2019 ANNUAL REPORT
66TH FINANCIAL YEAR

ANNUAL REPORT AND ACCOUNTS AS AT 31 DECEMBER 2019

MEDIOCREDITO TRENTINO - ALTO ADIGE - S.P.A.

Fully paid-up capital € 58,484,608
Fiscal code and Trento Register of companies no. 00108470220
Bank Register no. 4764
Parent company of Gruppo Bancario Mediocredito Trentino – Alto Adige
Registered with the Banking Group Register

www.mediocredito.it
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REGISTERED OFFICE AND HEADQUARTERS

38122 Trento, Via Paradisi 1
Tel. 0461/888511

SECONDARY HEADQUARTERS

39100 Bolzano, Via Alto Adige 60
Tel. 0471/305111

BRANCHES

Treviso
Piazza delle Istituzioni 27 - 31100 Treviso
Tel. 0422/216411

Bologna
Via del Lavoro 53 – 40033 Casalecchio di Reno
Tel. 051/3390711

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Via G. Gozzi 24 - 35131 Padua
Tel. 049/8236011

Brescia
Piazza Mons. Almici 23 - 25124 Brescia
Tel. 030/2284211

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KEY RATIOS[1]

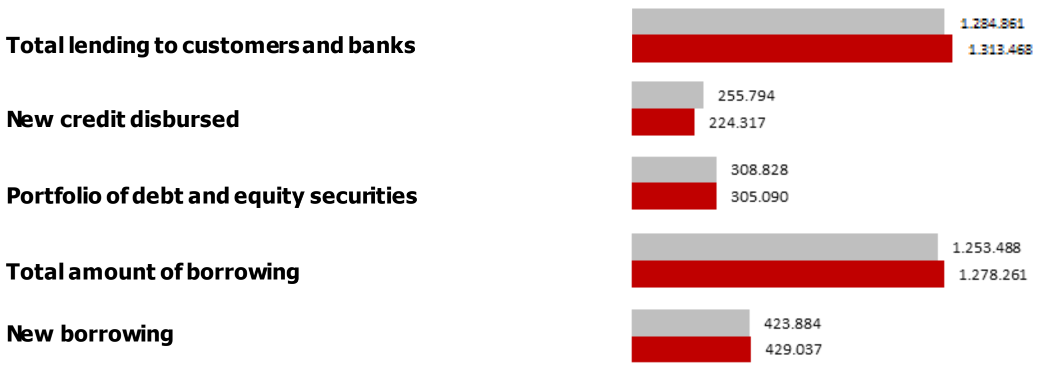
(Amounts are in thousands of Euros)

Rating

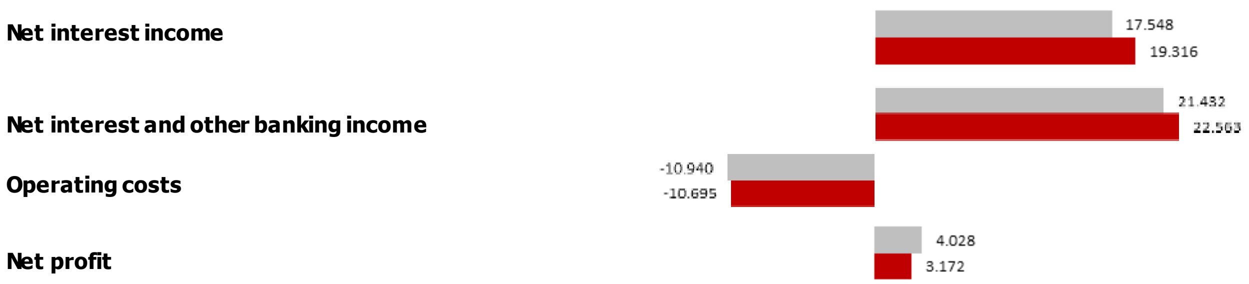
MOODY'S INVESTOR SERVICE	2019	2018
- Issuer Rating	Ba1	Ba1
- Bank Deposits	Baa3 / P-3	Baa3 / P-3
- Outlook	Stable	Stable

2019
2018

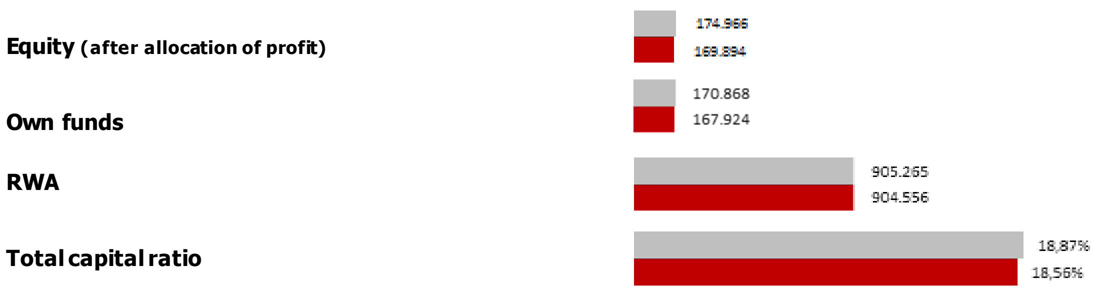
Data sheet and flow data



Financial data



Capital and capital ratios



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1 All the ratios in the table are explained clearly in appendix 2 "Glossary of ratios".

Risk ratios

Gross doubtful loans to gross loans to customers	7,20%	8,20%
Net doubtful loans to net loans to customers	3,40%	3,80%
Gross doubtful loans to own funds	48,00%	56,40%
Net doubtful loans to own funds	21,20%	24,70%
Gross impaired loans to gross loans to customers	9,90%	11,80%
Net impaired loans to net loans to customers	5,30%	6,50%
Gross impaired loans to own funds	66,30%	81,50%
Net impaired loans to own funds	33,80%	42,10%
Texas ratio	53,4%	62,0%

Other ratios

Average number of employees (part-time weighted)	76,7	78,3
Cost to income ratio	51,00%	47,40%

SHAREHOLDERS

Public entities	
17.489%	AUTONOMOUS REGION OF TRENTINO SOUTH TYROL
17.489%	AUTONOMOUS PROVINCE OF TRENTO
17.489%	AUTONOMOUS PROVINCE OF BOLZANO
52.466%	

Co-operative banks	
35.207%	CASSE RURALI - RAIFFEISEN FINANZIARIA also referred to as CRR-
0.213%	BCC DI ROMA
0.192%	BCC DI VENEZIA, PADOVA E ROVIGO - BANCA ANNIA
0.231%	CENTROMARCA BANCA-CREDITO COOPERATIVO DI TREVISO E VENEZIA
0.178%	BANCA PER LO SVILUPPO DELLA COOPERAZIONE DI CREDITO
0.107%	BANCA ALTO VICENTINO CREDITO COOPERATIVO DI SCHIO, PEDEMONTE E ROANA
0.078%	ROVIGOBANCA CREDITO COOPERATIVO SOC.COOP.
0.071%	BANCA DELLA MARCA CREDITO COOPERATIVO
0.064%	CASSA PADANA BCC – SOCIETÀ COOPERATIVA
0.043%	BANCA VERONESE CREDITO COOPERATIVO DI CONCAMARISE
0.043%	BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO
0.043%	CASSA RURALE ED ARTIGIANA DI VESTENANOVA
0.043%	FEDERAZIONE TRENTINA DELLA COOPERAZIONE
0.043%	FEDERAZIONE VENETA BANCHE DI CREDITO COOP.
0.001%	CASSA CENTRALE BANCA CREDITO COOPERATIVO ITALIANO
0.001%	CASSA CENTRALE RAIFFEISEN DELL'ALTO ADIGE SPA
36.556%	

Other	
7.802%	CASSA DI RISPARMIO DI BOLZANO SPA
2.895%	BANCA POPOLARE DELL'ALTO ADIGE SPA
0.196%	ITAS
0.085%	VENETO BANCA S.p.A. IN L.C.A.
10.978%	

STATUTORY BOARDS

BOARD OF DIRECTORS

CHAIRMAN
Franco Senesi

DEPUTY CHAIRMAN
Michael Grüner

DIRECTORS

Hansjörg Bergmeister
Andrea Bologna
Giovanni Dies
Zenone Giacomuzzi
Lorenzo Liviero
Giorgio Marchiodi
Stefano Mengoni
Cristina Odorizzi
Katrin Teutsch

BOARD OF STATUTORY AUDITORS

CHAIRMAN
Astrid Marinelli

STANDING AUDITORS
Renato Beltrami
Patrick Bergmeister

ALTERNATE AUDITORS

Antonio Maffei
Klaus Steckholzer

ADMINISTRATION

GENERAL MANAGER
Diego Pelizzari

OTHER POSITIONS

MANAGER RESPONSIBLE FOR PREPARING THE COMPANY'S FINANCIAL REPORTS
Leo Nicolussi Paolaz

AUDITING COMPANY
KPMG S.p.A.

SHAREHOLDERS' ORDINARY GENERAL MEETING

The Shareholders are requested to attend the Ordinary General Meeting on the 21 April 2020 at 8.00 am for the first meeting date and if necessary on the 22 April 2020 as a second option at 11.00 am at the Company Headquarters in Trento – via Paradisi 1, to deliberate upon the following:

Agenda

1. Annual Report as at 31 December 2019; report on operations by the Board of Directors and Independent Auditors report; report by the Board of Statutory Auditors; related and following resolutions.
2. Internal policies regarding controls on risk activities and conflicts of interest with regard to related parties.
3. Compliance with "Remuneration policies".

Pursuant to Article 9 of the Company By-laws, Shareholders have the right to attend the General Meetings and have the right to vote if, at least five days prior to the date on which the meeting is held, they lodged shares with the Company or affiliated Banks or, with reference to Public Entities, with their respective Treasurers. Holders of shares on which an uninterrupted series of endorsements appear also have the right to attend the General Meetings provided they lodged shares as specified above. The Shareholders' Meeting may be held also in different places, either near or far, through audio/video link-ups.

