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 2019 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.

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.

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 are 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 at fair value through other comprehensive income" or "40 Financial assets measured at amortised cost" and to liabilities and securities in issue 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 of 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, which took place on 26 February 2020, and integration of the Report on Operations for the paragraphs "Significant events occurring after the reporting period", "Business outlook", "Proposal for approval of the financial statements and allocation of profit/(loss) for the year", which took place on 15 April 2020, no events liable to affect the truthfulness, clarity or correctness of the accounting representation provided took place.

The recent spread of the Coronavirus pandemic in our country has not, to date, significantly affected the Bank's income, assets and solidity; at present, it is not yet possible to quantify the actual impact that this health emergency will have on the national economy, on our customers and therefore, as a result, on our business reality.

In this emergency context, some measures taken by the Monetary and Supervisory Authorities and our Government deserve to be mentioned as first and important interventions in support of Financial Institutions, Businesses and Citizens.

In particular, the ECB announced, in recent weeks, a Temporary Programme for the purchase of private and public sector securities (PEPP) of Euro 750 billion and substantially extended the measure of TLTRO III financing, which our Bank will be able to access as of June, benefiting from negative interest rates. The Bank of Italy allowed its supervised banks to operate temporarily below the established solvency and liquidity coverage ratios; even though - fortunately - we do not expect this operation to be contextualised for our Bank.
The Italian Government presented in March the "Cura Italia" Decree aimed at establishing some initial measures to support the community and to introduce some types of legal moratorium on bank loans. In April, the "Decreto Liquidità" (Liquidity Decree) was approved, a decree designed to encourage the provision of liquidity to companies; with this decree the State, through public institutions such as SACE and the Central Guarantee Fund for SMEs, guarantees various types of loans to businesses to varying degrees. Our Bank will be fully involved in this process of supporting our customer companies.
Finally, as a matter of specific importance for our Bank, on 3 April 2020 the Bank of Italy announced the start of the capital requirements procedure (SREP); the new capital requirements, which will only apply at the end of the started procedure, are:

- CET 1 Ratio equal to 7.45% (currently 8.00%);
- Tier 1 Ratio equal to 9.15% (currently 9.85%);
- Total Capital Ratio equal to 11.35% (currently 12.35%).

A "Target Component" (P2G) of 0.50% was also reported as an increase of all the above coefficients. 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.

Section 4 – Other aspects

Audit

The financial statements are subject to audit, pursuant to Italian Legislative Decree No. 58/98, by BDO Italia S.p.A., in accordance with the appointment granted for the 2011-2019 period to this company with the shareholders' resolution on 9 April 2011.

Accounting standards/interpretations approved and applicable on a mandatory basis as from 2019

The Regulations approved by the European Commission during 2019 or in previous years, whose application will be mandatory as from 2019 and amending or supplementing the international accounting standards, are listed below:

• no. 1986/2017 of 31 October 2017 - IFRS 16 “Leases” and amendments to other related accounting standards/interpretations; these amendments were applied starting from 1 January 2019 onwards;
• no. 237/2019 of 8 February 2019 - amendments to IAS 28 "Investments in Associates and Joint Ventures";
• no. 402/2019 of 13 March 2019 - amendments to IAS 19 "Employee Benefits";
• no. 412/2019 of 14 March 2019 - amendments to IAS 12 "Income Taxes", IAS 23 "Borrowing Costs", IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements".

Accounting standards/interpretations approved and applicable on a mandatory basis as from financial years after 2019

The Regulations approved by the European Commission during 2019 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.

The material impacts recorded for our Bank are described immediately below and as a result of the implementation of the above Regulations.

IFRS 16 "Leases”

The new accounting standard IFRS 16 "Leases", issued by the IASB and endorsed by the European Commission, replaces the previous standard IAS 17 and the related interpretations as from 1 January 2019, 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. From the lessor's point of view, IFRS 16 is substantially in line with the previous IAS 17.

IFRS 16 defines a lease as an agreement by which a party (lessor) grants a lessee (user) the right to use a specific asset, against payment of a fee, for a specified period of time, on expiry of which the lessee can return it or become its owner by paying the difference between what has already been paid and the value of the asset. This definition treats rental contracts as lease contracts for which the same accounting treatment is therefore provided.

Scope of application

The application of IFRS 16 for existing contracts is always due, except for lease contracts with a duration of 12 months or less and for those where the underlying asset is of low value, by the Bank determined conventionally at Euro 10,000; circumstances under which application is optional. It is up to the lessee, with regard to Intangible Assets, to decide independently whether to treat them according to the new standard or to maintain the accounting method already in place.

A 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 generally 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.

Transition to IFRS 16

Owing to the planning choice of the Bank to use the "modified retrospective" approach at the date of initial application of the Standard, the impact of the FTA on shareholders' equity was nil.
On the effective date, i.e. 1 January 2019 for contracts outstanding as at 31 December 2018, in accordance with the Standard, the lessee recognises the asset consisting of the right of use and the lease liability.
The measurement of the cost of the asset, consisting of the right of use, includes the amount of the initial measurement of the lease liability, the lease payments due at or before the effective date net of lease incentives received, the initial direct costs incurred by the lessee and the estimated costs of dismantling or restoring the underlying asset. To discount the lease payments, the fixed real-estate lease rate published by the Ministry of Economy and Finance in the third quarter of 2018 was used. Conventionally in line, new contracts entered into up to 30 September of year N will be discounted at the same rate published at 30 September of year N-1. Again by agreement, it was decided to discount the liability considering the first expiry of the contract and not the duration of the contract plus any renewals; this since the variable of renewal was considered too uncertain. The lease liability at the effective date is the current value of the lease payments not yet paid.

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.
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.

Impacts deriving from the adoption of IFRS 16

The application of IFRS 16 has affected our Bank's rental contracts for the lease of our subsidiaries; the first-time adoption of the Standard resulted in the recognition of higher tangible assets following the recognition of the rights of use acquired under leases in the amount of Euro 5.6 million and liabilities of the same amount for future lease payments.

With reference to the impact on the income statement, taking into account the development of contracts during the year in terms of new openings and closures of branches and the payment of lease payments, the application of IFRS 16 resulted in the charging of depreciations of the right of use of Euro 1,689 thousand and interest expense on lease payables of Euro 208 thousand.

Under the previous accounting standard IAS 17, against the above charges, rentals payable and lease rentals relating to contracts covered by IFRS 16 would have been recognised under "Other administrative expenses" for an amount substantially in line with the charges recognised under the new Standard.

Net tangible assets represented by rights of use deriving from lease contracts as at 31 December 2019 amount to Euro 5.7 million while lease liabilities amount to Euro 5.6 million.

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 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 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. 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.
The recognition of “deferred tax assets” is carried out if their recoverable value is deemed probable. They involve a future reduction of the taxable base in the presence of an advance tax paid with respect to the economic - statutory pertinence.

“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 base determining a deferral of the taxation with respect to the economic - statutory pertinence.
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 in issue.

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 in issue.

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.

At 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

During 2019, three debt securities with a total value of Euro 9.8 million as at 31 December 2018 were reclassified from the mandatory FVTPL portfolio to the AC portfolio.
Moreover, two equity securities were reclassified from the mandatory FVTPL portfolio to the FVOCI portfolio by exercising the related option, securities recently purchased and in any case for a total non-significant amount of Euro 3.7 million.

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

For debt securities transferred to the portfolio at amortised cost, having acquired new information on the underlying assets, the related SPPI tests have been re-performed and passed, allowing them to be reclassified from the FVtPL portfolio to the AC portfolio; therefore, the reclassification is not due to the change in Business Model, the securities were and continue to be subscribed with the objective of collecting the contractual flows.
Interest recorded in the income statement during the year totalled Euro 387 thousand.
For equity securities transferred from the mandatory FVTPL portfolio to the FVOCI portfolio, no valuation loss/gain was expected, since at both the transfer date and the end of the reporting period they met the requirements, according to the FV policy adopted internally, to be measured at purchase cost.

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 31/12/2019**			**Total 31/12/2018**		
	L 1	**L 2**	**L 3**	**L 1**	**L 2**	**L 3**
1. Financial assets measured at fair value through profit or loss	24,434	2,346	204,592	24,510	3,978	252,756
a) Financial assets held for trading	338	10	-	-	75	-
b) Financial assets designated at fair value	-	-	11,774	-	-	9,577
c) Other financial assets mandatorily measured at fair value	24,096	2,336	192,818	24,510	3,903	243,179
2. Financial assets measured at fair value through other comprehensive income	384,434	25,113	2,228	276,580	6,390	15,228
3. Hedging derivatives	-	-	-	-	-	-
4. Tangible assets	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**408,868**	**27,459**	**206,820**	**301,090**	**10,368**	**267,984**
1. Financial liabilities held for trading	-	17	-	-	63	-
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**17**	**-**	**-**	**63**	**-**

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 5,213 thousand using the price resulting from a recent and significant transaction; the equity investment held in the Bank of Italy equal to 0.20% of the capital for Euro 15 million was also reclassified from level 3. Over the last few months, financial intermediaries have continued to sell their holdings in the Bank of Italy at the same price as our purchase. The interest held in Vivibanca, an interest totalling Euro 4.9 million and partially acquired in 2019, is also attributed a FV2 level (recent transaction).

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 192,818 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 9,677 thousand) and the vehicle Valsabbina Investimenti (Euro 129,961 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. The debt security deriving from the "Castore" transaction was repaid during the first half of the year, while other securities were reclassified to the portfolio at amortised cost, as shown in subsection A.3 above;

- ucits of a single non-significant amount totalling Euro 6,087 thousand, including Fondo Atlante for a residual amount of Euro 1,012 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 43 thousand on the basis of price indications provided by the issuer (reports as at 30 June 2019);
- 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 changes in these securities are described in detail in the table *"Breakdown of financial assets measured at fair value on a recurring basis (Level 3) – Portfolio Other financial assets mandatorily measured at Fair Value through profit or loss"*.

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; for an amount of Euro 228 thousand, equity securities with a non-significant amount. As mentioned above, the interest held in the Bank of Italy was more correctly classified among Level 2 securities.

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

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 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	**252,756**	**-**	**9,577**	**243,179**	**15,228**	**-**	**-**	**-**
2. Increases	**92,631**	**-**	**2,197**	**90,434**	**2,000**	**-**	**-**	**-**
2.1 Purchases	88,382	-	2,000	86,382	2,000	-	-	-
2.2 Gains recognised in:	345	-	197	148	-	-	-	-
2.2.1 Income statement	345	-	197	148	-	-	-	-
- of which: Capital gains	345	-	197	148	-	-	-	-

2.2.2 Shareholders' equity	-	-	-	-	-	-	-	-
2.3 Transfers from other levels	3,903	-	-	3,903	-	-	-	-
2.4 Other increases	1	-	-	1	-	-	-	-
3. Decreases	**140,795**	**-**	**-**	**140,795**	**15,000**	**-**	**-**	**-**
3.1 Sales	231	-	-	231	-	-	-	-
3.2 Redemptions	125,542	-	-	125,542	-	-	-	-
3.3 Losses recognised in:	1,580	-	-	1,580	-	-	-	-
3.3.1 Income statement	1,580	-	-	1,580	-	-	-	-
- of which capital losses	1,580	-	-	1,580	-	-	-	-
3.3.2 Shareholders' equity	-	-	-	-	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	15,000	-	-	-
3.5 Other decreases	13,442	-	-	13,442	-	-	-	-
4. Closing balances	**204,592**	**-**	**11,774**	**192,818**	**2,228**	**-**	**-**	**-**

	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	CASTORE	POLLUCE	OTHER BONDS	SATISPAY	VIVIBANCA	CEDACRI	F.I.T.D. VOLUNTARY SCHEME	NON-REAL ESTATE FUNDS	LEOPARDI – REAL ESTATE FUND	ASSET BANCARI I	ASSET BANCARI IV	ASSET BANCARI V	ASSET BANCARI VI	FININT FENICE	NAMIRA DISTR ASS	
1. Opening balances	**148,561**	**10,094**	**24,635**	**6,032**	**4,260**	**2,000**	**1,650**	**-**	**104**	**1,355**	**178**	**762**	**6,349**	**921**	**10,240**	**20,312**	**5,726**	**243,179**
2. Increases	**61,424**	**20,048**	**73**	**-**	**1**	**-**	**-**	**3,903**	**-**	**4,985**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**90,434**
2.1 Purchases	61,424	20,048	73	-	-	-	-	-	-	4,837	-	-	-	-	-	-	-	86,382
2.2 Gains recognised in:	-	-	-	-	-	-	-	-	-	148	-	-	-	-	-	-	-	148
2.2.1 Income statement	-	-	-	-	-	-	-	-	-	148	-	-	-	-	-	-	-	148
-of which: Capital gains	-	-	-	-	-	-	-	-	-	148	-	-	-	-	-	-	-	148
2.2.2 Shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	3,903	-	-	-	-	-	-	-	-	-	3,903
2.4 Other increases	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	1
3. Decreases	**80,024**	**20,465**	**24,708**	**6,032**	**4,093**	**2,000**	**1,650**	**-**	**61**	**253**	**178**	**79**	**327**	**15**	**123**	**772**	**15**	**140,795**
3.1 Sales	-	-	-	-	-	-	-	-	-	231	-	-	-	-	-	-	-	231
3.2 Redemptions	80,024	20,465	24,689	-	352	-	-	-	-	12	-	-	-	-	-	-	-	125,542
3.3 Losses recognised in:	-	-	-	-	-	-	-	-	61	10	178	79	327	15	123	772	15	1,580
3.3.1 Income statement	-	-	-	-	-	-	-	-	61	10	178	79	327	15	123	772	15	1,580
-of which Capital losses	-	-	-	-	-	-	-	-	61	10	178	79	327	15	123	772	15	1,580
3.3.2 Shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	19	6,032	3,741	2,000	1,650	-	-	-	-	-	-	-	-	-	-	13,442
4. Closing balances	**129,961**	**9,677**	**-**	**-**	**168**	**-**	**-**	**3,903**	**43**	**6,087**	**-**	**683**	**6,022**	**906**	**10,117**	**19,540**	**5,711**	**192,818**

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	31/12/2019				31/12/2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	4,330,721	955,190	-	3,511,554	4,165,872	825,308	-	3,439,471
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**4,330,721**	**955,190**	**-**	**3,511,554**	**4,165,872**	**825,308**	**-**	**3,439,471**
1. Financial liabilities measured at amortised cost	4,699,127	175,212	-	4,523,788	4,484,197	222,341	-	4,259,793
2. Liabilities associated with assets held for sale and discontinued operations	-	-	-	-	-	-	-	-
Total	**4,699,127**	**175,212**	**-**	**4,523,788**	**4,484,197**	**222,341**	**-**	**4,259,793**

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 2019.

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 31/12/2019	Total 31/12/2018
a) Cash	19,017	17,580
b) Demand deposits with Central Banks	-	-
Total	**19,017**	**17,580**

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 302 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 31/12/2019			Total 31/12/2018		
	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	-	-	-	-	-	-
3. UCIT units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	-	-	-	-	-	-
B Derivative instruments						
1. Financial derivatives	338	10	-	-	75	-
1.1 trading	338	10	-	-	75	-
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	**338**	**10**	-	-	**75**	-
Total (A+B)	**338**	**10**	-	-	**75**	-

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 338 thousand in Warrant transactions;
- with regard to level 2, Euro 10 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 1,148 thousand.

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

Item/Amounts	Total 31/12/2019	Total 31/12/2018
A. On-balance sheet assets		
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	-	-
a) Banks	-	-
b) Other financial companies	-	-
of which insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-

3. UCIT units	-	-
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	-	-
B. Derivatives	**348**	**75**
a) Central counterparties	-	-
b) Other	348	75
Total B	**348**	**75**
Total (A+B)	**348**	**75**

2.3 Financial liabilities designated at fair value: breakdown by type

Item/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L 2	L 3	L1	L 2	L 3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Loans	-	-	**11,774**	-	-	**9,577**
2.1 Structured	-	-	-	-	-	-
2.2 Other	-	-	11,774	-	-	9,577
Total	-	-	**11,774**	-	-	**9,577**

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 31/12/2019	Total 31/12/2018
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**	**11,774**	**9,577**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	11,774	9,577

of which: insurance companies	11,774	9,577
e) Non-financial companies	-	-
f) Households	-	-
Total	**11,774**	**9,577**

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

Item/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L 2	L 3	L1	L 2	L 3
1. Debt securities	**4,369**	**-**	**139,805**	**1,168**	**-**	**193,583**
1.1 Structured securities	1,014	-	-	-	-	-
1.2 Other debt securities	3,355	-	139,805	1,168	-	193,583
2. Equity securities	**4,707**	**-**	**3,946**	**2,448**	**3,903**	**3,753**
3. UCIT units	**15,020**	**2,335**	**49,067**	**20,894**	**-**	**45,843**
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**24,096**	**2,335**	**192,818**	**24,510**	**3,903**	**243,179**

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 31/12/2019	Total 31/12/2018
1. Equity securities	**8,653**	**10,105**
of which: banks	504	1,754
of which: other financial companies	149	489
of which: non-financial companies	8,000	7,862
2. Debt securities	**144,174**	**194,750**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	507	-
d) Other financial companies	140,513	170,115
of which: insurance companies	105	-
e) Non-financial companies	3,154	24,635
3. UCIT units	**66,422**	**66,737**
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	**219,249**	**271,592**

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).

