Difference between value and cost of production (A-B)		(620,909)		(567,909)
C) Finance income and costs		(24,562)		(47,656)
17) interests and other finance costs	(24,562)		(47,656)	
others	(11)		(7)	
interest expense to parent company	(24,551)		(47,649)	
Profit/loss before taxes (A-B+-C+-)		(645,471)		(615,565)
20) Current and deferred income taxes for the year		134,717		80,699
21) Profit (Loss) for the year		**(510,754)**		**(534,866)**

Public disclosure of Annexe A of Part One, Title III, Chapter 2 of Bank of Italy Circular No. 285 of 17 December 2013

A1) Name: Banca Valsabbina S.C.p.A. Registered office: Via del Molino, 4 - 25078 Vestone (BS), General Management: Via XXV Aprile, 8 - 25121 Brescia, CF 00283510170, P.IVA. 00549950988, ABI 05116, REA Brescia no. 9187.

A2) Type of business carried on:
The main activities carried out by Banca Valsabbina are represented by the collection of deposits or other repayable funds, lending and financing operations, and the provision of banking services, including the placement of insurance policies and mutual funds. The business is currently carried out mainly in the province of Brescia with 46 branches, as well as in the province of Verona (8 branches), Trento (2 branches), Monza - Brianza (2 branches), Milan (2 branches), Vicenza, Treviso, Bergamo, Mantua, Modena, Bologna, Padua, Reggio Emilia, Turin and Cesena with one branch each.
Customers are traditionally represented by economic entities such as households, trades, professionals and small and medium-sized companies.
The Bank controls the entire capital of Valsabbina Real Estate Srl. This is an operational tool to support the Bank's real estate loan recovery activity through participation in real estate auctions in order not to passively undergo auction discounts in the current difficult moment in the real estate sector.

B) Turnover - Italy (Net interest and other banking income item 120 of the 2020 income statement) Euro 152,439,777

C) Number of employees on a full-time equivalent basis: 595
"Number of employees on a full-time equivalent basis" means the ratio between total number of hours worked by all employees, excluding overtime and the annual total expected per contract for a full-time employee.

D) Profit or (loss) before taxes (item 260 of the 2020 income statement) Euro 33,698,886

E) Taxes on profit or loss (item 270 of the 2020 income statement) Euro -9,359,506

F) Public contributions received
Please see specific section "Disclosure on public funding pursuant to Article 1, paragraph 125 of Italian Law no. 124 of 4 August 2017".
Note that, in compliance with the provisions laid down for the compilation of this disclosure, transactions carried out with Central Banks for financial stability purposes or transactions designed to facilitate the transmission mechanism of monetary policy are excluded.

Disclosure on public funding pursuant to Article 1, paragraph 125 of Italian Law no. 124 of 4 August 2017 ("Annual Law on market and competition")

Note that Italian Law no. 124 of 4 August 2017 "Annual law for the market and competition" (hereinafter also Italian Law no. 124/2017) introduced in Article 1, paragraphs 125 to 129, some measures aimed at ensuring transparency in the system of public funding.

In particular, this law envisages, inter alia, that companies must provide in the explanatory notes as at 31 December 2020 - and in consolidated explanatory notes, if any - information relating to "grants, contributions, paid assignments and any kind of economic advantages" (hereinafter referred to as "public grants") received from public administrations and other entities referred to in Article 1, paragraph 125 of the said law. Failure to comply with the legal requirement of publication will result in the return of the sums received to the paying agents.

In order to avoid the accumulation of irrelevant information, the legal requirement of publication does not exist if the amount of public funds received is below the threshold of Euro 10,000.

Despite the clarifications provided by the Council of State in its opinion no. 1149 of 1 June 2018, the law in question presents some doubts as to its interpretation and application, with a special reference to the objective scope of application, for which reference was also made to the guidelines that emerged from trade associations (Assonime). In particular, taking into account the criteria that were the basis of the law and the guidelines that have emerged, the disclosure requirements should not include the following cases:

- fees for services rendered by the company in the course of professional services and supplies or of any other task forming part of the normal course of business. These are amounts received that do not relate to the field of perks/public support policies;
- tax advantages available to all companies meeting certain conditions based on predetermined general criteria that are also the subject matter of specific declarations;
- granting of subsidised loans to its customers as these are the funds of others (e.g. interest subsidy from the public administration) and not the own funds of the bank that acts as an intermediary.