The Chairman
Franco Senesi

REPORT ON OPERATIONS

GENERAL ECONOMIC OVERVIEW

Italian and international economic situation[2]

Global growth remained moderate. International trade expanded again in the third quarter but estimates are still downwards: tariff disputes between the US and China have eased, but prospects remain uncertain and geopolitical tensions are on the rise. In the financial markets, the less pessimistic growth expectations - favoured by the accommodative stance of central banks - supported share prices and favoured some recovery in long-term yields.
In the Eurozone, the industrial sector continued to be weak: activity decreased again in the summer months with a particularly marked decline in Germany. On the other hand, value added in the services sector grew both in the Eurozone and in the three largest economies. There is still a risk that, if the weakness of the industrial sector continues over time, it will be transmitted more strongly to service activity.
With regard to Italy, according to the latest available estimates, GDP for the last quarter of 2019 was substantially unchanged, mainly due to the weakness of the manufacturing sector. Based on these assessments, GDP growth for the whole year can be estimated at around 0.2%. The trend data for 2019, released by ISTAT on the economic activity of enterprises, shows an improvement in the trade balance compared to 2018, with an increase in exports of 3.8%. Trade in operating assets grew mainly in the last quarter (+7.2%). Nevertheless, industrial production showed a negative trend with a decrease of 1.3%, the first since 2014. In December 2019, there were marked decreases for intermediate goods (-6.6%), energy (-6.0%) and operating assets (-4.7%). The only sectors of economic activity showing upward trends were computer manufacturing, electronics and optical products (+5.3%), food, beverage and tobacco (+2.9%) and other industries (+1.1%). Among the remaining sectors, the largest declines were in mining (-10.4%), the manufacture of coke and refined petroleum products (-9.3%) and the manufacture of machinery and equipment (-7.7%). In the ISTAT and Bank of Italy investigations, companies expressed slightly more favourable assessments of foreign orders and demand but continued to consider uncertainty and commercial tensions as factors that hinder their activity. For 2020, companies plan to expand their investments, albeit more modestly than the previous year.

Economic situation in the areas of interest for the Bank[3]

In the Regions where the Bank operates, with a special reference to manufacturing companies, the overall situation is a little more positive than in Italy, albeit a certain cooling of growth is confirmed.
After three years of development, economic activity in the province of Trento slowed down in 2019, although it remained in a positive area, due to the downsizing of foreign demand and business investment. The economy of the province of Bolzano also slowed down in relation to the recent difficulties of the German economy. The Trentino industrial sector suffered from a deceleration in sales on both domestic and foreign markets; South Tyrolean industrial enterprises also recorded lower growth in turnover, which was partly offset by a slight recovery in exports. The strengthening of the construction sector in Trentino continued; in South Tyrol, a five-year period of marked expansion was followed by a more moderate growth phase. In both provinces, the tertiary sector expanded again, albeit at a slightly slower pace than last year; the good trend of household consumption and the substantial stability of tourist presences contributed to this. The income situation of companies still improved slightly and were characterised by high liquidity.
In Lombardy, in the manufacturing sector, production and orders remained substantially unchanged in 2019 (estimated at +0.2%). Domestic demand remained negative while orders from abroad continued to be positive. The results of the Bank of Italy's[4] survey indicate a worsening of turnover trend, accompanied by a reduction in investment spending. Business profitability remained high and led to an increase in cash and cash equivalents and the containment of demand for loans, while the supply policies of the banks remained substantially unchanged. The process of diversification of financial sources was confirmed and medium-large companies increased their recourse to the bond market.

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2 Economic Bulletin of Bank of Italy 1 2020
3 Economic reports of the regional Chambers of Commerce and Reports on the Regional Economies of the Bank of Italy.
4 Regional Economies - Bank of Italy.

In Veneto, levels of activity in the manufacturing sector continued to expand at half the pace of 2018, suffering from the weakness of world trade. The Bank of Italy's survey envisages a stagnation in orders between the end of the year and the first months of 2020 and also indicates that the expansion phase of investments, in place since 2014, would have been interrupted. Production growth was above average in non-metallic minerals, food and beverages, wood and furniture and electrical and electronic machinery. Less so in the means of transport, in the "fashion system" and in rubber and plastic.
In Emilia Romagna, the trend in regional industrial production in the first nine months of 2019 was down with a fine distinction. Growth was still going well for the food industry, the wood and furniture industry just took a slight step backwards. There was a slight decline in the mechanical, electrical and transport vehicle industries and in metallurgy, whereas there was a strong drop in the fashion industries. On the other hand, export was fine: Emilia-Romagna remains the second largest region in terms of national exports (13.9%), preceded only by Lombardy (26.8%), with growth over the year of +4.7%.

Trends in credit, mini-bonds and AIM Italia

With regard to the indebtedness of SMEs, the analysis of the Cerved[5] report shows that the debt/equity ratio of SMEs further decreased, from 64.4% to 63.2%, thanks to the strong improvement in capitalisation and reinvested profits.
The Bank of Italy's most recent statistics on financial accounts, referring to the third quarter of 2019, show a decrease in loans to non-financial corporations related to the effects of weak cyclical conditions on demand for credit. In particular, in the last months of the year, the stock of loans decreased again in manufacturing and services. If we look at the medium-term trend, the stock of loans from banks to financial corporations in 2007 before the financial crisis was €802bn; ten years later, in 2017, it amounted to €727bn and by the third quarter of 2019 it had fallen further to €648bn.
With regard to the minibond market[6], in 2019, there were 183 issuers of bonds of up to €50m denomination throughout Italy, of which 129 entered the market for the first time, a historical record. Cumulative borrowing reached €5.5bn, of which almost €2bn went to small and medium-sized enterprises. The issuers were 69.4% SpA, 28.4% Srl and 2.2% cooperative companies. With regard to the business sector, the clear supremacy of the manufacturing sector is confirmed (44.3%). The geographical location shows as always a clear predominance of the northern regions; Lombardy remains dominant but Veneto and Trentino-South Tyrol also grow. The average value of the issues is €4.68m. With regard to maturity, the average value is 5.0 years (stable compared to 2018). 57.7% of the securities are to be repaid in successive instalments (amortizing). In 2019, remuneration fell again (the average is 4.42% compared to 5.07% the year before) also thanks to several issues guaranteed by Confidi or public entities. With regard to investors who subscribed to minibonds, in 2019 the important role of closed-end private debt funds (with investments accounting for 32% of the total compared to the covered sample) and national banks (26%) was enhanced.
2019 was a very positive year for the AIM Italia market[7]. According to the data processed by the AIM Observatory of IR Top Consulting, the year just passed recorded the highest number of placements: in 2019, in fact, AIM Italy became the first European financial hub for the number of new companies listed in OTC markets, with a record of 35 listings, followed by Sweden and France.
The raising of capital amounted to €207m, with an average denomination in AIM transactions of €6m of capital raising. According to the figures as at 31 December 2019, the AIM market had 132 companies, with a turnover of €5.2bn as at 2018, a capitalisation of €6.6bn and a raising of capital in IPOs of about €3.9bn.
In the market, the most important sectors (by number of companies) were industrial (17%), technological (17%) and financial (16%). Geographically, the companies were located in Lombardy (41%), Emilia-Romagna (14%), Lazio (11%) and Veneto (8%).

5 2019 Cerved SME Report, Cerved.
6 6th Italian Report on minibonds – Mini-Bond Observatory Politecnico of Milan – Feb 2020.
7 2019 AIM Italia Observatory – IR TOP Consulting – Jan 2020.

THE BANK IN 2019

During 2019, the activities of Mediocredito were carried out as part of the planned guidelines, substantially achieving the set objectives.
In particular, despite the context characterised by limited economic growth and thanks above all to direct commercial capacity and the development of collaboration with other intermediaries, the trends of new concessions and disbursements were satisfactory and in line with expectations.
The credit granted was 10% higher than last year's volumes, exceeding €288m, spread over 283 customers, with an average amount of credit facilities of just over €1m. Therefore, the traditional policy of risk spreading remains confirmed.
On the other hand, the flow of new disbursements came close to approximately €256m (+14%), making it possible to consolidate the volume of the portfolio of core performing loans over €1bn, up 1% compared to 2018, despite early repayment of approximately €23m.
In the same direction, with reference to the risk of loans, the performance of the portfolio of impaired loans continued to show a virtuous downward trend over the last three years The NPLs were further reduced, reaching 9.9% in gross terms and 5.3% in net terms, with the objective, under stable economic conditions, of bringing the net impaired portfolio to levels comparable to the current average of the European banking system over the next three years.
The process of containing NPLs was supported, in particular, by the sharp slowdown in the net flow of new impaired loans from performing loans that, for the current year, amounted to approximately €4m, bringing the total flow figure for the last three years to €18.6m, compared with €53.1min the previous three years. It is confirmed that the constant and significant reabsorption of the NPL ratio is mostly the result of internal management activity with consequent containment of transfers of value and capital losses that major bulk sales of NPL portfolios on the market would have inevitably caused with damage to all stakeholders.
The reduction in impaired loans certainly benefited from the improvement in the economic cycle over the last two years, but above all from the investments the bank made over the years in new credit selection and assessment models, in the focus of its activities on corporate customers and in the continuous and specialised training of its analysts.
The level of coverage of the impaired portfolio, which had been a weakness in previous years further improved, going from 48% to 49% (it was 34% in 2016).
The coverage ratios of the individual categories of NPLs were therefore in line with the national system averages, thanks to the attention that Mediocredito has always paid to maintaining a high level of fragmentation of its portfolio, which is still well guaranteed on average.
As regards liabilities, the Bank managed the covering of the financial needs through Interbank borrowing of €161m – mostly granted by the system of Co-operative Credit Banks – with withdrawals from Cassa Depositi e Prestiti and BEI of €16m as well as with greater significance than in the past with important deposits of corporate and retail customers totalling €111m.
Moreover, in order to strengthen the average duration of liabilities, the first withdrawals were made on a new EIB line for €10m and, after the return to the international bond market, EMTN loans were placed for €100m and domestic loans for a further €24m.
In order to cover liquidity risk, which represents a significant component of current risks, the Bank has also adequate reserves of securities and volumes of credit assets eligible as collateral, which make it possible in the short term to contain liquidity risk.
From an economic point of view, net interest income decreased (-9.2%) due to the drop in average interest-bearing asset balances and the increase in the cost of funding, expressing a money management spread of 1.22% compared to 1.33% in 2018. Despite the persistent maintenance of very low interest rate benchmarks and the competitive pressure on the spreads applied to the best customer counterparties, the yield on assets remained substantially in line with last year.
Net interest and other banking income decreased more modestly (-5%), benefiting from higher revenues from the management of the securities portfolio compared with the previous year and a positive trend in revenues from services.
Due to the factors described above and in the presence of a relative increase in operating costs, gross operating income is close to €10.5m (-11.6% compared to 2018). However, the improvement in the size and risk of impaired loans, which translated into lower loan adjustments in the income statement, resulted in a net profit slightly higher than €4m (+27% on 2018).
The efficiency indicator - *cost to income* - fell by a few percentage points to 51.0% compared to 47.4% in 2018.