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 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 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 31/12/2019			Total 31/12/2018		
	L1	L 2	L 3	L1	L 2	L 3
1. Debt securities	**383,885**	-	-	**275,921**	**-**	**-**
1.1 Structured securities	3,064	-	-	2,269	**-**	**-**
1.2 Other debt securities	380,821	-	-	273,652	**-**	**-**
2. Equity securities	**549**	**25,113**	**2,228**	**659**	**6,390**	**15,228**
3. Loans	-	-	-	**-**	**-**	**-**
Total	**384,434**	**25,113**	**2,228**	**276,580**	**6,390**	**15,228**

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

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

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

Item/Amounts	Total 31/12/2019	Total 31/12/2018
1. Debt securities	**383,885**	**275,921**
a) Central Banks	-	-
b) Public administrations	276,726	191,765
c) Banks	34,559	24,111
d) Other financial companies	25,088	20,318
of which: insurance companies	-	187
e) Non-financial companies	47,512	39,727
2. Equity securities	**27,890**	**22,277**
a) Banks	20,450	15,659
b) Other issuers:	7,440	6,419
- other financial companies	5,241	-
of which: insurance companies	-	-
- non-financial companies	2,199	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	**411,775**	**298,198**

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

	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	380,345	378,355	3,931	-	(329)	(62)	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2019	**380,345**	**378,355**	**3,931**	-	**(329)**	**(62)**	-	-
Total 31/12/2018	**275,783**	**275,783**	**703**	-	**(556)**	**(9)**	-	-
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.

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

Type of transaction/Amounts	Total 31/12/2019						Total 31/12/2018					
	Book value			Fair value			Book value			Fair value		
	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	**41,296**	**-**	**-**	**-**	**-**	**41,296**	**18,805**	**-**	**-**	**-**	**-**	**18,805**
1. Time deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Compulsory reserve	41,296	-	-	-	-	-	18,805	-	-	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans and receivables with banks	**104,760**	**-**	**-**	**-**	**-**	**104,760**	**188,593**	**-**	**-**	**-**	**-**	**188,593**
1. Loans	**86,483**	**-**	**-**	**-**	**-**	**-**	**184,945**	**-**	**-**	**-**	**-**	**-**
1.1 Current accounts and demand deposits	9,957	-	-	-	-	-	5,147	-	-	-	-	-
1.2. Time deposits	11,336	-	-	-	-	-	179,447	-	-	-	-	-
1.3. Other loans:	65,190	-	-	-	-	-	352	-	-	-	-	-
- Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
- Finance leases	-	-	-	-	-	-	-	-	-	-	-	-
- Other	65,190	-	-	-	-	-	352	-	-	-	-	-
2. Debt securities	**18,277**	**-**	**-**	**-**	**-**	**18,277**	**3,647**	**-**	**-**	**-**	**-**	**3,655**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	18,277	-	-	-	-	18,277	3,647	-	-	-	-	3,655
Total	**146,056**	**-**	**-**	**-**	**-**	**146,056**	**207,398**	**-**	**-**	**-**	**-**	**207,406**

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

Just the balance of the Compulsory reserve, amounting to Euro 41,296 thousand, is recorded under loans and receivables with Central banks. Loans and Receivables with banks amounted to

Euro 104.8 million, including, under debt securities, a bond loan of Euro 3.2 million subscribed by us and a certificate of deposit of Euro 15 million, both issued by banks.
The aggregate decreased compared to Euro 207.4 million as at 31 December 2018 due to the lower number of time deposits subscribed: almost all of these deposits were characterised by maturities in the first quarter of 2019.

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

	Total 31/12/2019						Total 31/12/2018					
	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	**2,959,693**	**176,610**	**5,759**	-	-	**3,280,024**	**2,843,366**	**224,761**	**6,204**	-	-	**3,224,132**
1.1. Current accounts	471,424	31,381	1,118	-	-	-	451,197	38,509	1,125	-	-	-
2.1. Reverse repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
1.3. Mortgages	2,151,930	141,598	4,578	-	-	-	2,008,518	181,473	5,065	-	-	-
1.4. Credit cards, personal loans and salary-backed loans	222	78	2	-	-	-	311	100	2	-	-	-
1.5. Financial leases	-	-	-	-	-	-	-	-	-	-	-	-
1.6. Factoring	-	-	-	-	-	-	-	-	-	-	-	-
1.7. Other loans	336,117	3,553	61	-	-	-	391,340	4,679	12	-	-	-
2. Debt securities	**1,048,362**	-	-	**955,190**	-	**85,475**	**890,347**	-	-	**825,308**	-	**7,933**
2.1. Structured securities	2,169	-	-	-	-	2,173	2,127	-	-	1,831	-	302
2.2. Other debt securities	1,046,193	-	-	955,190	-	83,302	888,220	-	-	823,477	-	7,631
Total	**4,008,055**	**176,610**	**5,759**	**955,190**	-	**3,365,499**	**3,733,713**	**224,761**	**6,204**	**825,308**	-	**3,232,065**

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

	Total 31/12/2019			Total 31/12/2018		
Type of transaction/Amounts	Stage 1 and 2	Stage 3	of which: acquired or originated	Stage 1 and 2	Stage 3	of which: acquired or originated

			impaired assets			impaired assets
1. Debt securities	**1,048,362**	**-**	**-**	**890,347**	**-**	**-**
a) Public administrations	963,068	-	-	877,099	-	-
b) Other financial companies	79,632	-	-	4,395	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	5,662	-	-	8,853	-	-
2. Loans to:	**2,959,693**	**176,610**	**5,759**	**2,843,366**	**224,761**	**6,204**
a) Public administrations	17,736	-	-	18,509	-	-
b) Other financial companies	237,602	379	48	298,720	445	40
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	1,832,737	111,443	3,395	1,685,490	148,576	3,773
d) Households	871,618	64,788	2,316	840,647	75,740	2,391
Total	**4,008,055**	**176,610**	**5,759**	**3,733,713**	**224,761**	**6,204**

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

4.4 Financial assets at amortised cost: gross value and total value adjustments

	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	1,067,634	1,052,582	-	-	(995)	-	-	-
Loans	2,875,614	-	235,991	303,446	(13,913)	(10,221)	(126,836)	(11,770)
Total 31/12/2019	**3,943,248**	**1,052,582**	**235,991**	**303,446**	**(14,908)**	**(10,221)**	**(126,836)**	**(11,770)**
Total 31/12/2018	**3,682,468**	**895,754**	**287,186**	**430,110**	**(16,379)**	**(12,164)**	**(205,349)**	**(27,184)**
of which: acquired or originated impaired financial assets	-	-	2,387	4,728	-	(62)	(1,294)	(1,156)

(*) Value to be shown for information purposes

Section 5 - Hedging derivatives - Item 50

This section is not drawn up because as at 31 December 2019 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 2019 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%	-

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

Company name	Book value	Fair value	Dividends received
A. Fully-controlled companies	**197**		
1. Valsabbina Real Estate S.R.L.	197	-	-
B. Jointly-controlled companies	-	-	-
C. Companies subject to significant influence	-	-	-
Total	**197**	**-**	**-**

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 3,032 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	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Depreciation/amortisation and net impairment losses on tangible and intangible assets	Profit (Loss) from current operations gross of taxation	Profit (Loss) from current operations net of taxation	Profit (loss) from discontinued operations net of taxation	Profit (loss) for the year (1)	Other income components net of taxation (2)	Comprehensive income (3) = (1) + (2)
A. Fully-controlled companies	-	-	**3,032**	**2,754**	**90**	**1,671**	-	-	**(616)**	**(535)**	-	**(535)**	-	**(535)**
Valsabbina Real Estate s.r.l	-	-	3,032	2,754	90	1,671	-	-	(616)	(535)	-	(535)	-	(535)
B. Jointly-controlled companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Companies subject to significant influence	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The figures indicated in the table are related to the financial statements as at 31 December 2019; the shareholders' equity of the subsidiary, inclusive of the profit (loss) for the year, amounts to Euro 187 thousand.

7.4 Non-significant equity investments: accounting information

Company name	Book value of equity investments	Total assets	Total liabilities	Total revenues	Profit (Loss) from current operations net of taxation	Profit (loss) from discontinued operations net of taxation	Profit (loss) for the year (1)	Other income components net of taxation (2)	Comprehensive income (3) = (1) + (2)
A. Fully-controlled companies	-	-	-	-	-	-	-	-	-
B. Jointly-controlled companies	-	-	-	-	-	-	-	-	-
C. Companies subject to significant influence	1,014	9,660	2,227	7,404	(608)	-	(608)	(10)	(618)

The row of Companies subject to significant influence includes the equity investment held by the Bank in the company Polis S.G.R.; the equity investment 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 principal 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.
By virtue of the shareholders' agreements, the holding has been classified under equity investments subject to significant influence.
The figures shown refer to the financial statements as at 31 December 2018.

7.5 Equity investments: annual changes

	Total 31/12/2019	**Total 31/12/2018**
A. Opening balances	**1,251**	**1,121**
B. Increases	**480**	**470**
B.1 Purchases	-	-
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	480	470
C. Decreases	**520**	**340**
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Write-downs	520	340
C.4 Other changes	-	-
D. Closing balances	**1,211**	**1,251**
E. Total revaluations	-	-
F. Total impairment losses	**520**	**340**

During the year, Banca Valsabbina paid over to the investee company Real Estate Euro 480 thousand to cover losses; at the same time, it took steps to write down the investment of Euro 520 thousand recognised in the financial statements.

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 Polis S.g.r.

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 2,754 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 31/12/2019	Total 31/12/2018
1 Owned assets	**33,071**	**29,930**
a) land	3,378	2,801
b) buildings	25,845	24,104
c) furniture	996	624
d) electronic systems	264	321
e) other	2,588	2,080
2 Rights of use acquired through the lease	**5,736**	**-**
a) land	-	-
b) buildings	5,736	-
c) furniture	-	-
d) electronic systems	-	-
e) other	-	-
Total	**38,807**	**29,930**
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	**2,801**	**32,250**	**7,497**	**3,237**	**9,450**	**55,235**
A.1 Net total impairment	-	8,146	6,873	2,916	7,370	25,305
A.2 Net opening balances	**2,801**	**24,104**	**624**	**321**	**2,080**	**29,930**
B. **Increases:**	**577**	**10,025**	**582**	**179**	**1,413**	**12,776**
B.1 Purchases	577	2,574	582	179	1,413	5,325
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	-	7,451				7,451
C. **Decreases:**	-	**2,548**	**210**	**236**	**905**	**3,899**
C.1 Sales	-	-	18	3	66	87
C.2 Depreciations	-	2,520	192	233	839	3,784
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	-	28	-	-	-	28
D. Net closing balances	**3,378**	**31,581**	**996**	**264**	**2,588**	**38,807**
D.1 Net total impairment	-	10,665	4,123	999	5,059	20,846
D.2 Gross closing balances	**3,378**	**42,246**	**5,119**	**1,263**	**7,647**	**59,653**
E. Measured at cost	-	-	-	-	-	-

The item tangible fixed assets amounts to Euro 38,807 thousand, with an increase of Euro 8,877 thousand compared to the previous year, as the imbalance between purchases of Euro 5,325 thousand, depreciations of Euro 3,784 thousand, net disposals of Euro 87 thousand and other net changes of Euro 7,423 thousand.

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 first-time adoption of IFRS 16 as of 1 January 2019 led our bank to the recognition of "Rights of use" relating to lease contracts for an amount of Euro 6.6 million and financial liabilities, initially of the same amount, representing future lease payments to be honoured discounted. The recognition of "Rights of use", which in 2019 amounted to gross 7.4 million (see item other increases, buildings), was followed by a depreciation process that generated charges of Euro 1.7 million; financial liabilities are gradually scaled down when rents are settled periodically.

The increase in buildings includes the costs for the purchase of the Bergamo, Milan and Turin branches.
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.

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.

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 31/12/2019		Total 31/12/2018	
	Definite duration	Indefinite duration	Definite duration	Indefinite duration
A.1 Goodwill	**-**	**8,458**	**-**	**8,458**
A.2 Other intangible assets	**810**	**-**	**999**	**-**
A.2.1 Assets measured at cost:	810	-	999	-
a) internally generated intangible assets	-	-	-	-
b) other assets	810	-	999	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) internally generated intangible assets	-	-	-	-
b) other assets	-	-	-	-
Total	**810**	**8,458**	**999**	**8,458**

Intangible assets with a definite duration refer for Euro 810 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 acquired between 2011 and 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 to write 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 2020-2024 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 7.93% 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 were:
- risk free rate: 1.93% (average value of the returns on 10-year 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: 5.50% 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.
The estimated value in use was Euro 44.8 million compared to an operating capital - minimum shareholders' equity requirement - of Euro 33.1 million; the theoretical goodwill amounted to Euro 11.7 million, higher than the Euro 6.5 million of the book value 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 9.4 million to Euro 14.4 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 63 million compared to an operating capital - minimum shareholders' equity requirement - of Euro 42.5 million, to which corresponds a goodwill of Euro 20.5 million, 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 17.9 million to Euro 23.5 million; therefore, also varying the parameters used, it is indicated that the book value of the intangible assets is confirmed.

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**	-	-	**4,857**	-	**13,315**
A.1 Net total impairment	-	-	-	3,858	-	3,858
A.2 Net opening balances	**8,458**	-	-	**999**	-	**9,457**
B. Increases	-	-	-	**513**	-	**513**
B.1 Purchases	-	-	-	513	-	**513**
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	-	-	-	**702**	-	**702**
C.1 Sales	-	-	-	1	-	**1**
C.2 Impairment losses	-	-	-	696	-	**696**
- Amortisation	-	-	-	696	-	**696**
- 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	-	-	-	5	-	**5**
D. Net closing balances	**8,458**	-	-	**810**	-	**9,268**
D.1 Total net impairment losses	-	-	-	891	-	**891**
E. Gross closing balances	**8,458**	-	-	**1,701**	-	**10,159**
F. Measured at cost	-	-	-		-	-

Key
DEF= with definite duration
INDEF= with indefinite duration

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.

Current assets, totalling Euro 7,698 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 1,228 thousand, surpluses deriving from the "Aid to economic growth" for 2016/2017 converted into IRAP tax credits of Euro 1,471 thousand.

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 2019 are also used for the recognition of the prepaid and deferred taxes, rates of 27.50% for IRES (corporate income tax) and 5.57% for IRAP (regional business tax).
Note that the 2016 Stability Law (Italian Legislative Decree 147/2015) envisaged that, with effect from 1 January 2017, the ordinary IRES rate should be raised from 27.5% to 24%, but at the same time an additional IRES of 3.50% was introduced for banks and financial institutions. As a result of this, the IRES rate to be used for the calculation of current taxes, as well as for prepaid taxes, remains at 27.50%.

The management of taxation and taxable income for 2018 and 2019 was strongly affected by the development of tax regulations as well as by the first-time adoption, in 2018, of IFRS 9, which led the Bank to deduct for tax purposes components not carried through profit or loss. In particular, the most relevant regulatory changes for our bank introduced with the 2019 and 2020 Stability Laws are listed both immediately below and at the bottom of the table.
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 2018 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.
However, paragraph 715 of 2020 Budget Law no. 160 envisages 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 will be deducted in the years from 2020 to 2028, both for IRAP and IRES purposes.

The effects of taxes in the income statement, recorded under the item "270 taxes on income from current operations", amount to Euro 5,422 thousand as the imbalance between current taxes of Euro

1,781 thousand, negative effects from the cancellation of prepaid taxes of Euro 3,614 thousand and negative effects relating to deferred taxes of Euro 27 thousand.
The Bank operates under a tax consolidation system for IRES purposes in which the subsidiary Valsabbina Real Estate participates.

10.1 Deferred tax assets: breakdown

Items	Total 31/12/2019		Total 31/12/2018	
	Law No.	Other	Law No.	Other
Through the income statement:				
Impairment of loans and receivables deductible on	42,173	-	42,173	-
- from previous years	42,173	-	42,173	-
- from current year	-	-	-	-
Exemption of goodwill and other elements from incorporation	1,620	-	1,798	-
Exemption of goodwill from consolidation	2,897	-	2,897	-
Tax losses	44	-	-	3,802
IFRS 9 FTA	-	831	-	-
Allowance to provision for risks and charges	-	601	-	600
Provision for guarantees given	-	209	-	281
Financial assets	-	128	-	171
Administrative expense and other items	-	688	-	1,054
Total through the income statement	**46,734**	**2,457**	**46,868**	**5,908**
Through shareholders' equity:				
Securities	-	**1,269**	-	**2,496**
- bonds	-	1,244	-	2,476
- shares	-	25	-	20
Actuarial effect on employee benefits	-	**121**	**-**	**68**
Total through shareholders' equity	-	**1,390**	-	**2,564**
Total	**46,734**	**3,847**	**46,868**	**8,472**

Prepaid taxes “as per Italian law No. 214/2011” are those recorded in relation to the impairment of loans and receivables and the value of the goodwill and other intangible assets whose negative components were deductible for tax purposes in tax periods subsequent to the time of accounting; components for which the law envisages the conversion into a tax credit in the event of the recognition of a statutory or tax loss, with benefits also from the point of view of prudential supervision. On the basis of Stability Law No. 147/2013, in the same circumstances, the same possibility, previously reserved for IRES, was 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. Also for goodwill and other intangible components, the latest Stability Laws envisaged in various ways a postponement of the tax deduction terms compared to what was originally envisaged.