Moreover, it should be noted that since August 2017, the National State Aid Register has been active at the General Management for Enterprise Incentives of the Ministry of Economic Development, in which State aid and de minimis aid to each company must be

published by the entities granting or managing that aid. For individual aid to the Bank, please refer to the section on "Register Transparency", which is publicly available.

This being stated, in compliance with the provisions of Article 1, paragraph 125, of Italian Law no. 124 of 4 August 2017,

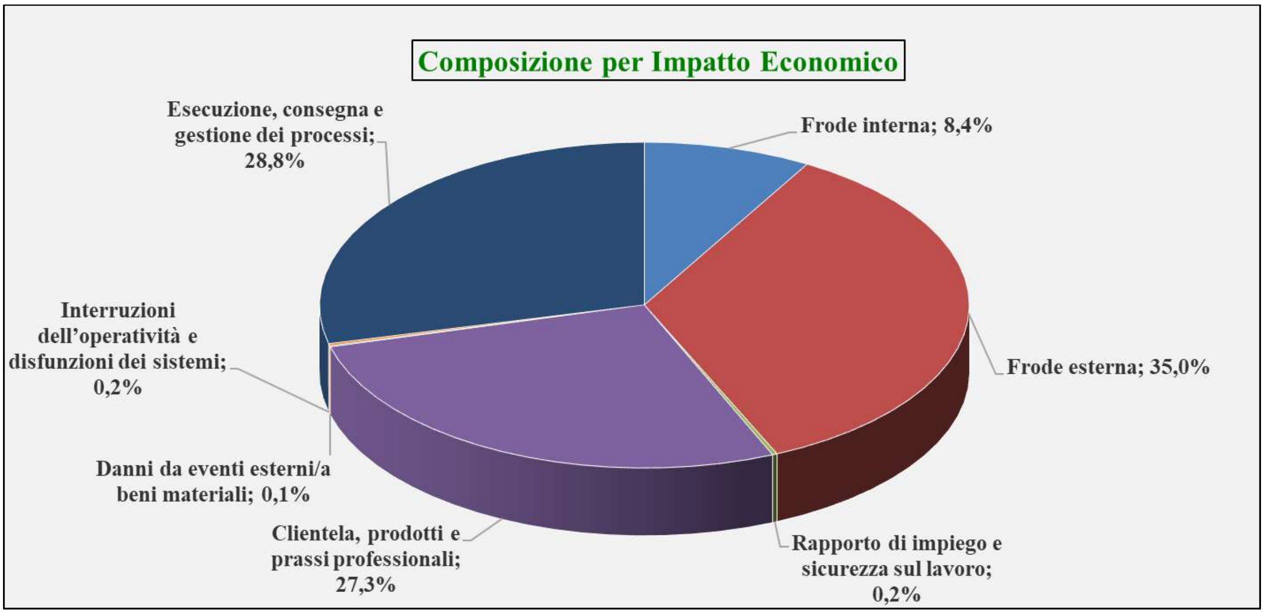
the following is evidence of the amounts received in 2020 by the Bank as "grants, contributions, paid assignments and, in any case, economic advantages of any kind":

Type of contributions	Granting Authority	Amounts collected in 2020
Aid for personnel training	FBA (Fondo Banche e Assicurazioni)	224,647.30
Bando Impresa Sicura	Invitalia Spa	150,000.00
Sanitation bonus	Inland Revenue Agency	28,297.00
Incentives for hiring disabled people	Province of Brescia	24,000.00
Tax relief	INPS	4,977.52
	Total	**431,921.82**

In this regard, note that, for the sake of completeness, the above table also shows the economic benefits below the threshold of Euro 10,000 and the tax credit related to the Advertising Investment Credit: these are, respectively, the reduction of INPS social security contributions used during the year and the tax credit that can be used to offset tax payments recognised on the basis of Articles 120 and 125 of Italian Law Decree no. 34 of 19 May 2020 for expenses incurred to adapt work environments, sanitise and purchase protective equipment in response to the serious pandemic situation caused by the spread of the Coronavirus.