In terms of equity, the level of solidity was strengthened again and maintained at 18.87% for the Tier 1 and Total Capital Ratio indicators and the Texas Ratio improved further, from 62.0% to 53.4%.

In short, in 2019 the Bank consolidated the economic and financial trends planned in previous years, in line with the budget for the current year, and built a solid starting point for the new 2020-2022 business plan with the intention of gradually strengthening its market positioning, both in terms of operating volumes and products and in terms of financial results combined with an important role in the responsible support of deserving investment projects in the area and in meeting the economic, social and environmental expectations of shareholders and other stakeholders.

BUSINESS REVIEW

LENDING OPERATIONS

Outline of lending operations (thousands of Euros)

Surveyed activities		2019	2018	% Chg.
Credit granted	number	283	293	-3.4
	amount	288,125	261,460	+10.2
Credit disbursed	amount	255,794	224,317	+14.0
		31 Dec 2019	**31 Dec 2018**	**% Chg.**
Total lending		1,102,851	1,125,234	-2.0
- loans and advances to banks		21,807	40,960	-46.7
- loans and advances to customers		1,081,044	1,084,274[8]	-0.3
	impaired	*57,771*	*70,777*	*-18.4*
	performing	*1,023,273*	*1,013,497*	*+1.0*

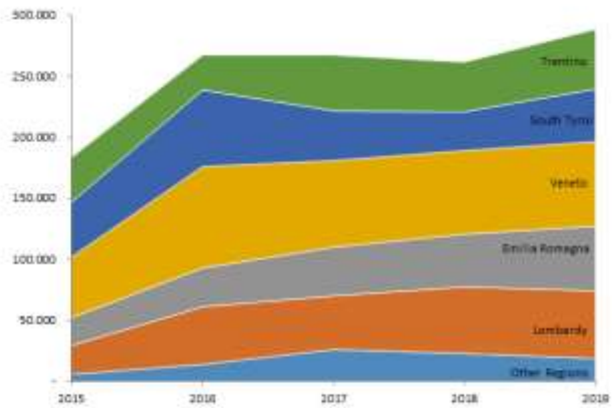
Credit granted

The credit granted in 2019 amounted to €288.1m, up by 10% compared to 2018. In terms of numbers, there was a decrease of 3.4%, bringing the average amount approved from €0.9m to €1.1m.
Most of the credit granted is concentrated in Trentino-South Tyrol (31.7%), an area that also recorded the largest increase compared to 2018 (+€19m; +26.3%); followed by Veneto with 24%, Lombardy (19.1%), Emilia Romagna (18.6%) and, finally, the Other Regions with a residual 6.6%.
The aforementioned growth in the region is mainly supported by the South Tyrolean area, which increased by €11m (+35.9%) while Trentino contributed €7.8m (+18.9%); in Emilia Romagna growth was €10.3m (+23.8%) while Veneto and Lombardy confirm the 2018 figures (+€1.1m and -€0.4m, respectively).

Breakdown of credit granted by area (thousands of Euros)

	2019	%	2018	%	Chg.	Chg. %
Trentino	48,807	16.9	41,036	15.7	+7,771	+18.9
South Tyrol	42,655	14.8	31,395	12.0	+11,260	+35.9
Veneto	69,245	24.0	68,128	26.0	+1,117	+1.6
Emilia Romagna	53,530	18.6	43,237	16.5	+10,293	+23.8
Lombardy	54,908	19.1	55,261	21.1	-353	-0.6
Other Regions	18,980	6.6	22,403	8.6	-3,423	-15.3
Total	**288,125**	**100.0**	**261,460**	**100.0**	**+26,665**	**+10.2**

Trend in credit granted by area 2015-2019



With regard to loans granted to non-financial corporations (up by €40.4m; +17.4%), the positive performance of the energy sector (+€15.1m; +81.7%), the hotel industry (€12.4m; +96%) and market services (+€11.2m; +45.5%) and the confirmation of manufacturing industry levels (+€4m; +3.7%) are particularly noteworthy.

8 The data includes €11.4m of receivables for cash reserves relating to self-securitisations that did not pass the SPPI test and that, therefore, are shown under item 20.c of the financial statement assets.

There was also a significant decline in loans to public entities due mainly to the gradual reduction of loans to local authorities in the Province of Bolzano through the banking channel (-€11m; -47%), partly offset by loans to public entities outside the region as part of the development of the Public-Private Partnership. The exposures and trends towards the financial sector are less significant.

Breakdown of credit granted by counterparty and economic sector (thousands of Euros)

	2019	%	2018	%	Chg.	Chg. %
Non-financial corporations	**272,045**	**94.4**	**231,680**	**88.6**	**+40,365**	**+17.4**
Manufacturing	110,881	38.5	106,933	40.9	+3,948	+3.7
Market services	35,874	12.5	24,656	9.4	+11,218	+45.5
Energy	33,655	11.7	18,520	7.1	+15,135	+81.7
Transport services	25,345	8.8	18,406	7.0	+6,940	+37.7
Hospitality	25,280	8.8	12,900	4.9	+12,380	+96.0
Other services	21,185	7.4	25,234	9.7	-4,049	-16.0
Real Estate	12,095	4.2	18,316	7.0	-6,222	-34.0
Building industry	4,880	1.7	5,555	2.1	-675	-12.2
Agriculture	2,850	1.0	1,160	0.4	+1,690	+145.7
Government Agencies, families and others	**12,280**	**4.3**	**23,280**	**8.9**	**-11,001**	**-47.3**
Financial corporations and banks	**3,800**	**1.3**	**6,500**	**2.5**	**-2,700**	**-41.5**
Total	**288,125**	**100.0**	**261,460**	**100.0**	**+26,665**	**+10.2**

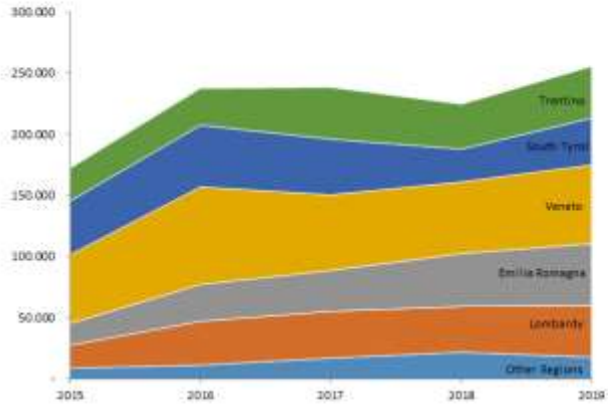
Credit disbursed

The trend in disbursements is similar to that in loans, with an increase in disbursement volumes (+€31.5m; +14%) particularly evident in South Tyrol (+€11.7m; +44%) and in Trentino (+€6.1m; +16.7%); there were also increases in the remaining areas where the Bank is present with its territorial units while disbursements in other regions decreased (-€3.5m; -16.6%).

Breakdown of credit disbursed by area (thousands of Euros)

	2019	%	2018	%	Chg.	Chg. %
Trentino	42,545	16.6	36,460	16.3	+6,085	+16.7
South Tyrol	38,246	15.0	26,564	11.8	+11,681	+44.0
Veneto	64,477	25.2	59,214	26.4	+5,263	+8.9
Emilia Romagna	50,902	19.9	42,687	19.0	+8,216	+19.2
Lombardy	41,918	16.4	38,169	17.0	+3,750	+9.8
Other Regions	17,706	6.9	21,223	9.5	-3,517	-16.6
Total	**255,794**	**100.0**	**224,317**	**100.0**	**+31,477**	**+14.0**

Trend in credit disbursed by area 2015-2019



With regard to the distribution of disbursements by counterparty and economic sector compared to that for loans, the significant increase in the energy sector (+€11.5m; +72.7%) and hotel industry (+€11.9m; +102.4%) was confirmed, while the increase in the manufacturing industry was more substantial (+€6.5m; +6.5%).