The amounts of the taxes "as per Italian Law No. 214/2011" comes to Euro 46,734 thousand and the largest part is made up as follows:

- Euro 42,173 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 2020 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 1,620 thousand derives from the exemption of the elements resulting from the incorporation of Credito Veronese of which Euro 1,523 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 97 thousand refer to "other elements from incorporation" and in other words to the Loans/Receivables Fair Value/Core Deposits, components 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 2,897 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.

Prepaid taxes through shareholders' equity amount to Euro 1,390 thousand; of this, Euro 1,269 thousand refers to the capital losses booked to the negative securities valuation reserves recorded in the FVOCI portfolio and Euro 121 thousand refers to the actuarial differences registered on post-employment benefits.

10.2 Deferred tax liabilities: breakdown

Items	Total 31/12/2019	Total 31/12/2018
Through the income statement:		
- on amortisation of goodwill	620	585
- on accumulated depreciation of land	181	181
- on dividends still to be collected	-	-
- on payments to the F.I.T.D. Voluntary Scheme	14	34
- on measurement of financial instruments	47	23
- on exchange rates of financial instruments	28	40
- from reclassification of securities for IFRS 9	186	186
Total through the income statement	**1,076**	**1,049**
Through shareholders' equity:		
FVOCI financial assets	424	331
- bonds	192	17
- shares	232	314
Total through shareholders' equity	**424**	**331**

Total	**1,500**	**1,380**

The amount of deferred taxes with an offsetting entry in the income statement do not show significant differences.
Deferred taxes with an offsetting entry in shareholders' equity amount to Euro 424 thousand and relate to the positive reserves from valuation of securities recorded 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 31/12/2019	**Total 31/12/2018**
1. Opening balance	**52,776**	**59,780**
2. Increases	**1,821**	**1,276**
2.1 Prepaid taxes recognised in the financial year	1,821	1,276
a) relating to previous financial years	270	-
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	1,551	1,276
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**5,406**	**8,280**
3.1 Prepaid taxes cancelled during the financial year	5,406	1,532
a) reversals	5,406	1,532
b) impairment losses due to non-recoverability	-	-
c) changes in accounting policies	-	-
d) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases:	-	6,748
a) conversion into tax assets set forth in Italian Law 214/2011	-	5,119
b) other	-	1,629
4. Closing balance	**49,191**	**52,776**

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

	Total 31/12/2019	**Total 31/12/2018**
1. Opening balance	**46,868**	**51,984**
2. Increases	**141**	**275**
3. Decreases	**275**	**5,391**
3.1 Reversals	275	272
3.2 Transformations into tax credits	-	5,119
a) deriving from losses for the year	-	706
a) deriving from tax losses	-	4,413
3.3 Other decreases	-	-
4. Closing balance	**46,734**	**46,868**

With reference to the change in prepaid taxes not subject to the conversion into tax credits under Italian Law 214/2011, note that the IRES tax loss for 2017 has been fully used against the taxable amount for this year and a portion of the receivable deriving from the future deductibility of the impairment of loans and receivables made under IFRS 9 FTA for Euro 831 thousand, equal to IRES taxable income of approximately 3 million.

10.4 Changes in deferred taxes (through the income statement)

	Total 31/12/2019	**Total 31/12/2018**
1. Opening balance	**1,049**	**1,055**
2. Increases	**109**	**283**
2.1 Deferred taxes recognised in the financial year	109	283
a) relating to previous financial years	-	-
b) due to changes in accounting policies	-	186
c) other	109	97
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**82**	**289**
3.1 Deferred taxes cancelled during the financial year	82	289
a) reversals	82	289
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,076**	**1,049**

10.5 Changes in prepaid taxes (through shareholders' equity)

	Total 31/12/2019	**Total 31/12/2018**
1. Opening balance	**2,564**	**5,221**
2. Increases	**1,133**	**2,142**
2.1 Prepaid taxes recognised in the financial year	1,133	2,142
a) relating to previous financial years	-	-
b) due to changes in accounting policies	-	-
c) other	1,133	2,142
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**2,307**	**4,799**
3.1 Prepaid taxes cancelled during the financial year	2,307	4,593
a) reversals	1,487	1,075
b) impairment losses due to non-recoverability	-	-
c) due to changes in accounting policies	-	3,472
d) other	820	46
3.2 Reductions in tax rates	-	-

3.3 Other decreases	-	206
4. Closing balance	**1,390**	**2,564**

10.6 Changes in deferred taxes (through shareholders' equity)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**331**	**749**
2. Increases	**149**	**72**
2.1 Deferred taxes recognised in the financial year	149	72
a) relating to previous financial years	-	-
b) due to changes in accounting policies	-	54
c) other	149	18
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**56**	**490**
3.1 Deferred taxes cancelled during the financial year	56	490
a) reversals	17	65
b) due to changes in accounting policies	-	263
c) other	39	162
3.2 Reductions in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**424**	**331**

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 31/12/2019**	**Total 31/12/2018**
Credits for direct taxes relating to previous financial years and accrued interest	86	122
Withholdings	636	326
Amounts due from tax authorities for advances paid	7,205	8,614
Current account cheques and foreign currency drawn on banks and third parties	21	49
Guarantee deposits on behalf of the Bank	126	90
Securities transactions pending final allocation	326	975
Cheques being processed	142	5
Sundry utilities to be debited/SDD/Other items	24,991	20,102
Cheques returned unpaid	-	-
Credit cards and Cashline card withdrawals	482	956
Credit transfers and debits to be made	2,828	3,368
Prepaid expenses	1,090	3,393
Costs for leasehold improvements	909	856
Total	**38,842**	**38,856**

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 in issue.

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: "Fair value disclosure".

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

Type of transaction/Amounts	Total 31/12/2019				Total 31/12/2018			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**731,358**	-	-	-	**834,156**	-	-	-
2. Due to banks	**137,961**	-	-	-	**406,963**	-	-	-
2.1 Current accounts and demand deposits	38	-	-	-	8,010	-	-	-
2.2 Time deposits	-	-	-	-	-	-	-	-
2.3 Loans	137,923	-	-	-	398,953	-	-	-
2.3.1 Repurchase agreements	137,923	-	-	-	398,953	-	-	-
2.3.2 Other	-	-	-	-	-	-	-	-
2.4 Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
2.5 Lease payables	-	-	-	-	-	-	-	-
2.6 Other payables	-	-	-	-	-	-	-	-
Total	**869,319**	-	-	**869,340**	**1,241,119**	-	-	**1,242,046**

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

Liabilities to banks as at 31 December 2019 amounted to Euro 869.3 million compared to the balance of Euro 1,241.1 million at the end of last year.

This aggregate consists of amounts due to the ECB with a nominal value of Euro 690 million relating to the TLTRO II programme; these operations, already included in last year's aggregate, have maturities of Euro 250 million in June 2020, Euro 150 million in December 2020 and Euro 290 million in March 2021. The bank receives interest on these loans at a rate of 0.40%, which is recognised until maturity. The Bank will then have the possibility of replacing the TLTRO II loans with new disbursements made by the ECB as part of the new TLTRO III operation, operation announced by the Monetary Authorities in the second half of 2019 and for which our Bank meets the necessary access requirements.

As at 31 December 2019, there are also Repurchase agreements (repos) for an amount of Euro 138 million (Euro 400 million as at 31 December 2018): transactions with leading banking counterparties and with a maximum maturity in January 2020. Lastly, there is a loan of Euro 50 million from the ECB, which has already expired in early January of this year.

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

Type of transaction/Amounts	Total 31/12/2019				Total 31/12/2018			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	2,620,995	-	-	-	2,277,305	-	-	-
2. Time deposits	949,519	-	-	-	668,927	-	-	-
3. Loans	-	-	-	-	-	-	-	-
3.1 Repurchase agreements	-	-	-	-	-	-	-	-
3.2 Other	-	-	-	-	-	-	-	-
4. Payables for commitments to repurchase own equity instruments	-	-	-	-	-	-	-	-
5. Lease payables	5,644	-	-	-	-	-	-	-
6. Other payables	230	-	-	-	464	-	-	-
Total	**3,576,388**	**-**	**-**	**3,576,388**	**2,946,696**	**-**	**-**	**2,946,696**

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

The current accounts and demand deposits comprise:

	Total 31/12/2019	Total 31/12/2018
Euro current accounts	2,583,065	2,242,326
Savings deposits	27,134	29,693
Foreign currency current accounts	10,796	5,286
Total	**2,620,995**	**2,277,305**

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 in issue

Type of security/Amounts	Total 31/12/2019				Total 31/12/2018			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities	**253,420**	**175,212**	**-**	**78,061**	**296,383**	**222,341**	**-**	**71,051**
1. bonds	232,518	175,212	-	57,159	273,730	222,341	-	48,398
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	232,518	175,212	-	57,159	273,730	222,341	-	48,398
2. Other securities	20,902	-	-	20,902	22,653	-	-	22,653
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	20,902	-	-	20,902	22,653	-	-	22,653
Total	**253,420**	**175,212**	**-**	**78,061**	**296,383**	**222,341**	**-**	**71,051**

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. Securities in issue – a typical component of medium-term deposits – fell from Euro 296 million to 253 million, 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 31/12/2019	Total 31/12/2018
Subordinated securities issued and in issue	76,926	61,222
Total	**76,926**	**61,222**

Subordinated bonds in issue amounted to Euro 76.9 million, of which Euro 70 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 0.9 million net of repurchases;
-IT0005014706 issued on 2 May 2014 of Euro 25,432 thousand, 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 4.9 million net of repurchases;

-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;
-IT0005204257 issued on 15 July 2016 of Euro 15 million, fixed rate of 4.00% and maturity 15 July 2022, nominal residual values Euro 15 million;
-IT0005366924 issued on 29 March 2019 of Euro 20 million, fixed rate of 4.67% and maturity 29 September 2024, nominal residual value Euro 20 million.

1.5 Breakdown of structured debts

This section is not drawn up because as at 31 December 2019 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 31/12/2019					Total 31/12/2018				
	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	-	-	17	-	-	-	-	62	-	-
1.1 Trading	-	-	17	-	-	-	-	62	-	-
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	-	-	**17**	-	-	-	-	**62**	-	-
TOTAL A+B	-	-	**17**	-	-	-	-	**62**	-	-

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 17 thousand (Level 2) comprises:

- Euro 7 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 1,068 thousand;
- Euro 10 thousand being the intrinsic value referring to hedges of foreign currency transactions carried out by the Bank, with a notional value of Euro 892 thousand.

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

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 2019 and 31 December 2018 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.
With reference to the tax situation of the Bank, it is hereby specified that the years up to 2014 have been settled for tax purposes.

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 31/12/2019	Total 31/12/2018
Tax withholdings and contributions relating to staff	2,988	2,773
Amounts to be paid to staff and related contributions	3,858	3,811
Taxes to be paid to the tax authorities	2,168	1,213
Taxes to be paid to the tax authorities on behalf of third parties	4,254	3,101
Dividends not yet collected	-	1
Credit transfers to be carried out	12,748	16,802
Credit cards and Cashline card withdrawals	208	331
Companies being formed due to payment of the share capital	-	7
Amount paid for withdrawal of bills and cheques and payment by advice collections	1,486	1,291
Currency spreads on portfolio transactions	43,421	41,888
Due to suppliers	6,563	6,616
Deferred income and provisions	349	325
Charity Fund	28	-
Other items	6,026	3,569
Total	**84,097**	**81,728**

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 31/12/2019	Total 31/12/2018
A. Opening balances	**4,888**	**5,158**
B. Increases	**2,117**	**1,740**
B.1 Provision in the year	1,884	1,740
B.2 Other changes	233	-
C. Decreases	**2,958**	**2,010**
C.1 Benefits paid	1,060	202
C.2 Other changes	1,898	1,808
D. Closing balances	**4,047**	**4,888**

Total	**4,047**	**4,888**

"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 2019 calculated on the basis of Italian legislation amounts to Euro 3,630 thousand, Euro 417 thousand lower than the book value; in 2018, the same came to Euro 4,640 thousand, Euro 248 thousand less with respect to the book value. The financial parameters used for the discounting process, listed below, are changed compared to last year

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 0.77% (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 2019, rate considered as the best expression of returns of businesses of primary standing, instead of the 1.57% used as at 31 December 2018;
- annual rate of inflation 1.20%, instead of 1.50%;
- annual Post-employment benefit rate 2.4%, instead of 2.625%

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 31/12/2019	Total 31/12/2018
1. Provisions for credit risk related to commitments and financial guarantees given	243	1,021
2. Provisions on other commitments and other guarantees given	515	-
3. Company pension funds	-	-
4. Other provisions for risks and charges	1,817	2,160
4.1 legal and tax disputes	1,807	2,124
4.2 labour costs	-	-
4.3 other	10	36
Total	**2,575**	**3,181**

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	**1,021**	**-**	**2,160**	**3,181**
B. Increases	**42**	**-**	**257**	**299**
B.1 Provision in the year	42	-	257	299
B.2 Changes due to the passing	-	-	-	-
of time	-	-	-	-
B.3 Changes due to discount rate	-	-	-	-
fluctuations	-	-	-	-
B.4 Other changes	-	-	-	-
C. Decreases	**305**	**-**	**600**	**905**
C.1 Uses in the year	-	-	383	383
C.2 Changes due to discount rate	-	-	-	-
fluctuations	-	-	-	-
C.3 Other changes	305	-	217	522
D. Closing balances	**758**	**-**	**1,817**	**2,575**

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	186	4	-	190
2. Financial guarantees given	19	19	15	53
Total	**205**	**23**	**15**	**243**

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 (-)	(1,090,154)	-
A.2 Outstanding shares: opening balances	**34,426,673**	**-**
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	**115,062**	**-**
C.1. Cancellation	-	-
C. 2 Purchase of own shares	115,062	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balances	**34,311,611**	**-**
D.1 Own shares (+)	1,205,216	-
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 115 thousand shares were purchased, bringing the total of own shares in the portfolio to 1,205 thousand for an equivalent value of Euro 9,379 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 negative reserves of Euro 2,510 thousand: Euro 582 thousand refers to positive profit reserves, while the "other" reserves includes 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)	25,713	B	-	-	no use	no use
- Extraordinary reserve	28,304	ABC	28,304	-	no use	no use
- Reserve for purchase of own shares (4)	12,014	ABC	2,635	-	no use	no use
- Other reserves (6)	(65,449)	-	-	-	no use	no use
D) OTHER RESERVES						
- Merger differences	(3,092)			-	no use	no use
- IAS valuation reserves (5)	1,475	AB	-	-	no use	no use
E) OWN SHARES						
- Own shares	(9,379)	-	-	-	-	-
TOTAL						
- 2019 profit for the year	20,302	-	-	-	-	-
TOTAL EQUITY	**346,737**	**-**	**-**	**-**		

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 9,379 thousand as at 31 December 2019.
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 allocation of Euro 500 thousand to a charity fund and the allocation to shareholders’ equity reserves of the remaining part of the result, equal to Euro 19,802 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 31/12/2019	TOTAL 31/12/2018
	Stage 1	Stage 2	Stage 3		
Commitments to grant finance	**1,221,427**	**16,234**	**3,808**	**1,241,469**	**1,104,457**
a) Central Banks	-	-	-	-	-
b) Public administrations	2,809	-	-	2,809	4,183
c) Banks	6,438	-	-	6,438	312
d) Other financial companies	55,538	77	-	55,615	34,457
e) Non-financial companies	1,087,043	12,671	3,665	1,103,379	996,736
f) Households	69,599	3,486	143	73,228	68,769
Financial guarantees given	**9,465**	**1,107**	**135**	**10,707**	-
a) Central Banks	-	-	-	-	-
b) Public administrations	162	-	-	162	1,259
c) Banks	-	-	-	-	135
d) Other financial companies	-	-	-	-	500
e) Non-financial companies	8,347	1,077	135	9,559	77,598
f) Households	956	30	-	986	7,181

2. Other commitments and other guarantees given

	Nominal value
	TOTAL 31/12/2019
Other guarantees given	**94,726**
of which: non-performing	1,174
a) Central Banks	-
b) Public administrations	1,050
c) Banks	833
d) Other financial companies	208
e) Non-financial companies	86,823
f) Households	5,812
Other commitments	**418**
of which: non-performing	-
a) Central Banks	-
b) Public administrations	-
c) Banks	-
d) Other financial companies	-
e) Non-financial companies	303
f) Households	115