The Bank also obtained a contribution from Invitalia amounting to Euro 150,000, pursuant to Article 43, paragraph 1, of Italian Law Decree no. 18 of 17 March 2020, for the purchase of devices and other personal protective equipment, again in relation to the above-mentioned health crisis.

For 2020, the Bank did not meet the requirements to take advantage, as in the previous year, of the tax benefit introduced by Article 57-bis of Italian Law Decree no. 50 of 24 April 2017 - converted with amendments by Italian Law no. 96 of 21 June 2017 - which grants a tax credit on incremental advertising investments planned and carried out in the press (local and national daily newspapers and periodicals including online) and on local radio and television broadcasters.



Breakdown by economic impact

Execution, consignment and management of the processes 28.8%

Internal fraud 8.4%

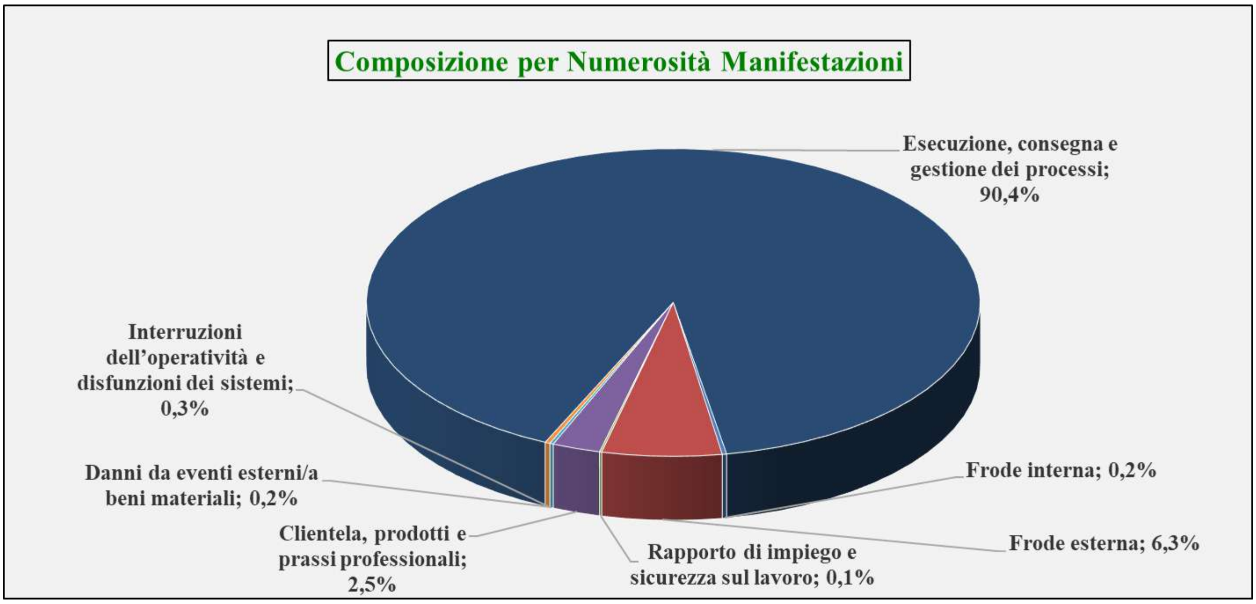
External fraud 35.0%

Contractual relationship and safety in the workplace 0.2%

Customers, products and business practices 27.3%

Damage caused by external events/to tangible assets 0.1%

Stoppage of operations and malfunctions of the systems 0.2%



Breakdown by number of events

Execution, consignment and management of the processes 90.4%

Internal fraud 0.2%

External fraud 6.3%

Contractual relationship and safety in the workplace 0.1%

Customers, products and business practices 2.5%

Damage caused by external events/to tangible assets 0.2%

Stoppage of operations and malfunctions of the systems 0.3%