Breakdown of credit disbursed by counterparty and economic sector (thousands of Euros)

	2019	%	2018	%	Chg.	Chg. %
Non-financial corporations	**245,969**	**96.2**	**210,538**	**93.9**	**+35,431**	**+16.8**
Manufacturing	105,653	41.3	99,161	44.2	+6,492	+6.5
Energy	27,350	10.7	15,836	7.1	+11,513	+72.7
Market services	26,363	10.3	22,708	10.1	+3,655	+16.1
Hospitality	23,526	9.2	11,621	5.2	+11,905	+102.4
Other services	23,245	9.1	24,556	10.9	-1,310	-5.3
Transport services	20,373	8.0	15,184	6.8	+5,189	+34.2
Real Estate	10,856	4.2	14,347	6.4	-3,491	-24.3
Building industry	5,620	2.2	4,897	2.2	+723	+14.8
Agriculture	2,983	1.2	2,228	1.0	+755	+33.9
Government Agencies, families and others	**5,021**	**2.0**	**7,593**	**3.4**	**-2,572**	**-33.9**
Financial corporations and banks	**4,804**	**1.9**	**6,186**	**2.8**	**-1,382**	**-22.3**
Total	**255,794**	**100.0**	**224,317**	**44.2**	**+31,477**	**+14.0**

Operations in synergy with the co-operative credit system recorded an increase: when considering, in addition to direct presentations, participations in syndicated loans linked to the co-operative system or in which it is involved, the percentage of disbursements was 20.9% of the total compared to 16.0% of 2018.

Minibonds

In 2019, there was also an increase in the subscription of minibonds issued by companies (+€6.3m; +156.3%), which involved 9 bonds (3 in 2018); for 7 of these, in particular, the Bank also acted as arranger and advisor, subscribing the entire amount issued.
Operating in this sector has enabled the Bank to be counted among the top five Italian intermediaries active on this market.

Performing loans[9]

Typical performing loans to customers grew slightly compared to 2018 (+0.5%), close to €1bn: the trend summarises the increases recorded in Emilia Romagna and Lombardy and the decreases recorded in Trentino-South Tyrol and Veneto. All-in-all, it should be noted that 44% of the performing loans portfolio was still allocated to investments in Trentino-South Tyrol; this percentage would be 47% considering the allocation of loans in favour of companies based in the Region.

Breakdown of typical gross performing loans and advances by area (thousands of Euros)

	31 Dec 2019	%	31 Dec 2018	%	Chg.	Chg. %
Trentino	220,366	22.1	227,707	23.0	-7,340	-3.2
South Tyrol	216,955	21.8	224,761	22.7	-7,806	-3.5
Veneto	228,299	22.9	231,462	23.4	-3,163	-1.4
Emilia Romagna	120,598	12.1	110,029	11.1	+10,569	+9.6
Lombardy	135,212	13.6	123,443	12.5	+11,769	+9.5
Other Regions	74,335	7.5	73,555	7.4	+780	+1.1
Total typical loans and advances	**995,765**	**100.0**	**990,957**	**100.0**	**+4,809**	**+0.5**
current accounts and bank deposits [10]	*54,350*		*69,405*		*-15,055*	*-21.7*
Total performing loans and advances	***1,050,115***		***1,060,362***		***-10,247***	***-1.0***

9 Loans and advances are shown in the tables relative to overall amounts, gross of depreciation but net of deposits and current accounts at banks and of contributions in relation to subsidised credit.

10 The figure includes €32,534 thousand in 2019 and €28,394 thousand in 2018 of loans to SPVs relating to securitisation transactions.

Loans and advances to non-financial corporations amounted to €886m against €882m at the end of 2018: the increase was focused particularly on the manufacturing (+€16.8m; +5.8%) and energy (+€9.3m; +7.9%) sectors and, the decrease in other services (-€12.5m; -17.5%) and agriculture (-€9.1m; -16.0%).

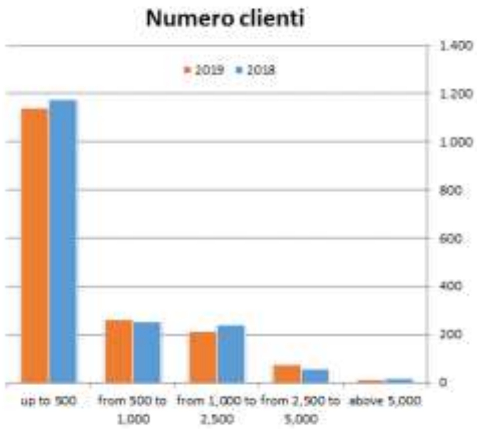
Typical performing loans and advances by counterparty and economic sector (thousands of Euro)

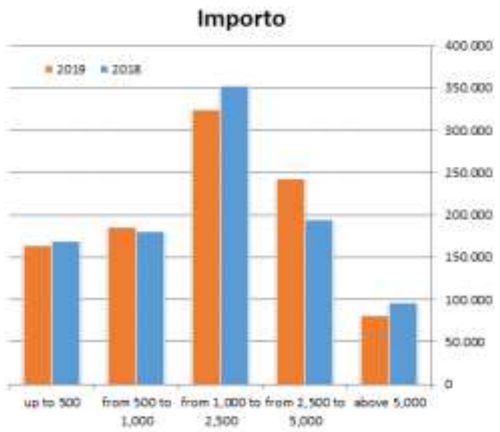
	31 Dec 2019	%	31 Dec 2018	%	Chg.	Chg. %
Non-financial corporations	**886,151**	**89.0**	**881,911**	**89.0**	**+4,240**	**+0.5**
Manufacturing	306,120	30.7	289,363	29.2	+16,757	+5.8
Energy	127,035	12.8	117,750	11.9	+9,285	+7.9
Real Estate	90,150	9.1	96,291	9.7	-6,141	-6.4
Market services	82,206	8.3	89,078	9.0	-6,871	-7.7
Hospitality	81,534	8.2	76,071	7.7	+5,463	+7.2
Transport services	69,198	6.9	61,792	6.2	+7,406	+12.0
Other services	58,763	5.9	71,232	7.2	-12,469	-17.5
Agriculture	47,668	4.8	56,759	5.7	-9,091	-16.0
Building industry	23,477	2.4	23,575	2.4	-98	-0.4
Government Agencies, families and others	**80,807**	**8.1**	**90,718**	**9.2**	**-9,911**	**-10.9**
Financial corporations and banks	**28,807**	**2.9**	**18,328**	**1.8**	**+10,479**	**+57.2**
Total	**995,765**	**100.0**	**990,957**	**100.0**	**+4,809**	**+0.5**

Typical performing loans and advances: breakdown of customers by amount loaned (thousands of Euro)

	No. of customers	Amount	Customer %	Amount %	Average amount
up to 500	1,141	163,638	67.0	16.4	143.4
from 500 to 1,000	262	185,525	15.4	18.6	708.1
from 1,000 to 2,500	213	323,841	12.5	32.5	1,520.4
from 2,500 to 5,000	75	242,215	4.4	24.3	3,229.5
above 5,000	12	80,546	0.7	8.1	6,712.2
Total	**1,703**	**995,765**	**100.0**	**100.0**	**584.7**

Distribution by loan amount – comparison 2019/2018 by number and amount





In relation to the indices of the performing loan portfolio, worth mentioning are the following events:

- The total amount of transactions with borrowers, with a total exposure exceeding €2.5m was equal to 32.4% of the total, up against the end of 2018 (29.2%);
- the average amount for performing loans and advances increased (from €572 thousand to €585 thousand);
- the incidence on the total of the loans for the top transaction decreased (from 0.9% to 0.8%) as well as the top 20 transactions (from 9.5% to 8.8%) whereas that of the top 100 (from 28.5% to 28.7%) slightly increased.

Typical gross performing loans and advances: top exposures (thousands of Euro)

	Dec 2019	%	Dec 2018	%
Top transaction	7,573	0.8	8,669	0.9
Top 20 transactions	87,727	8.8	93,947	9.5
Top 100 transactions	285,465	28.7	282,099	28.5

With regard to the concentration of individual borrowers, the performing loans portfolio shows that:

- total exposure to the top borrower is marginally decreasing (from 1.0% to 0.9%);
- total exposure to the top 20 borrowers fell from 12.5% to 11.8%), and so did the exposure to the top 100 borrowers from 35.7% to 35.5%;
- total exposure to the top group of borrowers was stable at 1.5%; the top 20 groups equalled 14.7% of the total (15.5% at the end of 2018) and the top 100 groups came to 39.5% (39.2% at the end of 2018).

Typical gross performing loans and advances: top customers (thousands of Euro)

	Dec 2019	%	Dec 2018	%
Top borrower	9,209	0.9	10,308	1.0
Top 20 borrowers	117,819	11.8	123,480	12.5
Top 100 borrowers	353,295	35.5	353,956	35.7

Typical gross performing loans and advances: top groups of borrowers (thousands of Euro)

	Dec 2019	%	Dec 2018	%
Top group of borrowers	14,511	1.5	14,767	1.5
Top 20 groups of borrowers	146,789	14.7	153,605	15.5
Top 100 groups of borrowers	393,470	39.5	388,306	39.2

Note that the exposure of the top group in both years is related to a customer mainly active in the energy sector.

High exposures

With regard to «high exposures», in accordance with current legislation we can report the following situation as at 31 December 2018:

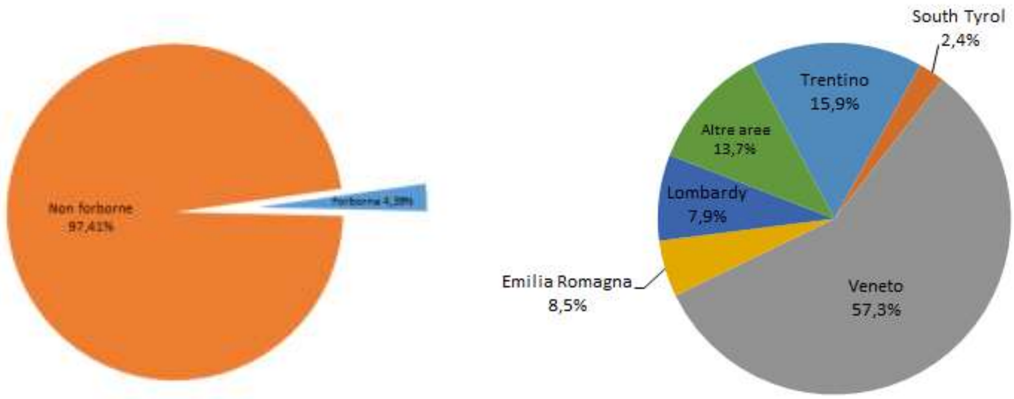
	Dec 2019		Dec 2018	
Counterparty	**Nominal**	**Weighted**	**Nominal**	**Weighted**
Governments	231,528	-	227,906	-
Banks	36,923	36,923	55,657	55,657
Ordinary customers	-	-	-	-
Total	**268,451**	**36,923**	**283,563**	**55,657**

Exposures to Governments refer for the entire amount to securities eligible for refinancing with the European Central Bank. The Bank has no large exposures to ordinary customers.