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

Portfolios	Amount 31/12/2019	Amount 31/12/2018
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	-	85,691
3. Financial assets measured at amortised cost	459,038	842,338
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	**9,840,686**
a) A) third party securities held on deposit: when acting as custodian bank (excluding portfolio management)	1
1. securities issued by the reporting bank	1
2. other securities	-
b) other third-party securities held on deposit (excluding portfolio management): others	1,333,696
1. securities issued by the reporting bank	313,690
2. other securities	1,020,006
c) third-party securities deposited with third parties	1,302,114
d) portfolio securities deposited with third parties	7,204,875
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 43,421 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 2020, flowing to the current accounts of the correspondent banks already during 2019 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 31/12/2019	Total 31/12/2018
a) “debit” adjustments	**573,937**	**566,919**
1. Current accounts	-	5,544
2. Portfolio	571,783	557,174
3. Cash	373	418
4. Other accounts	1,781	3,783
b) “credit” adjustments	**617,358**	**608,807**
1. Current accounts	8,208	9,129
2. Transferors’ bills and documents	607,190	595,573
3. Other accounts	1,960	4,105
Currency spreads on portfolio transactions	**43,421**	**41,888**

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 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 31/12/2019	Total 31/12/2018
1. Financial assets measured at fair value through profit or loss:	4,562	-	-	4,562	3,111
1.1 Financial assets held for trading	3	-	-	3	-
1.2 Financial assets designated at fair value		-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	4,559	-	-	4,559	3,111
2. Financial assets measured at fair value *through comprehensive income*	2,256	-	-	2,256	2,193
3. Financial assets measured at amortised cost:	7,024	78,387	-	85,411	85,241
3.1 Loans and receivables with banks	39	598	-	637	594
3.2 Loans and receivables with customers	6,985	77,789	-	84,774	84,647
4. Hedging derivatives	-	-	3	3	3
5. Other assets	-	-	-	-	117
6. Financial liabilities	-	-	-	3,514	3,669
Total	**13,842**	**78,387**	**3**	**95,746**	**94,334**
of which: interest income on impaired assets	-	8,876	-	8,876	12,340
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 31/12/2019	Total 31/12/2018
- deposit tied to compulsory reserve	-	-
- current accounts for services rendered	19	13
- deposits and Reverse repurchase agreements	578	534
- issue of bankers' drafts	-	-
- debt securities	40	47
Total	**637**	**594**

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

Interest income on loans and receivables with customers due to:	Total 31/12/2019	Total 31/12/2018
- current accounts	25,751	24,413
- mortgage loans	24,969	27,940
- import - export advances	1,685	1,526
- other credit transactions	19,591	17,094
- default interest collected	1,759	2,417
- discounting back non-performing loans	4,034	5,300
- securities recorded in loans and receivables with customers	6,985	5,957
Total	**84,774**	**84,647**

Sub-item 6.”Financial liabilities” includes, as required by law, negative interests on deposits with certain institutional intermediaries (ECB for TLTRO II financing, 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 1,055 thousand accrued on bad loans, fully written down; whereas item 10 comprises only the default interest collected of Euro 1,562 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 197 thousand; moreover, following the 5th update of Circular No. 262/2005, interest income as at 31 December 2019 included Euro 4,034 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 2019, interest was recorded in the income statement other than default interest, accrued throughout the year, of Euro 3,082 thousand, determined as follows:

- Past due Euro 574 thousand;
- Unlikely to pay Euro 2,072 thousand;
- Bad loans Euro 436 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 31/12/2019**	**Total 31/12/2018**
Interest income on foreign currency financial assets	915	867

1.3 Interest expense and similar charges: breakdown

Items/Technical forms	**Payables**	**Securities**	**Other transactions**	**Total 31/12/2019**	**Total 31/12/2018**
1. Financial liabilities measured at amortised cost	(14,404)	(7,952)	-	(22,356)	(23,279)
1.1 Due to central banks	-	-	-	-	-
1.2 Due to banks	(32)	-	-	(32)	(9)
1.3 Due to customers	(14,372)	-	-	(14,372)	(11,082)
1.4 Securities in issue	-	(7,952)	-	(7,952)	(12,188)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	-	-	-	-	-
5. Hedging derivatives	-	-	-	-	-
6. Financial assets	-	-	-	(42)	(27)
Total	**(14,404)**	**(7,952)**	**-**	**(22,398)**	**(23,306)**
of which: interest expense related to lease payables	(208)	-	-	(208)	-

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

Interest expense for due to banks:	**Total 31/12/2019**	**Total 31/12/2018**
- current accounts	(2)	(2)
- foreign currency deposits	(2)	(2)
- loans received	(28)	(5)
Total	**(32)**	**(9)**

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

Interest expense on due to customers:	**Total 31/12/2019**	**Total 31/12/2018**
- current accounts	(5,394)	(6,302)
- savings deposits and time deposits	(8,685)	(4,689)
- repurchase agreements	-	-
- NewMic market loans	-	-
- deposits and accounts in foreign currency	(85)	(91)
- finance leases	(208)	-
Total	**(14,372)**	**(11,082)**

Sub-item 1.4 “Securities in issue” includes the amount of Euro 7,952 thousand that comprises interest on bonds issued of Euro 7,678 thousand and interest expense on certificates of deposit of Euro 274 thousand.

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on foreign currency liabilities

Item/Amounts	Total 31/12/2019	Total 31/12/2018
Interest expense on foreign currency liabilities	(87)	(93)

1.5 Differentials relating to hedging transactions

As at 31/12/2019, the Bank did not record any differentials relating to hedging transactions.

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 31/12/2019	Total 31/12/2018
a) guarantees given	980	982
b) credit derivatives	-	-
c) management, trading and consulting services:	17,988	15,307
1. trading of financial instruments	-	-
2. currency trading	445	456
3. individual portfolio management	-	-
4. custody and administration of securities	323	249
5. custodian bank	-	-
6. placement of securities	6,904	6,345
7. order transmission and receipt activities	941	862
8. consulting services	109	93
8.1 on investments	109	93
8.2 on financial structure	-	-
9. distribution of third party services	9,266	7,302
9.1. portfolio management	-	-
9.1.1 individual	-	-
9.1.2 collective	-	-
9.2 insurance products	6,311	6,320
9.3 other products	2,955	982
d) collection and payment services	7,149	6,205
e) servicing for securitisation transactions	664	480
f) factoring transaction services	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-

i) current account management	9,931	8,541
j) other services	4,894	4,870
Total	**41,606**	**36,385**

The increase in fee and commission income was largely due to commissions charged to customers for current account management (+1.4 million, or 16.27%) and for collection/payment services (+0.9 million, or 15.21), increase attributable both to the higher volumes and to the redefinition of the expected pricing.
Fees and commissions from management and trading services amounted to Euro 18 million, up Euro 2.7 million on last year. In these, the main cases are determined by the placement of securities, which rose from Euro 6.3 million to Euro 6.9 million, whereas fees and commissions from the distribution of third-party services include income from the placement of insurance policies amounting to Euro 6.3 million, essentially equal to 2018, and fee and commission from the placement of personal loans from third parties (COFIDIS) amounting to Euro 2.8 million; for the latter type, while last year ordinary commissions of Euro 759 thousand were recognised in the income statement, this year there was also a one-off commission.
Commissions for other services, which mainly include income from the issue of credit cards, lease brokerage, loans under Italian Law 662/96 backed by government guarantees, amounted to Euro 4.9 million, substantially unchanged compared to 2018.

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

Channels/Amounts	Total 31/12/2019	Total 31/12/2018
a) at Bank branches:	**16,170**	**13,647**
1. portfolio management	-	-
2. placement of securities	6,904	6,345
3. third party products and services	9,266	7,302
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 31/12/2019	Total 31/12/2018
a) guarantees received	(108)	(50)
b) credit derivatives	-	-
c) management and trading services:	(1,305)	(1,084)
1. trading of financial instruments	-	-
2. currency trading	-	-
3. portfolio management:	(1,139)	(947)
3.1 own account	(1,139)	(947)
3.2 for third parties	-	-
4. custody and administration of securities	(166)	(137)
5. placement of financial instruments	-	-
6. out-of-branch offer of financial instruments, products and services	-	-
d) collection and payment services	(1,603)	(1,416)
e) other services	(2,613)	(2,504)
Total	**(5,629)**	**(5,054)**

Fee and commission expense refer to guarantees received amounting to Euro 0.1 million, management and intermediation services of Euro 1.3 million, collection and payment services of Euro 1.6 million and other services of Euro 2.6 million.

“Management and trading services – own portfolio management” includes fee and commission expense to external managers of the portfolios containing the Bank's securities.

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 31/12/2019		Total 31/12/2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets mandatorily measured at fair value	92	19	319	63
C. Financial assets measured at fair value *through comprehensive income*	1,028	-	1,083	-
D. Equity investments	-	-	45	-
Total	**1,120**	**19**	**1,447**	**63**

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	**-**	**745**	**-**	**(34)**	**711**
1.1 Debt securities	-	115	-	-	115
1.2 Equity securities	-	-	-	-	-
1.3 UCIT units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	630	-	(34)	**596**
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	-	-	-	-	**27**
4. Derivatives	-	-	-	-	-
4.1 Financial derivatives:	-	-	-	-	-
- On debt securities and interest rates	-	-	-	-	-
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	-	-	-	-	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges associated with fair value option	-	-	-	-	-
Total	**-**	**745**	**-**	**(34)**	**738**

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 31/12/2019			Total 31/12/2018		
	Profit	Losses	Net gains (losses)	Profit	Losses	Net gains (losses)
A. Financial assets						
1. Financial assets measured at amortised cost:	5,490	(6,282)	(792)	5,684	(5,640)	44
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	5,490	(6,282)	(792)	5,684	(5,640)	44
2. Financial assets measured at fair value through other comprehensive income	12,591	(234)	12,357	6,414	(24)	6,390
2.1 Debt securities	12,591	(234)	12,357	6,414	(24)	6,390
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**18,081**	**(6,516)**	**11,565**	**12,098**	**(5,664)**	**6,434**
B. Financial liabilities measured at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities in issue	3	(7)	(4)	30	(228)	(198)
Total liabilities (B)	**3**	**(7)**	**(4)**	**30**	**(228)**	**(198)**

The positive overall result from sale/repurchase activities amounted to Euro 11,561 thousand compared with Euro 6,236 thousand in 2018.

It includes the net loss of Euro 792 thousand registered on the disposal of a number of financial assets at amortised cost (net result achieved as a result of losses on the sale of loans and receivables of Euro 5.6 million and gains on the sale of debt securities to customers at amortised cost of Euro 4.8 million), the overall profit of Euro 12,357 thousand deriving from the sale of the securities included in the portfolio of financial assets designated at fair value through other comprehensive income, mainly Government securities, and the loss of Euro 4 thousand from the repurchase of Bank 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

During the financial year, a new insurance policy was taken out in addition to the 2 already existing as at 31 December 2018 for a total of Euro 11 million; the valuation difference of Euro 198 thousand between 31 December 2019 and the previous financial 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	**198**	-	-	-	**198**
1.1 Debt securities	-	-	-	-	-
1.2 Loans	198	-	-	-	198
2. Financial liabilities	-	-	-	-	-
2.1 Securities in issue	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in currency: exchange rate differences	-	-	-	-	-
Total	**198**	-	-	-	**198**

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	**868**	**3,726**	**(1,765)**	**(59)**	**2,770**
1.1 Debt securities	65	120	(4)	-	181
1.2 Equity securities	336	489	(182)	(41)	602
1.3 UCIT units	467	3,117	(1,579)	(18)	1,987
1.4 Loans	-	-	-	-	-
2. Foreign currency financial assets: exchange rate differences	-	-	-	-	**(46)**
Total	**868**	**3,726**	**(1,765)**	**(59)**	**2,724**

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 +2.7 million as at 31 December 2019 compared to Euro -5.5 million in 2018.

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 is broken down as follows:

Transactions/Income components	Impairment losses (1)			Reversals of impairment losses (2)		Total 31/12/2019	Total 31/12/2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		write-off	Other				
A. Loans and receivables with banks	**(6)**	**-**	**-**	**4**	**-**	**(2)**	**125**
- loans	(6)	-	-	-	-	(6)	(28)
- debt securities	-	-	-	4	-	4	153
of which: acquired or originated impaired loans	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**(226)**	**(1,203)**	**(30,708)**	**3,480**	**11,122**	**(17,535)**	**(14,321)**
- loans	(226)	(1,203)	(30,708)	2,719	11,122	(18,296)	(12,737)
- debt securities	-	-	-	761	-	761	(1,584)
of which: acquired or originated impaired loans	-	-	-	-	-	-	-
Total	**(232)**	**(1,203)**	**(30,708)**	**3,484**	**11,122**	**(17,537)**	**(14,196)**

Notes:

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 loans and receivables with banks for loans of Euro 6 thousand as required by the new IFRS 9 accounting standard, and from net impairment losses on performing loans and receivables with customers of Euro 226 thousand.

Impairment losses in the “Write-off” column are those pertaining to the year that 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 performing loans and debt securities 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.

8.2 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 31/12/2019	Total 31/12/2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities	-	-	-	**174**	-	**174**	**(79)**
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-
Total	-	-	-	**174**	-	**174**	**(79)**

Key
A = from interest B = other reversals

The amount of Euro 174 thousand refers to the adjustment due to reversal of impairment losses of FVOCI debt securities.

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

9.1 Modification gains (losses): breakdown

Item 140, which at 31 December 2019 shows a total loss of Euro 576 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 31/12/2019**	**Total 31/12/2018**
1) Employees	**(44,349)**	**(41,110)**
a) wages and salaries	(30,714)	(28,986)
b) social security charges	(8,269)	(7,837)
c) post-employment benefits	(486)	(484)
d) pension expenses	-	-
e) accrual for post-employment benefits	(88)	(92)
f) accruals for pension and similar provisions:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external supplementary pension funds:	(2,809)	(2,280)
- defined contribution	(2,809)	(2,280)
- defined benefits	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	(1,983)	(1,431)
2) Other personnel in service	**(603)**	**(407)**
3) Directors and statutory auditors	**(947)**	**(951)**
4) Retired personnel	**-**	**-**
5) Cost recoveries for employees seconded to other companies	**-**	**-**
6) Cost reimbursement for third party employees seconded to the bank	**-**	**-**
Total	**(45,899)**	**(42,468)**

The overall amount of labour costs as at 31 December 2019 of Euro 45,899 thousand increased compared to 2018 (Euro 42,468 thousand) in relation to the salary and wage trends and contractual rises, as well as to the change in the workforce.
By the end of 2019, the company's staff reached a total of 645 units, compared to 596 units at the end of 2018, with a net increase of 49 resources. In detail, there were 79 hires and 30 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 603 thousand includes costs for atypical employment contracts, including those for “temp work” contracts of Euro 498 thousand.

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

10.2 Average number of employees by category

Items		Total 31/12/2019	Total 31/12/2018
°	**Employees:**	**608**	**556**
	a) executives	9	9
	b) middle managers	286	234
	c) other employees	313	313
°	**Other personnel**	**12**	**16**

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

Exact number of employees	Total 31/12/2019	Total 31/12/2018
Employees	634	585
of which part time	16	18
Under staff leasing	11	11
Other personnel	11	12

The exact number is indicated without weighting by 50% the part-time employees.
Other personnel include the 10 directors and 1 external co-worker.

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 31/12/2019	Total 31/12/2018
Luncheon vouchers	774	662
Insurance premiums	532	490
Training expenses	245	164
Redundancy incentives	378	69
Other	54	46
Total	**1,983**	**1,431**

10.5 Other administrative expenses: breakdown

Administrative expenses other than labour costs amounted to Euro 40,554 thousand at year end; the table below presents a comparison with the previous year:

Type of expense/Amounts	Total 31/12/2019	Total 31/12/2018
Contribution to resolution funds of banking crisis	(3,459)	(3,392)
Telephone, postal and data transmission expense	(2,318)	(1,932)
Maintenance expenses of fixed assets and software fees	(2,138)	(1,887)
Rentals payable on properties	(294)	(2,314)
Security, transportation and custody of valuables expenses	(880)	(872)
Transportation expenses	(292)	(284)
Expert appraisals and real estate documents	(288)	(293)
Legislative, procedural and other consulting	(1,366)	(1,767)
Costs for office materials and supplies	(672)	(517)
Electricity and heating costs	(735)	(701)
Advertising and entertainment expenses	(1,319)	(1,236)
Legal and debt collection costs	(3,033)	(2,961)
Insurance premiums	(3,071)	(3,074)
Costs for information and searches	(2,581)	(2,438)
Data processing centre	(6,948)	(6,154)
Indirect taxes	(7,659)	(6,961)
Cleaning services	(666)	(612)
Membership fees	(605)	(563)
Contributions for Treasury Service and sundry associations	(9)	(16)
Processing of bills, cheques and documents with third parties	(568)	(469)
Rented property maintenance and condo charges	(161)	(101)
Subscriptions and ads for newspapers and magazines	(200)	(207)
Purchase of promotional materials	(100)	(136)
Cost of the staff leasing contracts service	(44)	(25)
Expenses for travel and business trips involving personnel in service	(645)	(467)
Securitisation administrative expenses	(87)	(652)
Sundry minor costs and expenses for general meetings	(416)	(459)
Total	**(40,554)**	**(40,490)**

Administrative expenses, broken down in detail in the table below, amounted to Euro 40.5 million and are formally in line compared to the previous year; however, an effective comparison must take into account that from this year, due to the accounting method provided for by the new IFRS 16 accounting standard, a large part of the cost of rents payable, previously recognised under administrative expenses, is now posted under depreciations for rights of use (adjustments to tangible assets) and financial expenses. These costs amount to a total of approximately Euro 1.9 million.
Administrative expenses also include the item “Indirect taxes”, item that also includes the stamp duty paid on behalf of customers, other taxes pertaining to the Banks such as IMU, TASI, TARI, municipal taxes, registration taxes and sundry associated with the debt collection activities. Within this item, the main component refers to stamp duty of Euro 7.211 million compared to Euro 6.559 million in 2018, 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 31/12/2019**	**Total 31/12/2018**
Analytical write-downs for endorsement loans	(43)	(73)
Guarantees given and commitments	295	24
Revaluation of endorsement loans for collective	10	520
Total	**262**	**471**

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

Items	**Total 31/12/2019**	**Total 31/12/2018**
Provision for legal disputes, compound interest and securities as well as for bankruptcy revocatory action	(257)	(355)
Return to income statement for settlement of disputes arising during core business activities	217	204
Total	**(40)**	**(151)**

Provisions for risks and charges show a positive imbalance between releases and provisions of Euro 222 thousand (320 thousand in 2018), consisting of provisions for typical banking disputes of Euro 40 thousand and write-backs for commitments and guarantees given of Euro 262 thousand. Provisions for risks and charges, recognised as liabilities, amounted to Euro 2.6 million (Euro 3.2 million at the end of 2018); 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	(3,785)	-	-	(3,785)
- Owned	(2,096)	-	-	(2,096)
- Rights of use acquired through the lease	(1,689)	-	-	(1,689)
2. Investment property	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through the lease	-	-	-	-
3. Inventories	-	-	-	-
Total	**(3,785)**	-	-	**(3,785)**

The depreciation for 2019 amounted in total to Euro 3,785 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 830 thousand;
• on furniture and furnishings Euro 192 thousand;
• on electronic installations Euro 233 thousand;
• on rights of use and rents Euro 1,690 thousand;
• on the remaining assets Euro 840 thousand.
As at 31 December 2019, 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	(696)	-	-	(696)
- Generated internally	-	-	-	-
- Other	(696)	-	-	(696)
A.2 Rights of use acquired under leases	-	-	-	-
Total	**(696)**	-	-	**(696)**

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 31/12/2019	Total 31/12/2018
Extraordinary expense	(212)	(215)
Costs for leasehold improvements	(280)	(253)
Valuation of precious stones	(466)	-
Other	(192)	(62)
Total	**(1,150)**	**(530)**

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.
The valuation process of precious stones, placed in the past with customers and now withdrawn, involved charges of Euro 466 thousand.

14.2 Other operating income: breakdown

The breakdown of other operating income is provided below.

Type of income/Amounts	Total 31/12/2019	Total 31/12/2018
Rent receivable on properties	(14)	(77)
Recovery of taxes from customers	(7,180)	(6,531)
Recovery of insurance premiums from customers	(1,071)	(1,094)
Recovery of expenses on deposits and current accounts	(76)	(79)
Services provided to other Group companies	(20)	(20)

Recoveries on legal costs	(1,005)	(2,057)
Extraordinary income	(113)	(111)
Fast credit processing fees	(859)	(1,396)
Recovery of car expenses	(2)	(1)
Other	(55)	-
Total	**(10,395)**	**(11,366)**

The item includes income of Euro 10.4 million, compared with Euro 11.4 million in 2018. The most significant income consists of: recovery of the stamp duty of Euro 7.2 million (Euro 6.5 million as at 31 December 2018), fast credit processing fees of Euro 859 thousand (Euro 1.4 million as at 31 December 2018), recovery of customer insurance of Euro 1 million (amount in line with 31 December 2018), recovery of legal costs, including related taxes, of Euro 1 million (Euro 2 million as at 31 December 2018).

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

15.1 Net gains (losses) on equity investments: breakdown

Income components/Amounts	Total 31/12/2019	Total 31/12/2018
A. Income	-	-
1. Revaluations	-	-
2. Gains on sale	-	-
3. Reversals of impairment losses	-	-
4. Other income	-	-
B. Expense	**(520)**	**(340)**
1. Impairment	(520)	(340)
2. Impairment losses	-	-
3. Losses on sale	-	-
4. Other expenses	-	-
Net gains (losses)	**(520)**	**(340)**

The item comprises the impairment on equity investment held in the subsidiary Valsabbina Real Estate S.r.l. (Euro 520 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 31/12/2019	Total 31/12/2018
A. Property	-	(7)
- Gains on sale	-	-
- Losses on sale	-	(7)
B. Other assets	(32)	(15)
- Gains on sale	9	1
- Losses on sale	(41)	(16)
Net gains (losses)	**(32)**	**(22)**

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 31/12/2019	Total 31/12/2018
1.	Current taxes (-)	(1,675)	(1,061)
2.	Changes in current taxes of prior years (+/-)	(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 (+/-)	(3,614)	327
5.	Change in deferred taxes (+/-)	(27)	(79)
6.	Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(5,422)**	**(813)**

Current taxes have a total impact on the income statement of Euro 1,675 thousand. Also considering the impact on the income statement of prepaid/deferred taxes, a total tax impact of Euro 5,422 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 (21.08%) 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)	25,725	(7,074)	27.50%
Permanent increases			
- non-deductibility of impairment of investment	520	(143)	0.56%
- other non-deductible expense	274	(75)	0.29%
Permanent decreases			
- dividends	(418)	115	(0.45%)
- equity increase (a.c.e.)	(1,302)	358	(1.39%)
- other changes	(5,039)	1,386	(5.39%)
Effective IRES tax expense	**-**	**(5,433)**	**21.12%**
IRAP	**Taxable amount**	**IRAP 5.57%**	**% incidence**
Profit gross of taxation (theoretical taxation)	25,725	(1,433)	5.57%
Permanent increases			
- non-recoverable impairment of investment securities	520	(29)	0.11%
- other non-deductible expense (10% general expenses and other associated items)	6,949	(387)	1.50%
- non-recoverable tax loss	11,901	(663)	2.58%
Permanent decreases			
- dividends	(227)	13	(0.05%)
- IRAP recovery on prior impairment from sale of loans and receivables	(43,811)	2,440	(9.49%)
- other changes	(1,260)	70	(0.27%)
Effective IRAP tax expense	**-**	**11**	**(0.04%)**
Total effective IRES and IRAP tax expense	**-**	**(5,422)**	**21.08%**

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 31/12/2019	Total 31/12/2018
Profit (Loss) for the year	20,302,494	15,186,011
Ordinary shares (weighted average)	34,352,949	34,482,036
Earnings per share	**0.591**	**0.440**

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 Euros)		
Items	**31/12/2019**	**31/12/2018**
10. Profit (Loss) for the year	**20,302**	**15,186**
Other comprehensive income without reversal to income statement	**(111)**	**93**
70. Defined benefit plans	(166)	139
100. Income taxes relating to other comprehensive income without reversal to income statement	55	(46)
Other comprehensive income with reversal to income statement	**1,478**	**(4,314)**
150. Financial assets (other than equity securities) measured at fair value through other comprehensive income:	4,086	(3,318)
a) fair value changes	(186)	(6,449)
b) reversal to income statement	4,272	3,131
- impairment losses for credit risk	(174)	79
- gains (losses) on sales	4,446	3,052
170. Portion of valuation reserves of equity-accounted investments:	(1,288)	(2,272)
a) fair value changes	(1,288)	(2,272)
180. Income taxes relating to other comprehensive income with reversal to income statement	(1,320)	1,276
190. Total other comprehensive income	**1,367**	**(4,221)**
200. Comprehensive income (10+190)	**21,669**	**10,965**

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 2019 is as follows:

	Gross amount	**Income tax**	**Net amount**
a) fair value changes	**(1,474)**	**148**	**(1,326)**
Debt securities – Item 150	(186)	60	(126)
Equity securities – Item 170	(1,288)	88	(1,200)
b) reversal to income statement - gains (losses) on sales	**4,446**	**(1,470)**	**2,976**
Debt securities – Item 150	4,446	(1,470)	2,976

The amount of the income tax for Euro -1,267 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	1,133
Decreases	(2,307)
10.6 Changes in deferred taxes (through shareholders' equity)	
Increases	(148)
Decreases	55
Effect of the income taxes on comprehensive income	**(1,267)**

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 the assumption of risks (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 strategic business plan 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 assumed 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 assumption of the various types of risks. The Board of Directors ensures the consistency between the strategic plan, the business model, the Risk Appetite Framework, the ICAAP-ILAAP process, the Budgets as well as the corporate organisation and the system of internal controls, taking into consideration the developments in the internal and external conditions under which the Bank operates.
During 2019, the “Risk Appetite Framework Policy” document was reviewed as usual further to the breakdown of the planned objectives for 2019, 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, updated during 2019, 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 assumption 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.

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 2019, 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: 1) Offences on false corporate communications; 2) Offences related to money laundering; 3) Offences related to occupational health and safety protection. As a result of these checks, no specific critical issues were found.
In 2020, it is necessary to update the Organisational, Management and Control Model following the expansion of the catalogue of predicate offences, including the offences referred to in Italian Law no. 133 of 18 November 2019, "Urgent provisions on the scope of national cybernetic security and the regulation of special powers in sectors of strategic importance" and the tax offences referred to in article 25-quinquiesdecies of Italian Legislative Decree 231/2001 (fraudulent declaration; issuing

invoices or other documents for non-existent operations; hiding or destroying accounting documents; fraudulent tax evasion).

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 constantly updates the internal regulations that allow the Compliance Department of the Bank to monitor, according to a risk-based approach, the management of non-compliance risk with regard to business activities, verifying the adequacy of internal procedures.

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. In particular, owing to what was already established by IV Directive (EU) 2015/849, issued by the European Parliament and the European Council and implemented by Italian Legislative Decree no. 90 of 25 May 2017, which amended, effective as from 4 July 2017, Italian Legislative Decree no. 231/2007 relating to the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, during the year, the "Anti-Money Laundering Policy" was updated.

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 assumption of various types of risk;
- monitor the actual risk assumed 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);

- 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 include 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 assumed 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.

Finally, the Risk Management, Planning and Control Service constantly monitors the risk profile assumed by the Bank compared to the risk appetite defined in the RAF, reporting to the Corporate Bodies.

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 assumption; 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 small/medium-sized company segments, in that they are entities that require a reference contact, capable of understanding and satisfying the needs; lending activities also address the corporate segment to a lesser extent.

The Bank, holding in due consideration its economic/equity amounts and the current market environment, outlines 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 in order to mitigate the impact on the overall credit risk of the Bank.

The loan policies established by the Board of Directors have contributed towards the adoption, by the appointed structures, of greater precision both during the opening of the relation and in its subsequent management.

In the starting stage of the relation, particular attention must be paid to the quality of the entrepreneurial projects underlying the financial intervention required of the Bank, in particular, the income-earning prospects of the business as well as the consequent ability to repay are evaluated.

The management and monitoring of the loan already disbursed are aimed at timely restructuring the relation in accordance with the changes in the economic and financial situation of the counterparties and identifying any potential irregular trend. This monitoring is useful for preventing the effects of the deterioration in creditworthiness as well as for promptly intervening with corrective actions in removing anomalies (for example, reiteration of overruns, increase in unpaid instalments, acceptance of portfolio presentations on names already in default). The management of the credit facilities granted is based on the principles of utmost prudence and therefore any sign of performance not in line with correct operations is regularly analysed 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 in its new markets, in order to acquire new market shares and to facilitate the growth of loan brokerage activities.

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 exposure generating a corresponding unexpected change in the current value of the relevant 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 assumption, initial supervision 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 assumed.
The assumption 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.
Finally, in this regard, note that during 2019 the loan approval process relating to Past due Impaired and Unlikely to pay positions was reviewed, with the attribution of decision-making powers to the

Pre-dispute Service, the Anomalous Loan Division and the Anomalous Loan Committee, replacing those previously attributed to the Loan Sector and the Loans Committee. This change was made in particular with the aim of rationalising and optimising 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 Sector and Corporate Affairs, sees to checking 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 assuming 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 assumed;
- 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.

As part of the reporting activity, the level of credit risk assumption is constantly monitored 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 assumed with the Bank's capital endowment.

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 stress scenarios envisage a general impairment of the credit quality of the Bank's portfolio, due to both a worsening of the macroeconomic environment and idiosyncratic phenomena. Therefore, 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 therefore contain 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 assumption 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. Moreover, the Bank uses the procedure known as C.C.M. (Credit Capital Management) with the aim of integrating the measurements, as well as part of the supervisory review process (Second Pillar) and for the drafting of reports for public disclosure (Third Pillar).

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 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 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 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.

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 up-dating 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, during 2019, the Bank updated its 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.
Personal guarantees consist for the most part in performance bonds granted by both natural persons and companies. In this regard, note that in recent years the Bank resorted to the form of guarantees given by the State through Mediocredito Centrale pursuant to Italian Law 662/1996, to the use of guarantees given by specialised entities (e.g. Confidi) as well as to the form of guarantees given by the European Investment Fund for the loans granted.
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 impaired 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 impaired exposures**: 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 impaired exposures 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 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 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. The new regulations will come into effect as from 31 December 2020. Therefore, the Bank launched the appropriate analyses to better implement the new regulations, participating in particular in the various initiatives launched by both the IT outsourcer and the trade associations. In the same way, the Bank is assessing the potential impact in terms of measuring and managing credit risk deriving from updates to the Prudential Supervision regulations, with a special reference to the changes introduced by EU Regulation 630/2019 on minimum coverage of losses on non-performing loans - known as "Calendar provisioning".

The management of non-performing loans is the responsibility of the Anomalous Loan Division by means of the Trend Monitoring, 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 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 light of what is established by company regulations, the Trend Monitoring and Pre-dispute Service govern, under the supervision of the Anomalous Loan Division, the classification process for the loan positions and the process of the variation of the related status in compliance with the limits of autonomy established by the Board of Directors and General Management.
As part of the management of performing loans, for operational purposes the Bank has defined a sub-class of loans known as “Under Control”, in which the exposures showing a not fully regular trend of the loan relation are classified.

The assessment of non-performing exposures is carried out according to analytical methods defined in the 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.

The amount of the impairment 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.
With regard to bad loans, it should be noted that for a specific "sub-portfolio" of exposures, the calculation of the impairment loss was made also considering a sales scenario as part of possible recovery strategies.

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. In particular, during 2018, the Bank achieved a significant reduction in its stock of non-performing loans, also on the basis of the objectives defined in the "Operating Plan for the management of non performing loans" (2018-2021) prepared in that year. During the first quarter of 2019, the Bank updated this "NPL Plan", also on the basis of the positive results achieved, revising the targets for the period from 2019 to 2021 for a further reduction in NPL stocks and their impact on both total gross and net loans.
The various management strategies that take into account the main characteristics of the 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 2019, bad loans totalling Euro 102 million were sold, which, together with other recovery activities carried out, enabled the Bank to reduce the Gross NPL Ratio (ratio of gross non-performing loans to gross loans) from 13% as at 31 December 2018 to approximately 9.2% at the end of 2019 and the net NPL Ratio (ratio of net non-performing loans to net loans) from 7.3% to 5.6%. In particular, during the year the Bank achieved the objectives set in the NPL Plan for the year ended with an improved performance compared to expectations in terms of both gross and net non-performing loans for which target values of 9.8% and 6.5% had been set, respectively. The reduction in the stock of non-performing loans was also helped by the reduction in default rates and the optimisation of the recovery of 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 purchased 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 concession measures (known as forbearance) 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 “concession 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.