Performing loans subject to forbearance measures – "Forborne"

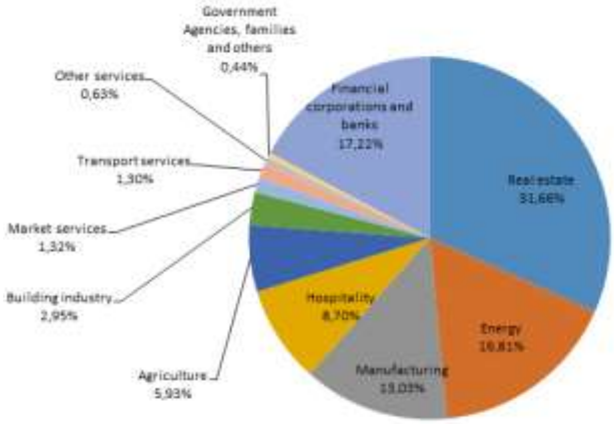
Performing loans subject to forbearance measures amounted to €25.8m, equal to 4.4% of the total, and are mainly concentrated in Veneto (57.3%) and in the province of Trento (15.9%). The Bank's other areas of business each account for 2% to 16% of loan subject to forbearance measures.

Performing loans subject to forbearance measures (forborne) by geographical area

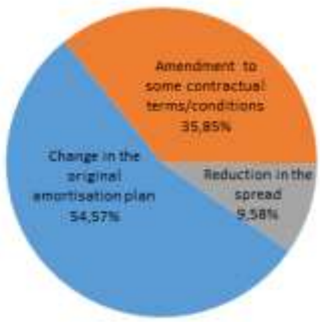


Performing loans subject to forbearance measures (forborne) by counterparty and economic sector

At sector level, 32% of forbearance measures benefited real estate companies, while the financial institutions (17.2%), the energy (16.8%), mining/manufacturing (13.0%) and hospitality (8.7%) sectors were less favoured. All other sectors include less than 6% of forborne loans.



Performing loans subject to forbearance measures (forborne) by type of forbearance measure



Depending on the type of forbearance measure, 55% of loans benefited from a change in the original amortisation plan, 36% from an amendment to some contractual terms/conditions and 10% from a reduction in the spread.

Impaired loans

The amount of gross impaired loans continued to decrease systematically by 17.2%: compared to 2018, the portfolio of doubtful loans fell by €12.7m (-13.5%), the unlikely to pay portfolio by €10.9m (-26.5%) while past due loans remain stable at around €1m.
The following tables show the situation of impaired loans and a comparison with 31 December 2018.

Loans and advances to customers (thousands of Euro)

Dec 2019	Gross exposure	Total adjustments	Net exposure	% gross loans	% net loans	% coverage
Impaired loans	**113,269**	**55,498**	**57,771**	***9.9***	***5.3***	**49.0**
- doubtful	82,000	45,731	36,270	*7.2*	*3.4*	55.8
- unlikely to pay	30,207	9,692	20,515	*2.6*	*1.9*	32.1
- past due	1,061	75	986	*0.1*	*0.1*	7.0
Performing loans[11]	**1,028,300**	**5,027**	**1,023,273**	***90.1***	***94.7***	**0.5**
Total loans	**1,141,569**	**60,525**	**1,081,044**	***100.0***	***100.0***	**5.3**

Dec 2018	Gross exposure	Total adjustments	Net exposure	% gross loans	% net loans	% coverage
Impaired loans	**136,875**	**66,098**	**70,777**	***11.8***	***6.5***	**48.3**
- doubtful	94,747	53,244	41,503	*8.2*	*3.8*	56.2
- unlikely to pay	41,094	12,795	28,299	*3.6*	*2.6*	31.1
- past due	1,034	59	975	*0.1*	*0.1*	5.7
Performing loans[11]	**1,019,350**	**5,853**	**1,013,497**	***88.2***	***93.5***	**0.6**
Total loans	**1,156,225**	**71,951**	**1,084,274**	***100.0***	***100.0***	**6.2**

% change 2019/2018	Gross exposure	Total adjustments	Net exposure
Impaired loans	**-17.2**	**-16.0**	**-18.4**
- doubtful	-13.5	-14.1	-12.6
- unlikely to pay	-26.5	-24.2	-27.5
- past due	+2.6	+26.7	+1.1
Performing loans	**+0.9**	**-14.1**	**+1.0**
Total loans	**-1.3**	**-15.9**	**-0.3**

The decrease in impaired loans despite the simultaneous decrease in total gross loans and advances to customers (-1.3%) lead to an increase in the incidence of impaired loans on the total loan portfolio from 11.8% in December 2018 to the current 9.9%.

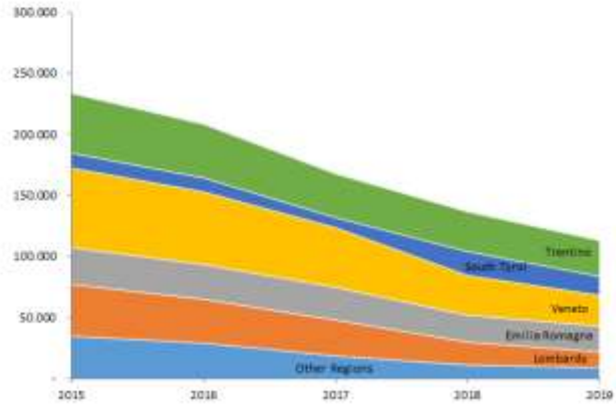
The percentage of impaired loans net of value adjustments also improved (from 6.5% to 5.3%) as did the level of coverage of the total portfolio (from 48.3% to 49.0%); coverage of doubtful loans fell marginally (from 56.2% to 55.8%) while coverage of unlikely to pay increased (from 31.1% to 32.1%), as did coverage of impaired past due loans (from 5.7% to 7.0%).

Gross impaired loans by area (thousands of Euros)

	31 Dec 2019	%	31 Dec 2018	%	Chg.	Chg. %
Trentino	30,066	26.5	33,280	24.3	-3,214	-9.7
South Tyrol	15,066	13.3	19,218	14.0	-4,152	-21.6
Veneto	25,668	22.7	32,560	23.8	-6,892	-21.2
Emilia Romagna	21,018	18.6	22,127	16.2	-1,109	-5.0
Lombardy	12,662	11.2	18,550	13.6	-5,888	-31.7
Other Regions	8,790	7.8	11,140	8.1	-2,350	-21.1
Total impaired loans	**113,269**	**100.0**	**136,875**	**100.0**	**-23,606**	**-17.2**

11 The data includes €11.4m of receivables for cash reserves relating to securitisations that did not pass the SPPI test and that are shown under item 20.c of assets.

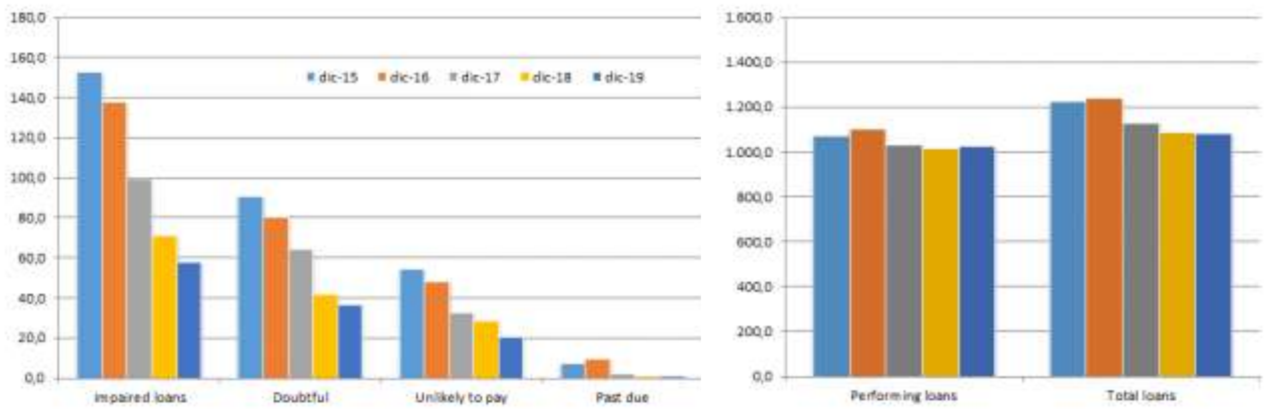
Trend in gross impaired loans by area 2015-2019



Impaired loans by counterparty and economic sector (thousands of Euro)