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 impaired exposures	Past due performing exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	96,063	66,781	13,767	51,394	4,102,717	4,330,722
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	383,885	383,885
3. Financial assets designated at fair value	-	-	-	-	11,774	11,774
4. Other financial assets mandatorily measured at fair value	-	-	-	-	144,174	144,174
5. Discontinued financial assets	-	-	-	-	-	-
Total 31/12/2019	**96,063**	**66,781**	**13,767**	**51,394**	**4,642,550**	**4,870,555**
Total 31/12/2018	**122,906**	**82,108**	**19,747**	**56,650**	**4,364,710**	**4,646,121**

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	303,447	126,836	176,611	11,770	4,179,240	25,129	4,154,111	4,330,722
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	384,276	391	383,885	383,885
3. Financial assets designated at fair value	-	-	-	-	-	-	11,774	11,774
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-	144,174	144,174
5. Discontinued financial assets	-	-	-	-	-	-	-	-
Total 31/12/2019	**303,447**	**126,836**	**176,611**	**11,770**	**4,563,516**	**25,520**	**4,693,944**	**4,870,555**
Total 31/12/2018	**430,110**	**205,349**	**224,761**	**27,184**	**4,246,141**	**29,109**	**4,421,360**	**4,646,121**

Portfolios/Quality	Assets with evidently low credit quality		Other assets
	Accumulated	Net exposure	Net exposure

1. Financial assets held for trading	-	-	348
2. Hedging derivatives	-	-	-
Total 31/12/2019	**-**	**-**	**348**
Total 31/12/2018	**-**	**-**	**75**

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	19,722	-	-	8,225	16,814	6,633	963	4,318	142,741
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Discontinued financial assets	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**19,722**	**-**	**-**	**8,225**	**16,814**	**6,633**	**963**	**4,318**	**142,741**
Total 31/12/2018	**19,617**	**-**	**-**	**9,024**	**18,055**	**9,954**	**3,522**	**5,268**	**181,214**

A.1.4 Financial Assets, commitments to grant finance and financial guarantees given: trend in total value adjustments 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 write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other	of which: individual write-	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other	of which: individual write-downs	of which: collective write-downs		Stage 1	Stage 2	Stage 3	
Opening total impairment losses	**(16,379)**	**(556)**	**-**	**(16,935)**	**(12,164)**	**(9)**	**-**	**(12,173)**	**(205,349)**	**-**	**(205,349)**	**-**	**(1,337)**	**(257)**	**(280)**	**(483)**	**(235,477)**
Increases from acquired or originated financial assets	(6,932)	(202)	-	(7,134)	(819)	(15)	-	(834)	(749)	-	(749)	-	(82)	(366)	(290)	-	(9,373)
Derecognitions other than write-offs	672	-	-	672	256	-	-	256	1,672	-	1,672	-	-	250	254	472	3,576
Net impairment losses for credit risk (+/-)	7,710	429	-	8,139	2,507	(38)	-	2,469	73,774	-	73,774	-	59	168	293	(5)	84,838
Modification gains (losses) without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	24	-	-	24	-	-	-	-	3,816	-	3,816	-	-	-	-	-	3,840
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing total impairment losses	**(14,905)**	**(329)**	**-**	**(15,234)**	**(10,220)**	**(62)**	**-**	**(10,282)**	**(126,836)**	**-**	**(126,836)**	**-**	**(1,360)**	**(205)**	**(23)**	**(16)**	**(152,596)**
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	(33)	-	-	(33)	-	-	-	-	(3,916)	-	(3,916)	-	-	-	-	-	(3,949)

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	84,832	93,420	16,195	15,629	20,039	449
2. Financial assets measured at fair value through other comprehensive income	62,083	-	-	-	-	-
3. Discontinued financial assets	-	-	-	-	-	-
4. Commitments to grant finance and financial guarantees given	10,342	14,392	160	1,078	1,953	165
Total 31/12/2019	**157,257**	**107,812**	**16,355**	**16,707**	**21,992**	**614**
Total 31/12/2018	**290,891**	**333,613**	**56,601**	**28,366**	**16,631**	**9,449**

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	-	-	-	-	-
d) Past due impaired exposures	-	-	-	-	-
- of which: forbearance exposures	-	-	-	-	-
d) Performing past due exposures	-	-	-	-	-
- of which: forbearance exposures	-	-	-	-	-
e) Other performing exposures	-	181,200	79	181,121	-
- of which: forbearance exposures	-	-	-	-	-
TOTAL A	**-**	**181,200**	**79**	**181,121**	**-**
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	-	-	-	-	-
b) Performing	-	144,960	-	144,960	-
TOTAL B	**-**	**144,960**	**-**	**144,960**	**-**
TOTAL A+B	**-**	**326,160**	**79**	**326,081**	**-**

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	184,838	-	88,775	96,063	11,770
- of which: forbearance exposures	23,382	-	10,677	12,705	-
b) Unlikely to pay	102,979	-	36,198	66,781	-
- of which: forbearance exposures	56,404	-	17,933	38,471	-
c) Past due impaired exposures	15,630	-	1,863	13,767	-
- of which: forbearance exposures	9,331	-	1,084	8,247	-
d) Performing past due exposures	-	54,086	2,692	51,394	-
- of which: forbearance exposures	-	9,971	823	9,148	-
e) Other performing exposures	-	4,484,178	22,749	4,461,429	-
- of which: forbearance exposures	-	71,779	2,643	69,136	-
TOTAL A	**303,447**	**4,538,264**	**152,277**	**4,689,434**	**11,770**
B. OFF-BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	5,116	-	231	4,885	-
b) Performing	-	1,335,281	527	1,334,754	-
TOTAL B	**5,116**	**1,335,281**	**758**	**1,339,639**	**-**
TOTAL A+B	**308,563**	**5,873,545**	**153,035**	**6,029,073**	**11,770**

On-balance sheet net exposures include, in addition to loans and receivables with customers of Euro 4,184.7 million, bonds in the FVOCI portfolio of Euro 349.3 million (asset item 30), debt securities in the portfolio of Financial assets mandatorily measured at fair value of Euro 143.7 million (item 20c), insurance policies in the portfolio of Financial assets designated at Fair Value (asset item 20b) of approximately Euro 11.7 million. Gross loans and receivables and related impairment losses are shown net of the value of default interests.

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 2019.

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

Causes/Categories	Bad loans	Unlikely to pay	Past due impaired exposures
A. Gross opening exposure	**287,066**	**120,702**	**22,342**
- of which: exposures transferred and not derecognised	4,440	2,496	2,983
B. Increases	**37,309**	**73,936**	**37,987**
B.1 inflows from performing exposures	415	24,021	32,997
B.2 inflows from acquired or originated impaired financial assets	-	-	32
B.3 transfers from other categories of non-performing exposures	33,346	14,612	-
B.4 modification gains (losses) without derecognition	-	-	-
B.5 other increases	3,548	35,303	4,958
C. Decreases	**139,537**	**91,659**	**44,699**
C.1 outflows to performing exposures	38	14,716	21,009
C.2 write-off	5,472	-	-
C.3 collections	29,288	39,276	6,173
C.4 gains on sales	8,252	-	-
C.5 losses on sales	6,236	-	-
C.6 transfers to other categories of non-performing exposures	-	33,219	14,739
C.7 modification gains (losses) without derecognition	-	-	-
C.8 other decreases	90,251	4,448	2,778
D. Gross closing exposure	**184,838**	**102,979**	**15,630**
- of which: exposures transferred and not derecognised	-	454	725

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	**119,901**	**87,723**
- of which: exposures transferred and not derecognised	2,035	26,957
B. Increases	**36,089**	**67,964**
B.1 inflows from performing non-forbearance exposures	1,513	29,128
B.2 inflows from performing forbearance exposures	10,126	-
B.3 inflows from non-performing forbearance exposures	-	18,098
B.4 inflows from non-performing non-forbearance exposures	5,113	122
B.5 other increases	19,337	20,616
C. Decreases	**66,873**	**73,937**
C.1 outflows to performing non-forbearance exposures	-	32,263
C.2 outflows to performing forbearance exposures	18,098	-
C.3 outflows to non-performing forbearance exposures	-	10,126
C.4 write-off	1,602	-
C.5 Collections	25,519	29,274
C.6 gains on sale	597	-
C.7 losses on sale	506	-
C.8 other decreases	20,551	2,274
D. Gross closing exposure	**89,117**	**81,750**
- of which: exposures transferred and not derecognised	67	20,720

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 2019; 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 impaired exposures	
	Total	of which: forbearance exposures	Total	of which: forbearance exposures	Total	of which: forbearance exposures
A. Opening total impairment losses	**164,160**	**22,803**	**38,594**	**19,036**	**2,595**	**1,843**
- of which: exposures transferred and not derecognised	1,006	23	587	25	341	197
B. Increases	**33,414**	**4,050**	**9,688**	**4,031**	**1,127**	**440**
B.1 impairment losses from acquired or originated impaired financial assets	-	-	-	-	-	-
B.2 other impairment losses	20,989	1,926	9,307	3,826	1,127	440
B.3 losses on sale	6,236	241	-	-	-	-
B.4 transfers from other categories of non-performing exposures	5,374	1,883	381	205	-	-
B.5 modification gains (losses) without derecognition	-	-	-	-	-	-
B.6 other increases	815	-	-	-	-	-
C. Decreases	**108,799**	**16,176**	**12,084**	**5,134**	**1,859**	**1,199**
C.1 reversals of impairment losses due to valuation	4,707	412	4,234	2,784	943	1,046
C.2 reversals of impairment losses due to collection	3,805	395	1,256	327	188	87
C.3 gains on sale	672	278	-	-	-	-
C.4 write-off	5,463	1,566	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	5,027	2,023	728	66
C.6 modification gains (losses) without derecognition	-	-	-	-	-	-
C.7 other decreases	94,152	13,525	1,567	-	-	-
D. Closing 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

"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 2019.

A.3.2 On- and off-balance sheet secured credit exposures with customers

	Gross exposure	Net exposure	Collaterals (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement loans				
								Other derivatives								
			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	
1. On-balance sheet secured credit exposures:	**2,515,218**	**2,426,903**	**1,239,952**	**-**	**82,752**	**92,206**	**-**	**-**	**-**	**-**	**-**	**479,552**	**41**	**21,151**	**397,355**	**2,313,009**
1.1 fully secured	2,060,097	1,979,773	1,228,607	-	69,329	80,342	-	-	-	-	-	210,522	41	16,479	364,193	1,969,513
- of which impaired	214,585	151,334	121,367	-	619	1,223	-	-	-	-	-	4,000	-	509	22,047	149,765
1.2 partially secured	455,121	447,130	11,345	-	13,423	11,864	-	-	-	-	-	269,030	-	4,672	33,162	343,496
- of which impaired	13,907	8,530	1,154	-	161	-	-	-	-	-	-	2,198	-	338	2,327	6,178
2. Off-balance sheet secured credit exposures:	**286,637**	**286,256**	**2,976**	**-**	**12,292**	**9,745**	**-**	**-**	**-**	**-**	**-**	**1,753**	**559**	**696**	**240,924**	**268,945**
2.1 fully secured	236,774	236,507	2,976	-	9,333	5,696	-	-	-	-	-	731	559	631	216,564	236,490
- of which impaired	1,699	1,571	8	-	61	137	-	-	-	-	-	-	-	-	1,365	1,571
2.2 partially secured	49,863	49,749	-	-	2,959	4,049	-	-	-	-	-	1,022	-	65	24,360	32,455
- of which impaired	702	612	-	-	2	3	-	-	-	-	-	-	-	-	400	405

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	-	-	319	72	-	-	60,414	66,777	35,331	21,925
- of which: forbearance exposures	-	-	84	13	-	-	5,901	8,411	6,719	2,254
A.2 Unlikely to pay	-	-	-	-	-	-	42,977	28,971	23,803	7,227
- of which: forbearance exposures	-	-	-	-	-	-	22,570	13,083	15,901	4,850
A.3 Past due impaired exposures	-	-	61	9	-	-	8,052	1,062	5,654	792
- of which: forbearance exposures	-	-	-	-	-	-	4,737	611	3,510	473
A.4 Performing exposures	1,257,529	1,045	494,610	1,045	-	-	1,889,065	19,287	871,618	4,065
- of which: forbearance exposures	-	-	376	8	-	-	56,642	2,955	21,267	503
Total (A)	**1,257,529**	**1,045**	**494,990**	**1,126**	-	-	**2,000,508**	**116,097**	**936,406**	**34,009**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	73	-	-	4,515	47	371	111
B.2 Performing exposures	4,021	-	56,078	-	-	-	1,195,018	505	79,637	23
Total (B)	**4,021**	-	**56,078**	**73**	-	-	**1,199,533**	**552**	**80,008**	**134**
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**
Total (A+B) 31/12/2018	**1,092,814**	**2,441**	**538,827**	**1,287**	**-**	**-**	**2,981,506**	**177,118**	**993,873**	**54,521**

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	96,061	88,759	2	16	-	-	-	-	-	-
A.2 Unlikely to pay	66,781	36,198	-	-	-	-	-	-	-	-
A.3 Past due impaired exposures	13,734	1,859	33	4	-	-	-	-	-	-
A.4 Performing exposures	4,441,653	25,288	56,619	120	13,715	31	236	1	600	1
Total (A)	**4,618,229**	**152,104**	**56,654**	**140**	**13,715**	**31**	**236**	**1**	**600**	**1**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	4,885	231	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,333,814	527	607	-	326	-	5	-	1	-
Total (B)	**1,338,699**	**758**	**607**	-	**326**	-	**5**	-	**1**	-
Total (A+B) 31/12/2019	**5,956,928**	**152,862**	**57,261**	**140**	**14,041**	**31**	**241**	**1**	**601**	**1**
Total (A+B) 31/12/2018	**5,546,054**	**235,214**	**44,546**	**96**	**14,846**	**53**	**1,573**	**4**	**-**	**-**

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 impaired exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	143,240	67	33,888	12	331	-	2,605	-	1,057	-
Total (A)	**143,240**	**67**	**33,888**	**12**	**331**	**-**	**2,605**	**-**	**1,057**	**-**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	6,571	-	-	-	-	-	200	-	500	-
Total (B)	**6,571**	**-**	**-**	**-**	**-**	**-**	**200**	**-**	**500**	**-**
Total (A+B) 31/12/2019	**149,811**	**67**	**33,888**	**12**	**331**	**-**	**2,805**	**-**	**1,557**	**-**
Total (A+B) 31/12/2018	**220,495**	**102**	**6,941**	**7**	**2,777**	**-**	**1,076**	**-**	**809**	**-**

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 concept of exposure includes both the cash loans and the off-balance sheet loans; the aggregates in any event include the exposures vis-à-vis the European Central Administrations, in particular those represented by debt securities.

As at 31 December 2019, the eligible capital amounted to Euro 401.7 million. "Large exposures" included 10 counterparties for a total nominal value of Euro 2,345.7 million and a weighted amount of Euro 258.4 million:
- no. 4 exposures to customers for a nominal amount of Euro 208.2 million and a weighted amount of Euro 116.4 million;
- the exposure to Italian government (Ministry of the Treasury) of Euro 1,851 thousand, weighted Euro 49.7 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 61.6 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 224.9 million nominal, weighted Euro 30.7 million.

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 2019 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.

As at 31 December 2019, the Bank had no transactions involving the transfer of risks to third parties.

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. The "ABS Investment Regulation" is also being revised.

As at 31 December 2019, the Bank held a portfolio of securities deriving from third-party or multi-originator securitisations of Euro 216 million. Of these, Euro 66.6 million represent exposures to senior securities while the exposure to mezzanine securities is Euro 9.8 million. On the other hand, exposure to "mono-tranche" securitisations amounts to Euro 139.6 million. Note that the latter transactions are not considered securitisation positions for prudential supervision purposes.
The main characteristics relating to the various operations are shown 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 2019 the security held amounted to Euro 130 million. With regard to the economic aspects,

the security involved the recognition of interest income of Euro 3.7 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;

- "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 2019 the security held amounted to Euro 9.7 million. With regard to the economic aspects, the security involved the recognition of interest income of Euro 105 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 35 million as at 31 December 2019. With regard to the economic aspects, the security involved the recognition of interest income of Euro 429 thousand;
- "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 2019 the security held amounted to Euro 12.9 million. With regard to the economic aspects, the security involved the recognition of interest income of Euro 207 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 2019 the security held amounted to Euro 11.9 million. With regard to the economic aspects, the security involved the recognition of interest income of Euro 342 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 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 227 thousand. With regard to the economic aspects, the security involved the recognition of interest income of Euro 12 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 is 18 months. 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 29.4 million - as at 31 December 2019, the security held amounted to Euro 9.8 million. With regard to the economic aspects, the security involved the recognition of interest income of Euro 169 thousand.

Note also that in December 2019 the mezzanine tranche received a rating of Baa3 from Moodys, A from DBRS and BBB from Scope Ratings;

- "P2P LendIT" securitisation: this is a third-party securitisation and in particular an operation completed by Prestiamoci S.p.A. (originator). The securitisation involves performing personal loans and securities with a nominal value of Euro 25 million were issued. Prestiamoci S.p.A. maintains a net economic interest in the transaction as it is the subscriber of the Junior share.

The Bank subscribed part of the senior tranche whose outstanding value as at 31 December 2019 amounted to Euro 6.6 million whereas, with regard to the economic aspects, interest income of Euro 176 thousand was recorded.

As at 31 December 2019, there was also a residual investment in the "Multiseller NPL" securitisation for which a summary description is provided in subsection "C. Financial assets sold and fully derecognised" in section "E - transfers".

Quantitative information

C.2 Exposure 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 impair. losses	Book value	Impair. losses/Rev. of impair. losses	Net exposure	Impair. losses/Rev. of impair. losses	Net exposure	Impair. losses/Rev. of impair. losses	Net exposure	Impair. losses/Rev. of impair. losses	Net exposure	Impair. losses/Rev. of impair. losses	Net exposure	Impair. losses/Rev. of impair. losses	Net exposure	Impair. losses/Rev. of impair. losses
IT0005204422	VALSABBINA PA	Trade receivables	129,961	-	-	-	-	-	-	-	-	-	-	-	240	-	-	-	-	-
IT0005326662	ATLAS SPV	Trade receivables	9,677	-	-	-	-	-	-	-	-	-	-	-	4,164	-	-	-	-	-
IT0005377723	VITTORIA 7/31 TV A	Trade receivables	35,030	(138)	-	-	-	-	-	-	-	-	-	-	2,710	-	-	-	-	-
IT0005350456	POLLUCE 12/28 3% A	Trade receivables	12,928	(51)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005359440	POLLUCE 12/29 3.25 A	Trade receivables	11,866	(46)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005338766	VITRUV 9/23 2.75% A	Trade receivables	227	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005352825	ERIDANO II 5/35 TV B	CQSP loans	-	-	9,807	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IT0005349193	P2P LEND 6/25 3.75 A	Personal loans	6,582	(26)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* the Valsabbina PA and Atlas SPV 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 PA	Via Vittorio Alfieri,1 - 31015 Conegliano (TV)	No	118,737	-	-	129,961	-	-
Atlas SPV	Via Pestalozza, 12/14 - 20131 Milan	No	13,881	-	-	9,677	-	-
Vittoria SPE S.r.l.	Via San Prospero, 4 - 20121 Milan	No	96,903	-	-	70,187	5,054	25,127
Polluce SPE S.r.l.	Via San Prospero, 4 - 20121 Milan	No	277,682	-	-	24,794	-	17,458
Vitruvio SPV S.r.l.	Via San Prospero, 4 - 20121 Milan	No	28	-	-	506	60	30
Eridano II SPV S.r.l	Via Vittorio Alfieri,1 - 31015 Conegliano (TV)	No	282,494	-	-	255,397	20,693	63,485
P2P Lendit S.r.l.	Via degli Olivetani, 10/12 - 20123 Milan	No	9,771	-	-	8,400	-	2,100

* the Valsabbina PA and Atlas SPV securities are "mono-tranche".