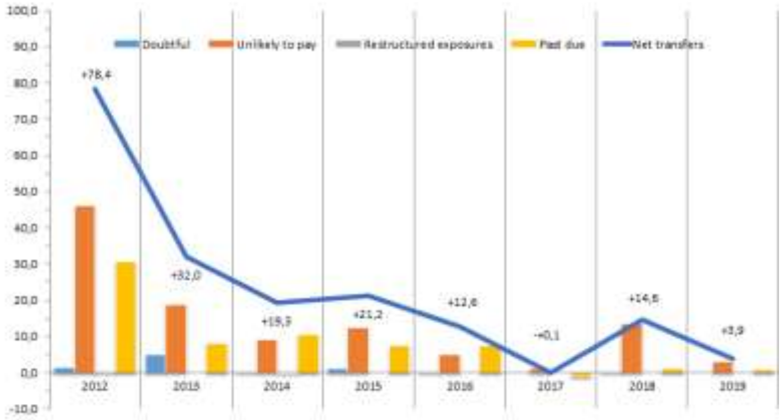
	31 Dec 2019	%	31 Dec 2018	%	Chg.	Chg. %
Non-financial corporations	**100,591**	**88.8**	**121,717**	**88.9**	**-21,126**	**-17.4**
Manufacturing	25,084	22.1	30,174	22.0	-5,090	-16.9
Building industry	24,863	22.0	29,848	21.8	-4,985	-16.7
Real Estate	24,717	21.8	29,450	21.5	-4,732	-16.1
Hospitality	9,216	8.1	10,407	7.6	-1,191	-11.4
Agriculture	7,069	6.2	7,426	5.4	-358	-4.8
Transport services	3,971	3.5	4,084	3.0	-113	-2.8
Energy	2,527	2.2	2,514	1.8	13	0.5
Other services	1,661	1.5	6,257	4.6	-4,596	-73.5
Market services	1,483	1.3	1,557	1.1	-74	-4.8
Government Agencies, families and others	**10,465**	**9.2**	**12,892**	**9.4**	**-2,427**	**-18.8**
Financial corporations and banks	**2,213**	**2.0**	**2,266**	**1.7**	**-53**	**-2.3**
Total	**113,269**	**100.0**	**136,875**	**100.0**	**-23,606**	**-17.2**

Trend in net loans (millions of Euro)



The net flow of new impaired loans (transfers in net of transfers out to "performing" loans) shows amounts of less than €1m for past due loans, while there is a flow of new unlikely to pay of €3.2m; there are no flows to doubtful loans.

Net flow of new impaired loans coming from performing loans (millions of Euro)

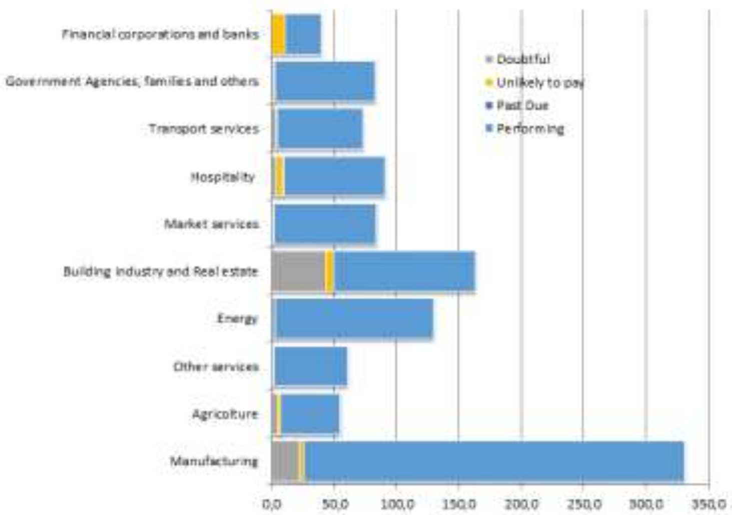


At sector level, the incidence of gross impaired loans on the total typical loans and advances portfolio is particularly relevant in sectors related to construction: 51% of loans to construction companies are impaired and approximately 21% of those to real estate businesses; however, both figures show an improvement compared to the figures of the previous year (56% and 25%, respectively). Approximately 7.6% of loans to companies operating in the manufacturing industry are also impaired (9.4% at the end of 2018).

Gross impaired loans: incidence of each status by counterparty and economic sector (data in %)

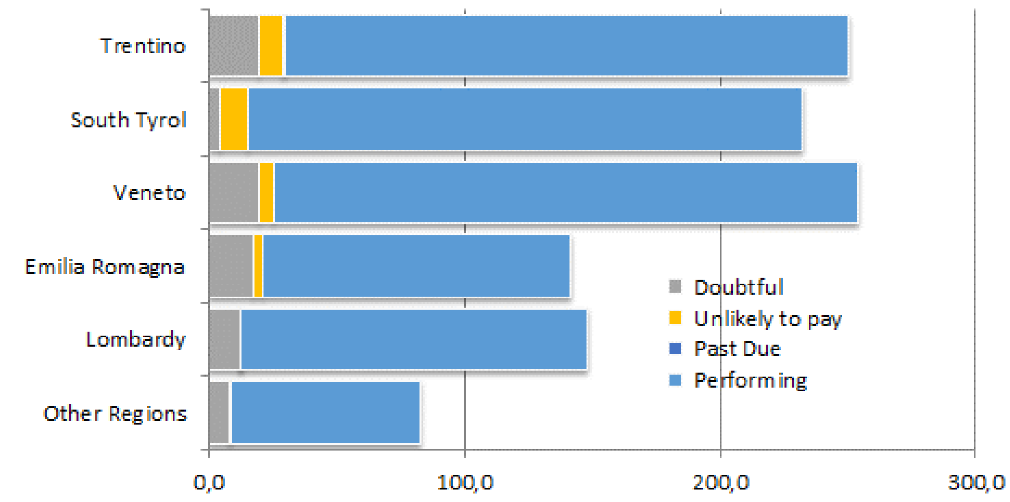
	Doubtful loans	Unlikely to pay	Past due	Total
Non-financial corporations	8.1	2.0	0.1	**10.2**
Manufacturing	6.7	0.9	0.0	**7.6**
Agriculture	7.3	5.3	0.3	**12.9**
Other services	1.5	1.2	0.0	**2.7**
Energy	2.0	0.0	0.0	**2.0**
Real Estate	18.6	2.8	0.2	**21.5**
Building industry	45.0	6.4	0.0	**51.4**
Market services	1.0	0.8	0.0	**1.8**
Hospitality	3.5	5.9	0.7	**10.2**
Transport services	4.6	0.8	0.0	**5.4**
Government Agencies, families and others	**2.3**	**0.4**	**0.0**	**2.7**
Financial corporations and banks	**0.0**	**26.6**	**0.0**	**26.6**

Gross impaired loans: overall incidence by counterparty and economic sector (millions of Euro)



Geographically speaking, the reader can see that the impairment of loans was uniformly distributed over the various areas of interest, except for the situation in the Autonomous Province of Bolzano, which always showed significantly lower levels of impairment.

Gross impaired loans: overall incidence by geographical area (millions of Euro)



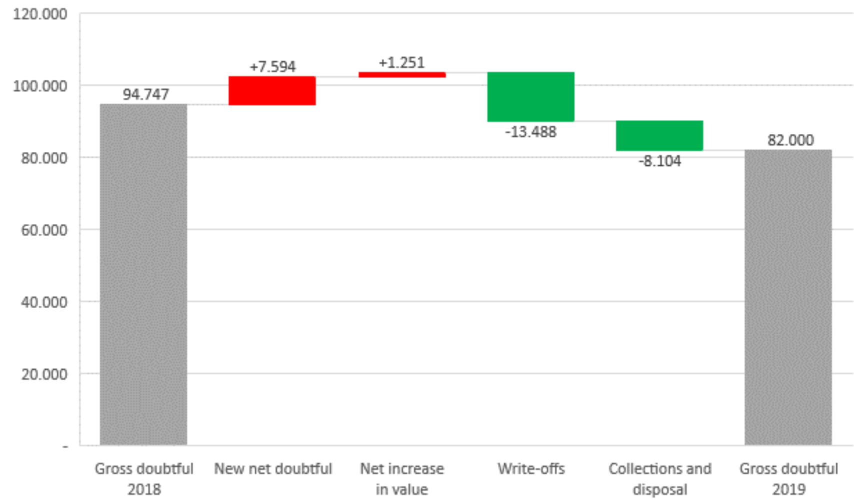
Gross impaired loans: incidence of each status by area (data in %)

	Doubtful loans	Unlikely to pay	Past due	Total
Trentino	7.8	3.8	0.4	12.0
South Tyrol	1.9	4.5	0.0	6.5
Veneto	7.7	2.4	0.0	10.1
Emilia Romagna	12.5	2.4	0.0	14.8
Lombardy	8.5	0.1	0.0	8.6
Other Regions	9.8	0.8	0.0	10.6

Doubtful loans

Doubtful loans gross of write-downs amounted to €82.0m, down by €14.8m in comparison to 2018. The trend was characterised by approximately €7.6m of new doubtful loans, €13.5m of write-offs and €8.1m of collections and disposals.

Trend in gross doubtful loans 2018-2019 (thousands of Euros)

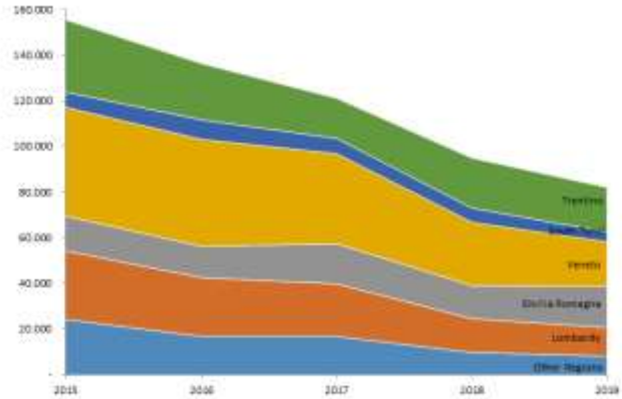


Geographically, doubtful loans are mainly concentrated in Veneto and Trentino (approximately 24% for each area) and Emilia Romagna (22%); however, only in this last area there was an increase in doubtful loans (+20%) while in all other areas there were significant decreases of between 10% and 29%.

Breakdown of gross doubtful loans by area (thousands of Euro)

	31 Dec 2019	%	31 Dec 2018	%	Chg.	Chg. %
Trentino	19,555	23.8	21,769	23.0	-2,214	-10.2
South Tyrol	4,519	5.5	6,375	6.7	-1,856	-29.1
Veneto	19,576	23.9	27,562	29.1	-7,986	-29.0
Emilia Romagna	17,644	21.5	14,711	15.5	+2,933	+19.9
Lombardy	12,569	15.3	14,605	15.4	-2,036	-13.9
Other Regions	8,137	9.9	9,725	10.3	-1,588	-16.3
Total	**82,000**	**100.0**	**94,747**	**100.0**	**-12,746**	**-13.5**

Trend in gross doubtful loans by area 2015-2019



The building industry and the real estate sector (approximately €43m, 52% of the portfolio) remained the top collector of delinquent loans despite the continuing downward trend (-4.1m).