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	**139,650**	**-**	**139,650**	**-**	**(137,923)**	**-**	**(137,923)**
1. Debt securities	139,650	-	139,650	-	(137,923)	-	(137,923)
2. Loans		-	-	-	-	-	-
Total 31/12/2019	**139,650**	**-**	**139,650**	**-**	**(137,923)**	**-**	**(137,923)**
Total 31/12/2018	**431,608**	**-**	**431,608**	**-**	**(398,953)**	**-**	**(398,953)**

B. Financial assets sold and fully derecognised with recognition of continuing involvement

As at 31 December 2019, the Bank had no such transactions in place.

C. Financial assets sold and fully derecognised

In December 2015, as part of a multi-originator securitisation transaction, 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 of Euro 167 thousand as at 31 December 2019.

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".
Therefore, the transactions that during the year affected the trading book were marginal.

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	-	**2,063**	**794**	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	2,063	794	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	2,063	794	-	-	-	-	-
+ long positions	-	1,229	384	-	-	-	-	-
+ short positions	-	834	410	-	-	-	-	-

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	-	**2,059**	**792**	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	2,059	792	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	2,059	792	-	-	-	-	-
+ long positions	-	831	409	-	-	-	-	-
+ short positions	-	1,228	383	-	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity securities and share indices for the main countries in the listing market

The table relating to this section is not drawn up in that there were no equity securities recorded in this portfolio as at 31 December 2019.

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 2019, VaR was exceeded in 2 cases, calculated for the securities portfolio managed internally, whereas with reference to portfolios under management to external operators, there were no cases of overrunning. The overruns of risk measurements were recorded coinciding with times of tension in the financial markets, mainly due to the Italian political situation. In any case, the backtesting activities confirm 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 2019 net of external management was equal to 3.51 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	**1,658,475**	**1,530,918**	**577,803**	**59,090**	**382,745**	**393,632**	**249,339**	**-**
1.1 Debt securities	16	440,998	529,882	4,298	159,304	303,178	150,531	-
- with early repayment option	-	41,553	684	1,494	17,267	24,387	11,671	-
- other	16	399,445	529,198	2,804	142,037	278,791	138,860	-
1.2 Loans to banks	32,748	76,847	-	10,265	-	-	-	-
1.3 Loans to customers	1,625,711	1,013,073	47,921	44,527	223,441	90,454	98,808	-
- Current account	481,479	-	5,009	1,201	9,879	4,777	-	-
- other loans	1,144,232	1,013,073	42,912	43,326	213,562	85,677	98,808	-
- with early repayment option	961,122	904,332	41,587	42,346	211,722	81,973	88,972	-
- other	183,110	108,741	1,325	980	1,840	3,704	9,836	-
2. On-balance sheet liabilities	**2,610,790**	**664,497**	**337,803**	**343,621**	**731,487**	**103**	**-**	**-**
2.1 Due to customers	2,610,506	474,873	86,015	129,520	264,441	103	-	-
- Current account	2,583,066	474,600	85,683	128,844	260,376	15	-	-
- other payables	27,440	273	332	676	4,065	88	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	27,440	273	332	676	4,065	88	-	-
2.2 Due to banks	39	187,923	246,444	148,158	286,755	-	-	-
- Current account	39	-	-	-	-	-	-	-
- other payables	-	187,923	246,444	148,158	286,755	-	-	-
2.3 Debt securities	142	1,701	5,344	65,943	180,291	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	142	1,701	5,344	65,943	180,291	-	-	-
2.4 Other liabilities	103	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	103	-	-	-	-	-	-	-
3. Financial derivatives	**262,412**	**231,902**	**43,272**	**54,457**	**272,562**	**65,095**	**36,031**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	262,412	231,902	43,272	54,457	272,562	65,095	36,031	-
- Options	262,412	231,383	43,272	54,457	272,562	65,095	36,031	-
+ long positions	-	21,656	32,811	54,451	272,562	65,095	36,031	-
+ short positions	262,412	209,727	10,461	6	-	-	-	-
- Other derivatives	-	519	-	-	-	-	-	-
+ long positions	-	519	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-balance sheet transactions	**216,502**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	108,251	-	-	-	-	-	-	-
+ short positions	108,251	-	-	-	-	-	-	-

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	**7,782**	**7,871**	**252**	-	**2,247**	-	-	-
1.1 Debt securities	-	4,245	-	-	2,247	-	-	-
- with early repayment option	-	835	-	-	-	-	-	-
- other	-	3,410	-	-	2,247	-	-	-
1.2 Loans to banks	6,848	1,070	-	-	-	-	-	-
1.3 Loans to customers	934	2,556	252	-	-	-	-	-
- Current account	504			-	-	-	-	-
- other loans	430	2,556	252	-	-	-	-	-
- with early repayment option	430	2,556	252	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. On-balance sheet liabilities	**10,795**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	10,795	-	-	-	-	-	-	-
- Current account	10,795	-	-	-	-	-	-	-
- 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	**-**	**523**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	523	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	523	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	523	-	-	-	-	-	-
4. Other off-balance sheet transactions	**-**	**11,572**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	5,786	-	-	-	-	-	-
+ short positions	-	5,786	-	-	-	-	-	-

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 algorithm envisaged by Circular No. 285 of 2013, by means of the creation of a summary index that expresses the ratio between the change in the net value of the banking book against an interest rate shock (+/- 200 base points) and "own funds, assuming an average rate of return on bank assets and liabilities of 5%. The Bank has always maintained the risk index at a level lower than the warning threshold established by the regulations and equal to 20% of Own Funds and 15% of its Tier 1 capital. In particular, as at 31 December 2019 the Bank would not suffer any reduction in the economic value of its banking book compared to the scenario of an increase/reduction in rates of +/- 200 bps, regardless of the application of the non-negative interest rate constraint.
The change in the economic value of the banking book is 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. In particular, on 31 December 2019 the negative change in the value of the banking book, even in the most adverse scenarios, would in any case be significantly lower than the warning thresholds defined by the Supervisory Authorities and mentioned above.
The measurement of the interest rate risk occurs also for internal management purposes on a monthly basis by using the ERMAS procedure that allows to quantify the effects, both on the net value of the banking book and on the net interest income expected in a year, resulting from hypothetical shocks in market rates (for example assuming changes in the interest-rate curve and by applying different scenarios).
In particular, the use of the ERMAS procedure allows to carry out specific analysis, also on individual balance sheet items and on individual transactions in progress that allow to take into account of the peculiarities of the Bank’s asset and liability structure.
The analysis carried out as at 31 December 2019 shows, against hypothetical shocks equal to +/- 100 basis points, a positive change in net interest income of Euro 2.2 million in the event of a rise in interest rates (+2.8% of expected net interest income) and Euro 7.9 million in the event of a fall in interest rates (+9.8% of expected net interest income), with a consequent positive effect on profit for the year and equity net of taxation. The estimate takes 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.

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 assuming 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 assumed 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 assumption 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	**18,233**	**1,650**	**1,294**	**440**	**177**	**899**
A.1 Debt securities	3,805	1,640	-	440	-	608
A.2 Equity securities	4,121	-	419	-	-	-
A.3 Loans to banks	7,284	10	156	-	177	291
A.4 Loans to customers	3,023	-	719	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**94**	**8**	**69**	-	**75**	**57**
C. Financial liabilities	**10,284**	-	**80**	-	**253**	**179**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	10,284	-	80	-	253	179
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**183**	-	-	-	**1**	-
E. Financial derivatives	**2,467**	-	**833**	-	**11**	**63**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	2,467	-	833	-	11	63
+ long positions	1,240	-	-	-	-	-
+ short positions	1,227	-	833	-	11	63
Total assets	**19,567**	**1,658**	**1,363**	**440**	**252**	**956**
Total liabilities	**11,694**	-	**913**	-	**265**	**242**
Difference (+/-)	**7,873**	**1,658**	**450**	**440**	**(13)**	**714**

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 31/12/2019				Total 31/12/2018			
	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. 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	-	-	**3,108**	-	-	-	**7,215**	-
a) Options	-	-	-	-	-	-	-	-
b) Swap	-	-	-	-	-	-	-	-
c) Forward	-	-	3,108	-	-	-	7,215	-
d) Futures	-	-	-	-	-	-	-	-
e) Others	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	**3,108**	-	-	-	**7,215**	-

A.2 Trading financial derivatives: positive and negative gross fair value - breakdown by product

Types of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter: Central counterparties	Over the counter: Without central counterparties: With netting agreements	Over the counter: Without central counterparties: Without netting agreements	Organised markets	Over the counter: Central counterparties	Over the counter: Without central counterparties: With netting agreements	Over the counter: Without central counterparties: Without netting agreements	Organised markets
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	10	-	-	-	75	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	338	-	-	-	-	-
Total	-	-	**348**	-	-	-	**75**	-
1. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swap	-	-	-	-	-	-	-	-
c) Cross currency swap	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forward	-	-	17		-	-	62	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	-	-	**17**	-	-	-	**62**	-

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	**-**	**-**	**328**	**10**
- notional amount	-	-	-	-
- positive fair value	-	-	328	10
- negative fair value	-	-	-	-
3) Currencies and gold	**-**	**2,030**	**-**	**1,105**
- notional amount	-	2,013	-	1,095
- positive fair value	-	-	-	10
- negative fair value	-	17	-	-
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	3,108	-	-	**3,108**
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**3,108**	-	-	**3,108**
Total 31/12/2018	**7,215**	-	-	**7,215**

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 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 the assumption of risk 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 on the basis of the matters envisaged by the Basel III Framework.

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. The Bank also carries out repurchase agreements with financial intermediaries as part of its funding strategies.

During 2018, the Bank formalised the first ILAAP self-assessment in which it assessed the adequacy of its liquidity risk management and governance system. This assessment was updated during 2019 by reporting 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” 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 approximately Euro 825 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, 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). The sale of a further portfolio was completed in October 2019.

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 2019, the relevant activities of the vehicle as part of the "Valsabbina Spv1" operation included the residual value of the receivables acquired of Euro 369,289 thousand, with accrual of Euro 14 thousand in addition to cash of Euro 29,736 thousand, of which Euro 20,647 thousand collected by the Bank in January 2020.
Liabilities include the residual debt of securities issued of:
• senior tranche of nominal Euro 297,089 thousand;
• junior tranche of nominal Euro 100,100 thousand,
in addition to unpaid interest accrued on the junior tranche of Euro 6,163 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 2019, in order to support the collateralisation of the Senior security issued in the Valsabbina SME 2 Transaction, revolving sales began on a quarterly basis. The first revolving sale was completed in October 2019 and concerned an additional portfolio of 350 positions of receivables sold at a price of Euro 49,210 thousand, of which Euro 49,169 thousand as nominal value and Euro 41 thousand as accrued interest on the sold receivables. This operation 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.

As at 31 December 2019, the relevant activities of the vehicle as part of the "Valsabbina SME 2" operation included the residual value of the receivables acquired of Euro 765,849 thousand, with accrual of Euro 526 thousand in addition to cash of Euro 72,494 thousand, of which Euro 3,861 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 52 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 2019, the Senior securities from both transactions permitted an overall refinancing margin with the ECB of approximately Euro 737 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	**635,004**	**6,075**	**36,789**	**131,216**	**220,147**	**155,542**	**336,104**	**1,561,533**	**1,853,663**	**41,296**
A.1 Government securities	219	-	569	-	419	3,116	93,352	301,107	829,651	-
A.2 Other debt securities	4,061	15	792	310	1,202	17,442	5,695	66,619	255,003	-
A.3 UCIT units	63,837	-	-	-	-	-	-	-	-	-
A.4 Loans	566,887	6,060	35,428	130,906	218,526	134,984	237,057	1,193,807	769,009	41,296
- banks	32,775	-	11,027	24,524	-	-	10,366	-	-	41,296
- customers	534,112	6,060	24,401	106,382	218,526	134,984	226,691	1,193,807	769,009	-
On-balance sheet liabilities	**2,611,807**	**70,023**	**60,346**	**415,800**	**121,577**	**344,247**	**349,583**	**730,117**	**103**	**-**
B.1 Deposits and current accounts	2,610,937	19,685	23,590	313,719	118,013	86,117	129,845	259,748	15	-
- banks	39	-	-	-	-	-	-	-	-	-
- customers	2,610,898	19,685	23,590	313,719	118,013	86,117	129,845	259,748	15	-
B.2 Debt securities	399	338	495	375	3,255	7,757	68,983	176,304	-	-
B.3 Other liabilities	471	50,000	36,261	101,706	309	250,373	150,755	294,065	88	-
Off-balance sheet transactions	**114,359**	**268**	**30,363**	**1,501**	**1,355**	**944**	**41,370**	**5,757**	**24,300**	**-**
C.1 Financial derivatives with exchange of principal	-	268	363	601	1,350	794	-	-	-	-
- long positions	-	148	363	332	904	384	-	-	-	-
- short positions	-	120	-	269	446	410	-	-	-	-
C.2 Financial derivatives w/o exchange of principal	338	-	-	-	-	-	-	-	-	-
- long positions	338	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to grant finance	114,021	-	30,000	900	5	150	41,370	5,757	24,300	-
- long positions	5,770	-	30,000	900	5	150	41,370	5,757	24,300	-
- short positions	108,251	-	-	-	-	-	-	-	-	-
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	**10,366**	**109**	**168**	**2,069**	**1,814**	**265**	**25**	**5,899**	**-**	**-**
A.1 Government securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	3	11	473	9	25	5,899	-	-
A.3 UCIT units	2,584	-	-	-	-	-	-	-	-	-
A.4 Loans	7,782	109	165	2,058	1,341	256	-	-	-	-
- banks	6,851	1	-	1,072	-	-	-	-	-	-
- customers	931	108	165	986	1,341	256	-	-	-	-
On-balance sheet liabilities	**10,796**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	10,796	-	-	-	-	-	-	-	-	-
- banks	-	-	-	-	-	-	-	-	-	-
- customers	10,796	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**-**	**11,838**	**369**	**597**	**1,351**	**792**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	266	369	597	1,351	792	-	-	-	-
- long positions	-	119	-	267	445	409	-	-	-	-
- short positions	-	147	369	330	906	383	-	-	-	-
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	-	11,572	-	-	-	-	-	-	-	-
- long positions	-	5,786	-	-	-	-	-	-	-	-
- short positions	-	5,786	-	-	-	-	-	-	-	-
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 assumed 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 adopted the following operating processes, regulated in a specific Internal Policy that was updated in 2019:
- “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 eight 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.

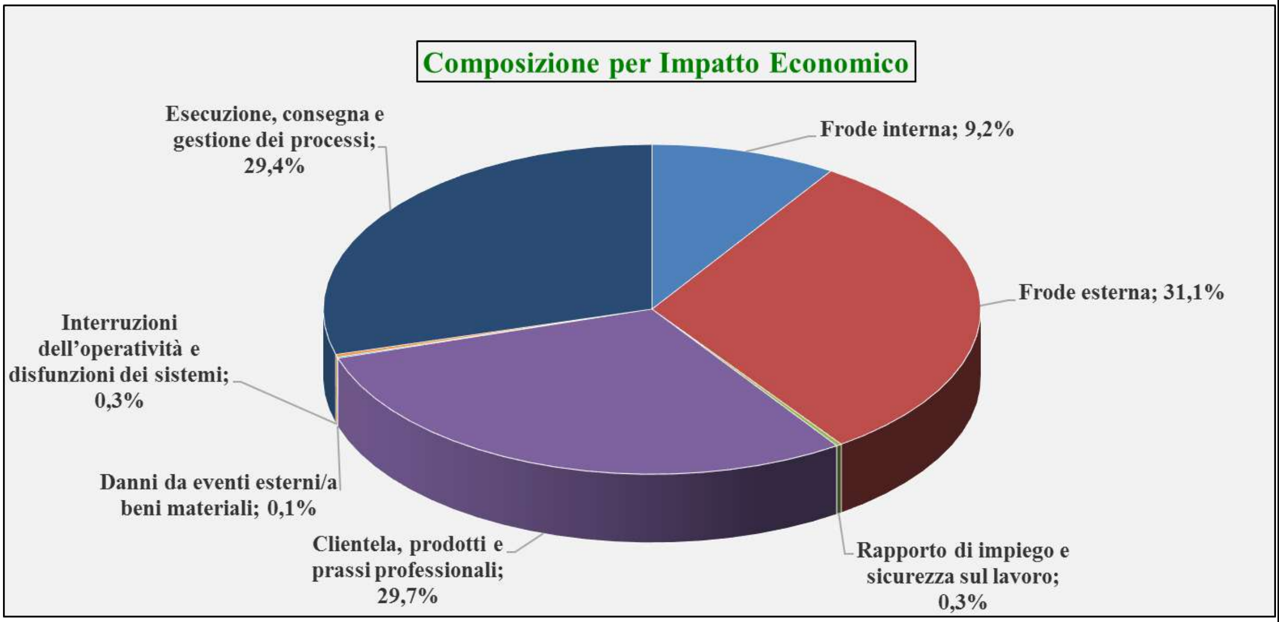
For the purpose of supplementing the operations that are already carried out afterwards with the collation of the operating losses, the Bank implemented - with the support of a leading consulting company - a self-assessment process functional for estimating on a forecast basis the Bank’s exposure to 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.