There were also significant decreases in the manufacturing (-€3.1m), other services sectors (-€3.8m) and, with smaller amounts, the financial sector (-€1.1m) and the hotel industry (-€0.5m). The other sectors were essentially stable.

Breakdown of gross doubtful loans by counterparty and economic sector (thousands of Euro)

	31 Dec 2019	%	31 Dec 2018	%	Chg.	Chg. %
Non-financial corporations	**80,123**	**97.7**	**91,722**	**96.8**	**-11,598**	**-12.6**
Manufacturing	22,260	27.1	25,321	26.7	-3,062	-12.1
Building industry	21,749	26.5	24,687	26.1	-2,938	-11.9
Real Estate	21,308	26.0	22,479	23.7	-1,171	-5.2
Agriculture	3,999	4.9	3,656	3.9	-171	-4.1
Transport services	3,383	4.1	3,414	3.6	-31	-0.9
Hospitality	3,171	3.9	4,170	4.4	-485	-13.3
Energy	2,527	3.1	2,514	2.7	+13	+0.5
Other services	919	1.1	4,674	4.9	-3,755	-80.3
Market services	807	1.0	807	0.9	+0	+0.0
Government Agencies, families and others	**1,877**	**2.3**	**1,890**	**2.0**	**-13**	**-0.7**
Financial corporations and banks	**0**	**0.0**	**1,135**	**1.2**	**-1,135**	**-100.0**
Total	**82,000**	**100.0**	**94,747**	**100.0**	**-12,746**	**-13.5**

Doubtful loans, net of value adjustments, amounted to €36.3m, down €5.2m compared to the figure in December 2018.
The ratio of net doubtful loans to total net loans to customers was 3.4%, down compared to 3.8% at the end of the previous financial year; the ratio gross of value adjustments went from 8.2% in 2018 to 7.2%. The level of coverage of doubtful loans was 55.8%, slightly down when compared to the percentage at the end of 2018 (56.2%).

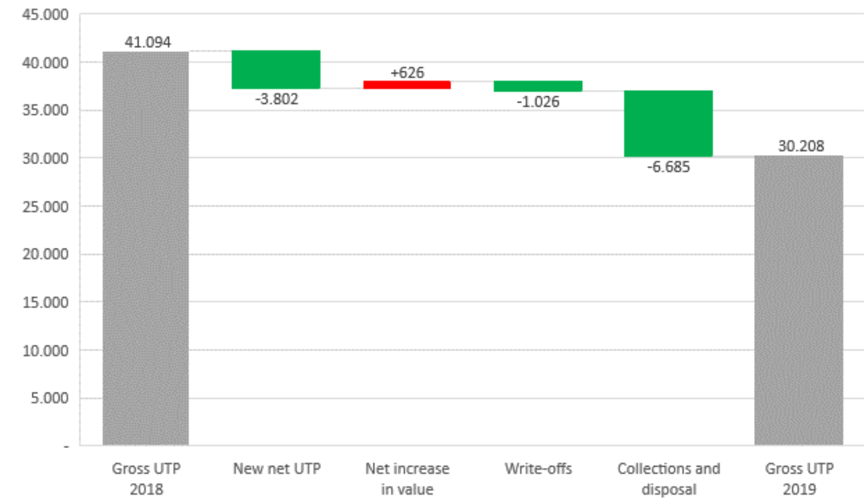
Key ratios relative to doubtful loans

in %	Dec 2019	Dec 2018
Gross doubtful loans / gross loans to customers	7.2	8.2
Gross doubtful loans / own funds	48.0	56.4
Net doubtful loans / net loans to customers	3.4	3.8
Net doubtful loans / own funds	21.2	24.7

Unlikely to pay loans

The "unlikely to pay" category gross of write-downs amounted to €30.2m, a decreased volume compared to that at the end of 2018 (-€10.9m, -26.5%). The trend is characterised by a net outflow to doubtful loans of €7.6m, €3.8m of new unlikely to pay and approximately €7.7m of collections and write-offs.

Trend in gross unlikely to pay 2018-2019 (thousands of Euro)

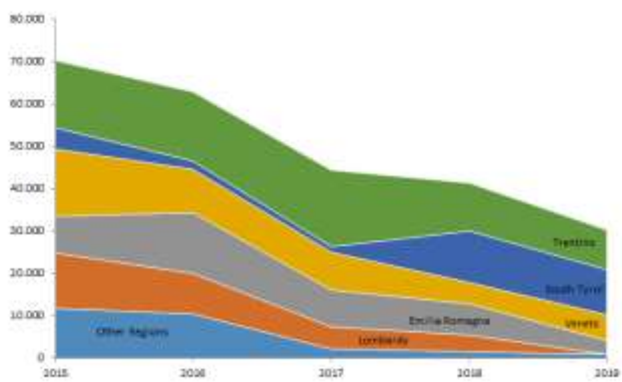


Also at a geographical level, a generalised decrease was recorded, mainly concentrated in Emilia Romagna and Lombardy, while Veneto recorded an increase of about €1m. On average, the concentration of unlikely to pay in Trentino-South Tyrol remains high, concentrated mainly in loans to UCITS, the hotel and building industries.

Breakdown of gross unlikely to pay loans by area (thousands of Euro)

	31 Dec 2019	%	31 Dec 2018	%	Chg.	Chg. %
Trentino	9,450	31.3	11,108	27.0	-1,658	-14.9
South Tyrol	10,547	34.9	12,258	29.8	-1,711	-14.0
Veneto	6,092	20.2	4,995	12.2	+1,097	+22.0
Emilia Romagna	3,373	11.2	7,415	18.0	-4,042	-54.5
Lombardy	93	0.3	3,903	9.5	-3,810	-97.6
Other Regions	653	2.2	1,415	3.4	-762	-53.9
Total	**30,208**	**100.0**	**41,094**	**100.0**	**-10,886**	**-26.5**

Trend in gross unlikely to pay by area 2015-2019



Breakdown of gross unlikely to pay loans by counterparty and economic sector (thousands of Euro)

	31 Dec 2019	%	31 Dec 2018	%	Chg.	Chg. %
Non-financial corporations	**19,406**	**64.2**	**29,003**	**70.6**	**-9,597**	**-33.1**
Hospitality	5,376	17.8	6,751	16.4	-1,375	-20.4
Real Estate	3,205	10.6	6,747	16.4	-3,541	-52.5
Building industry	3,115	10.3	5,160	12.6	-2,045	-39.6
Agriculture	2,882	9.5	2,492	6.1	+389	-41.8
Manufacturing	2,824	9.3	4,850	11.8	-2,025	+15.6
Other services	741	2.5	1,583	3.9	-842	-53.2
Market services	676	2.2	750	1.8	-74	-9.9
Transport services	588	1.9	670	1.6	-82	-12.3
Energy	0	0.0	0	0.0	0	
Government Agencies, families and others	**337**	**1.1**	**334**	**0.8**	**+3**	**+0.8**
Financial corporations and banks	**10,465**	**34.6**	**11,757**	**28.6**	**-1,292**	**-11.0**
Total	**30,208**	**100.0**	**41,094**	**100.0**	**-10,886**	**-26.5**

The unlikely to pay category, net of value adjustments, totalled €20.5m, down by 27.5% compared to 31 December 2018. The ratio of net unlikely to pay to total net loans to customers was 1.9% compared to 2.6% at the end of the previous period.

Key ratios relative to unlikely to pay loans

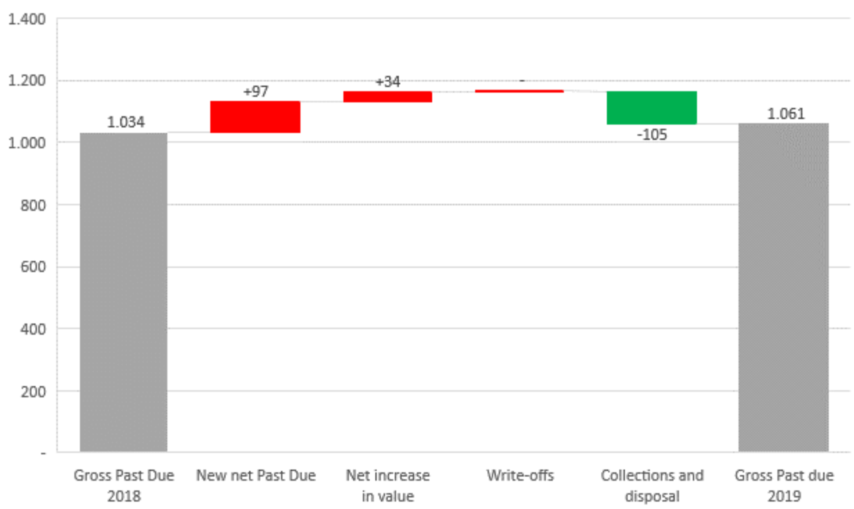
in %	Dec 2019	Dec 2018
Gross unlikely to pay / gross loans to customers	2.6	3.6
Net unlikely to pay / net loans to customers	1.9	2.6

Past due loans

This item is made up of all cash loans to borrowers (not included in the other categories of impaired loans) whose debts are overdue by more than 90 days according to the criteria established by the Supervisory Authority. Net of value adjustments, these loans totalled €1.0m, almost stable compared to 31 December 2018. The ratio of past due loans to total net loans is 0.1% as in 2018.

This category of impaired loans is characterised by changes of a limited amount (€800 thousand of transfers offset by performing returns of €100 thousand, transfers to unlikely to pay and doubtful loans of €609 thousand and collections of €105 thousand).