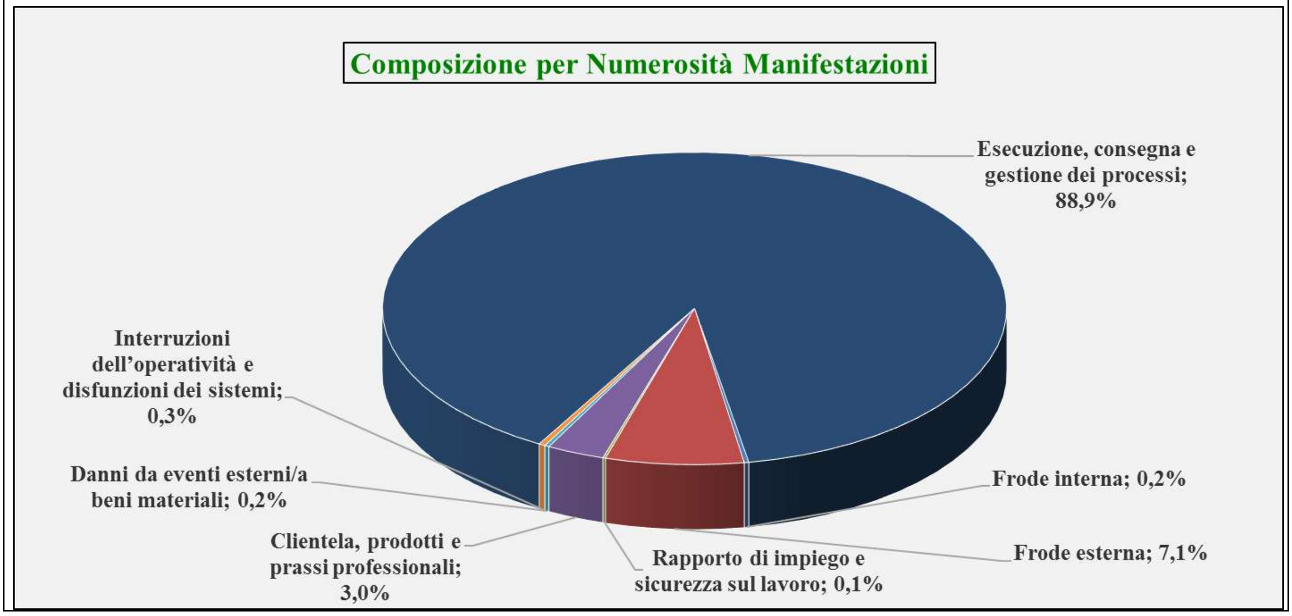
The Bank adopted, for the calculation of the capital requirement in the presence of operational risk, the Basic Indicator Approach (BIA), which envisaged that the capital covering this type of risk equates to 15% of the average of the "basic indicator" of the last three financial years, calculated pursuant to Articles 315 and 316 of the CRR Regulations.
The capital absorption for this type of risk as at 31 December 2019 came to Euro 17,001 thousand.

Quantitative information

With regard to the loss data, inserted in the Bank's Loss Data Collection archive in the years from 2012 to 2019, 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 - 2019 survey)





Legend: **Breakdown by economic impact** - Execution, consignment and management of the processes 29.4% - Operational disruptions and system malfunctions 0.3% - Damages from external events/to tangible assets; 0.1% - Customers, products and professional practices; 29.7% - Employment and safety at work; 0.3% - External fraud; 31.1% - Internal fraud; 9.2%
Breakdown by number of events - Execution, consignment and management of the processes 88.9% - Operational disruptions and system malfunctions 0.3% - Damages from external events/to tangible assets; 0.2% - Customers, products and professional practices; 3.0% - Employment and safety at work; 0.1% - External fraud; 7.1% - Internal fraud; 0.2%

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

The provisions for risks and charges are provided in relation to legal actions suffered of Euro 1,343 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 31/12/2019	Total 31/12/2018
1.	Share capital	106,550	106,550
2.	Share premium reserve	230,299	230,299
3.	Reserves	(2,510)	(12,501)
	- income-related	582	(9,409)
	a) legal	25,713	24,195
	b) statutory	28,304	20,023
	c) own shares	12,014	12,014
	d) other	(65,449)	(65,641)
	- other	(3,092)	(3,092)
4.	Capital instruments	-	-
5.	(Own shares)	(9,379)	(8,840)
6.	Valuation reserves	1,475	108
	- Equity securities designated at fair value through other comprehensive income	2,665	3,865
	- 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	(1,737)	(4,414)
	- 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	(432)	(322)
	- Share of valuation reserves relating to investee companies carried at equity	-	-
	- Special revaluation laws	979	979
7.	Profit (Loss) for the year	20,302	15,186
	Total	**346,737**	**330,802**

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 2018	Shareholders' resolution for approval of 2018 financial statements			Closing balances as at 31 December 2019
		Allocation to reserves	Assignment of own shares to supplement dividend	Reintegration and increase of Provision for purchase of own shares	
Income-related reserves:	(9,409)	9,991	-	-	582
a) legal	24,195	1,518	-	-	25,713
b) statutory	20,023	8,281	-	-	28,304
c) own shares	12,014	-	-	-	12,014
d) other	(65,641)	192	-	-	(65,449)
"Other" reserves	(3,092)	-	-	-	(3,092)
Item 140 reserves	**(12,501)**	**9,991**	-	-	**(2,510)**

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 31/12/2019		Total 31/12/2018	
		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1.	Debt securities	505	(2,242)	46	(4,460)
2.	Equity securities	3,104	(439)	4,200	(335)
3.	Loans	-	-	-	-
	Total	**3,609**	**(2,681)**	**4,246**	**(4,795)**

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**	**(4,414)**	**3,865**	**-**
2.	**Increases**	**5,060**	**-**	**-**
2.1	Fair value gains	2,051	-	-
2.2	Impairment losses for credit risk	-	-	-
2.3	Reversal to income statement of negative reserves on sales	3,009	-	-
2.4	Transfers to other shareholders' equity components (equity securities)	-	-	-
2.5	Other changes	-	-	-
3.	**Decreases**	**2,383**	**1,200**	**-**
3.1	Fair value losses	2,175	1,200	-
3.2	Reversals of impairment losses for credit risk	174	-	-
3.3	Reversal to income statement from positive	34	-	-
	reserves: on sales	-	-	-
3.4	Transfers to other shareholders' equity components (equity securities)	-	-	-
3.5	Other changes	-	-	-
4.	**Closing balances**	**(1,737)**	**2,665**	**-**

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 432 thousand as at 31 December 2019, in line with the end of 2018, when it amounted to Euro 322 thousand, decreasing by Euro 110 thousand (Euro 166 thousand without the tax effect).
The difference is reflected in the change in the financial parameters used; as described in part B of the explanatory notes, the actuary carried out the calculation on the basis of the following financial assumptions: annual discount rate of 0.77% compared to 1.57% for 2018, (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 2019, rate considered as the best expression of yields of businesses of primary standing), annual rate of inflation 1.20% compared to 1.50% and annual Post-employment benefit rate 2.40% compared to 2.625%.

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, implementing regulation 680/2014 as supplemented) and 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 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. In addition to the possibility of deferring the impact deriving from the first-time adoption of the accounting standard, the transitional arrangements provide for the possibility of mitigating any impacts that the application of the new impairment model will produce until 2022, limited to the assessment of performing loans.
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, 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 20,000,000, maturing on 29 September 2024, at a rate of 4.675%.

B. Quantitative information

	Total 31/12/2019		**Total 31/12/2018**	
	Transitional regime	**Fully loaded**	**Transitional regime**	**Fully loaded**
A. Common Equity Tier 1 capital (CET1) before the application of prudential filters	**325,714**	**325,714**	**314,356**	**314,356**
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)	**325,714**	**325,714**	**314,356**	**314,356**
D. Elements to be deducted from CET1	**(10,172)**	**(10,172)**	**(10,396)**	**(10,396)**
E. Transitional regime - Impact on CET1 (+/-)	**51,973**	**-**	**58,087**	**-**
F. Total Common Equity Tier 1 capital (CET1) (C-D+/-E)	**367,515**	**315,542**	**362,047**	**303,960**
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	**34,394**	**34,394**	**25,403**	**25,403**
of which instruments of T2 subject to transitional provisions	-	-	-	-
N. Elements to be deducted from T2	**(234)**	**(234)**	**(444)**	**(444)**
O. Transitional regime - Impact on T2 (+/-)	**-**	**-**	**-**	**-**
P. Total Tier 2 capital (Tier 2 - 2) (M-N+/-O)	**34,160**	**34,160**	**24,959**	**24,959**
Q. Total own funds (F+L+P)	**401,675**	**349,702**	**387,006**	**328,919**

Row "E. Transitional regime - Impact on CET1" includes the filter relating to the components deriving from the adoption of IFRS 9, according to the option adopted by the Bank; in the absence of

this option, envisaged by Article 473 bis of the CRR, Own funds would be Euro 51.97 million lower and would amount to Euro 349.7 million, instead of Euro 401.7 million.
As at 31 December 2018, total Own funds amounted to Euro 387 million and CET1 to Euro 362 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 31/12/2019		Weighted amounts/requirements 31/12/2019	
	Transitional requirements	Fully loaded	Transitional requirements	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%

Categories/Values	**Unweighted amounts 31/12/2018**		**Weighted amounts/requirements 31/12/2018**	
	Transitional requirements	**Fully loaded**	**Transitional requirements**	**Fully loaded**
A. RISK ASSETS	**5,428,167**	**5,370,321**	**2,248,592**	**2,183,964**
A.1 CREDIT AND COUNTERPARTY RISK	**5,428,167**	**5,370,321**	**2,248,592**	**2,183,964**
1. Standardised approach	5,229,176	5,171,336	2,179,509	2,114,886
2. Internal rating method	-	-	-	-
2.1 Base	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	198,991	198,985	69,083	69,078
B. REGULATORY CAPITAL REQUIREMENTS			**-**	**-**
B.1 CREDIT RISK AND COUNTERPARTY RISK			**179,887**	**174,716**
B.2 CREDIT RATING ADJUSTMENT RISK			**1**	**1**
B.3 SETTLEMENT RISK			**-**	**-**
B.4 MARKET RISK			**1,256**	**1,256**
1. Standardised approach			1,256	1,256
2. Internal models			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			**15,585**	**15,585**
1. Basic indicator approach			15,585	15,585
2. Standardised approach			-	-
3. Advanced approach			-	-
B.6 OTHER CALCULATION ELEMENTS			**-**	**-**
B.7 TOTAL PRUDENTIAL REQUIREMENTS			**196,729**	**191,558**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			2,459,109	2,394,480
C.2 Common equity tier 1 capital/Risk-weighted assets (CET1 capital ratio)			14.72%	12.69%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio)			14.72%	12.69%
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			15.73%	13.74%

As at 31 December, the Bank presented a ratio of Tier 1 capital to risk-weighted assets (CET 1 Capital Ratio) of 14.43% (14.72% as at 31 December 2018), whereas the ratio of Own Funds to risk-weighted assets (Total Capital Ratio) was 15.77% (15.73% as at 31 December 2018).

If the Bank had not adopted the transitional regime granted by Article 473 bis of the CRR, the solvency ratios would have been 12.69% for CET1 and 14.06% for the Total capital ratio.

At the end of the prudent review procedure for the year 2018, in a letter dated 8 May 2019 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 8.00%, inclusive of 2.5% required by way of capital conservation reserve and 1.00% required in addition to the minimum regulatory requirement;
- Tier 1 Ratio equal to 9.85%, inclusive of the 2.5% by way of capital conservation reserve and 1.35% from the outcome of the SREP process;
- Total Capital Ratio equal to 12.35%, inclusive of the 2.5% by way of capital conservation reserve and 1.85% further to the SREP process;

The ratios measured as at 31 December 2019 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	31/12/2019	31/12/2018
Directors	600	600
Statutory Auditors	202	202
Key executives	1,097	925

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	31/12/2019	31/12/2018
On-balance sheet loans and receivables	43,866	38,018
Endorsement loans	968	2,492

The ratio of on-balance sheet loans and receivables with related parties to total loans and receivables in the financial statements is 1.40% compared to 1.24% 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	
	31/12/2019	31/12/2018
Balance sheet amounts: assets	**2,754**	**4,843**
Loans and receivables with customers	2,754	4,843
Balance sheet amounts: liabilities	**81**	**160**
Income statement figures	**68**	**86**
Interest income	48	66
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 2019 for services provided by the Independent Auditing Firm.

Type of services	Subject who supplied the service	Recipient	Fees due in 2019 (in Euro 000)
Audit	BDO Italia S.p.A.	Banca Valsabbina S.C.p.A.	34 (1)
Certification services	BDO Italia S.p.A.	Banca Valsabbina S.C.p.A.	17 (2)
Total			

(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 year 2019 is the first year of application of IFRS 16 to lease contracts; at the date of first-time adoption, the Bank chose to use the "modified retrospective" approach, according to which the impact of the FTA on accounting shareholders' equity as at 1 January 2019 was zero.

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; the rate published as at 30 September 2018 was used for contracts existing on the FTA date.

At IFRS 16 level, as at 31 December 2019, 47 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	**31/12/2019**
Rights of use - gross value	7,424
Accumulated depreciation	(1,688)
Rights of use - net value	**5,736**
- due within one month	211
- due beyond 1 month and within the year	1,280
- due beyond one year and within two years	1,397
- due after two years	2,756
Total lease payables	**5,644**
Depreciation of rights of use	**1,689**
Finance costs on liabilities IFRS 16	**208**

Section 2 - Lessor

The bank does not lease assets and as at 31 December 2019 there were no rentals receivable to be dealt with under IFRS 16.

Valsabbina Real Estate srl – Financial statements as at 31 December 2019

BALANCE SHEET	**31/12/2019**		**31/12/2018**	
Assets				
B) Intangible fixed assets				
I – Intangible fixed assets		-		-
Total Fixed assets (B)		-		-
C) Current assets				
I – Inventories		2,868,873		4,798,282
Property	2,868,873		4,798,282	
II – Loans and Receivables		162,662		354,840
within the next financial year	80,699		161,721	
beyond the next financial year	81,963		193,119	
Total Current assets (C)		3,031,535		5,153,122
D) Accruals and deferrals		-		-
Total assets		**3,031,535**		**5,153,122**
Liabilities and shareholders' equity				
A) Shareholders' equity		187,476		242,342
I - Capital		100,000		100,000
IV - Legal reserve		2,826		2,826
VI – Payments to cover losses		619,516		481,831
VIII – Retained earnings (losses)		-		-
IX – Profit (Loss) for the year		(534,866)		(342,315)
D) Payables		2,840,356		4,910,280
within the next financial year	86,221		67,488	
beyond the next financial year	2,754,135		4,842,792	
E) Accrued expenses and deferred income		3,703		500
Total liabilities and shareholders' equity		**3,031,535**		**5,153,122**

INCOME STATEMENT		31/12/2019		31/12/2018
A) Value of production		1,671,173		952,318
1) revenues from sales	1,626,000		941,000	
2) rents receivable	-		-	
3) others	45,173		11,318	
B) Cost of production		(2,239,082)		(1,299,465)
6) for raw materials, consumables and goods for resale	(101,197)		(448,939)	
7) for services	(148,686)		(135,492)	
8) for use of third party assets	(3,441)		(3,022)	
10) amortisation, depreciation and write-downs	-		-	
11) changes in inventories of goods	(1,929,409)		(650,908)	
14) other operating costs	(56,349)		(61,104)	
Difference between value and cost of production (A-B)		(567,909)		(347,147)
C) Finance income and costs		(47,656)		(66,572)
17) interests and other finance costs	(47,656)		(66,572)	
others	(7)		-	
interest expense to parent company	(47,649)		(66,572)	
Profit/loss before taxes (A-B+-C+-)		(615,565)		(413,719)
20) Current and deferred income taxes for the year		80,699		71,404
21) Profit (Loss) for the year		**(534,866)**		**(342,315)**

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 47 branches, as well as in the province of Verona (8 branches), Trento (2 branches), Monza - Brianza (2 branches), Vicenza, Treviso, Bergamo, Mantua, Milan, 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 2019 income statement) Euro 125,683,643

C) Number of employees on a full-time equivalent basis: 579
"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 2019 income statement) Euro 25,724,669

E) Taxes on profit or loss (item 270 of the 2019 income statement) Euro -5,422,175

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.