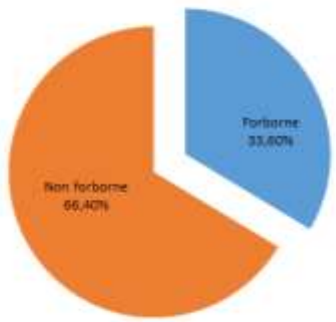
Trend of gross past due loans 2018-2019 (thousands of Euro)

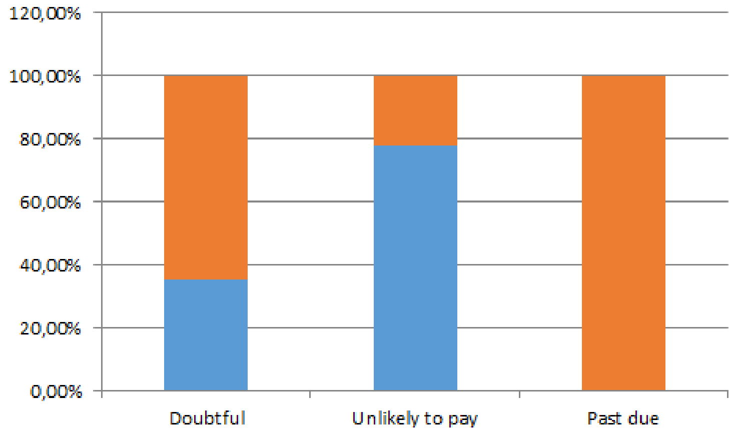


Impaired loans subject to forbearance measures – "Forborne"

Impaired loans subject to forbearance measures amounted to €52.6m, equal to 46.5% of the total; approximately 36% of doubtful loans, 78% of unlikely to pay loans and no impaired past due loans benefited from forbearance measures.

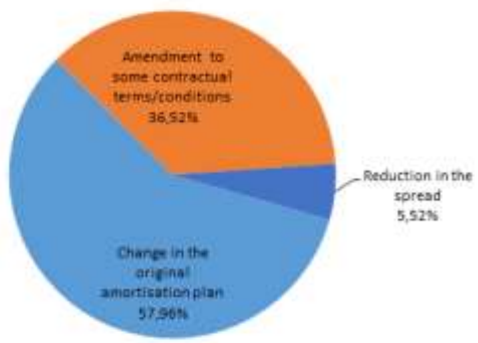
Impaired loans subject to forbearance measures (forborne) by status





Impaired loans subject to forbearance measures (forborne) by type of forbearance measure

Depending on the type of forbearance measure, approximately 70% of impaired loans benefited from a change in the original amortisation plan while the remaining 30% benefited from an amendment to some contractual terms/conditions.



EQUITY INVESTMENT ACTIVITIES

Equity Investment

Equity Investment activities both direct and through participation in closed-end securities investment funds, showed total amounts of approximately €29.3m, essentially stable (-€0.1m) against December 2018.

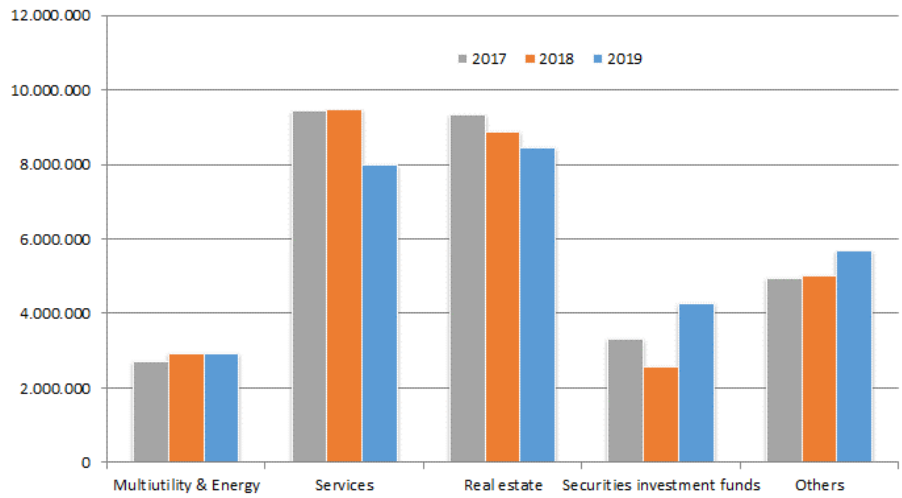
The main events that affected the portfolio during the year were as follows:
- purchase of shares in Gibus S.p.A. of €0.5m;
- divestment of Capital for Progress II S.p.a. shares, following the failure to implement the Business combination, of €1.5m;
- total divestment of the equity investment in Assietta Private Equity SGR S.p.A. of €74 thousand.

In addition to the described actions, during the year the Bank continued to develop the Securities investment funds sector through the entry in Fondo PMI Italia II and in SICAV Industry 4.0 Fund, with payments of €493 thousand and €806 thousand (against subscriptions of €1.0m and €3.0m, respectively); within the same area, further payments, already subscribed in the past, to the Assietta Private Equity III fund of €298 thousand, the Assietta Private Equity IV fund of €396 thousand and the HAT Technology & Innovation fund of €81 thousand, should be reported.
Finally, the Bank strengthened the equity of the subsidiary Paradisidue Srl by paying €500 thousand into the loss account.

Equity Investments (thousands of Euro)

	Dec 2019				Dec 2018			
	FVTPL	OCI Option	Equity investments	Total	FVTPL	OCI Option	Equity investments	Total
Investments in UCITS	12,399	-	-	12,399	11,856	-	-	11,856
Institutionals and debt recovery	-	2,899	306	3,205	-	3,011	176	3,187
Other investments	-	13,685	-	13,685	-	14,375	-	14,375
Total	**12,399**	**16,584**	**306**	**29,289**	**11,856**	**17,386**	**176**	**29,418**
of which: level 1	**-**	**5,838**	**-**	**5,838**	**-**	**6,601**	**-**	**6,601**

Equity investments by economic sector (millions of Euro)



Equity investments (amounts in thousands of Euros)

Paradisidue S.r.l. – Trento

The real estate company, established in 2003 and wholly controlled by the Bank, allows the Bank to participate directly - where appropriate - in judicial auctions of real estate as collateral for disputed financing transactions. At the end of the reporting period, the company currently owns four buildings at a value in line with the appraisal value; in particular, one building underwent enhancement works in 2014 and activities for its placement on the real estate market are currently under way. During the year, a building was purchased for which a lease is being finalised. The company closed 2019 with a loss of approximately €370 thousand, covered by a capital account payment by the Parent Company.

Balance as at 31/12/2018	**175.7**
Purchases	+500.0
Sales/Redemptions	-
Gains	-
Losses	-370.0
Balance as at 31/12/2019	**305.7**
Stake held	**100.000**

Note on investments in UCITS

Closed-end real estate investment fund Finint Fenice

The Fund was set up by Finint Investments SGR of the Finanziaria Internazionale group. The Fenice fund consists of contributions from banks and leasing companies through the purchase and valuation of buildings already repurchased by banks, buildings under auction or bankruptcy proceedings, as well as impaired loans backed by a mortgage guarantee.

The Bank granted certain positions by subscribing units for a total amount of approximately €9.3m. The unit value of the shares was estimated as at 31 December 2019 generating a negative change in fair value of €556 thousand. A gradual recovery of the fund's profitability is expected over the next few years.

Balance as at 31/12/2018	**8,346.6**
Purchases	-
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-556.4
Balance as at 31/12/2019	**7,790.2**

Closed-end securities investment fund Assietta Private Equity III

This is a Private Equity fund reserved for institutional investors, which aims at investing with majority stakes in small and medium Italian businesses characterised by a good positioning in the reference sector, operating in well-established sectors, with steady cash generation, a defensible competitive positioning and good economic performance. The fund is managed by Assietta Private Equity SGR. In 2019, the Bank paid the call relating to the 60 shares subscribed of €298 thousand and their unit value - estimated by the asset management company as at 31 December 2019 - amounted to €35,930.424, generating a negative change in fair value of €712 thousand.

Balance as at 31/12/2018	**2,570.2**
Purchases	+297.8
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-712.1
Balance as at 31/12/2019	**2,155.8**

Closed-end securities investment fund Assietta Private Equity IV

This is a Private Equity fund reserved for institutional investors, which aims at investing with majority stakes in small and medium Italian businesses characterised by a good positioning in the reference sector, operating in well-established sectors, with steady cash generation, a defensible competitive positioning and good economic performance.

The fund is managed by Assietta Private Equity SGR. In 2019, the Bank paid the call relating to the 40 shares subscribed of €396 thousand whose unit value - determined by the asset management company as at 30 September 2019 - amounted to €16,933.437, generating a negative change in fair value of €41 thousand.

Balance as at 31/12/2018	**322.3**
Purchases	+396.3
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-41.2
Balance as at 31/12/2019	**677.3**

Closed-end securities investment fund HAT Technology & Innovation

This is a Private Equity fund reserved for institutional investors, which aims at investing through direct entries or co-investment into the capital, through shares, units, equity and other equity instruments as well as debt instruments.

The fund is aimed at small and medium-sized competitive companies, with high entrepreneurial capacity, with a market share difficult to attack by the competition; companies operating in segments with high potential for sustainable growth and adequate internationalisation strategy. It is managed by Hat Orizzonte SGR, one of the main independent managers in Italy, which holds a significant stake in GPI SpA through another fund.

In 2019, the Bank paid the call relating to the 100 shares subscribed of €81 thousand whose unit value - determined by the asset management company as at 31 December 2019 - amounted to €2,025.098, generating a negative change in fair value of €156 thousand.

Balance as at 31/12/2018	**277.7**
Purchases	+80.7
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-155.9
Balance as at 31/12/2019	**202.5**

Securities investment fund Industry 4.0 Sicav

This is a Private Equity fund reserved for institutional investors, which aims at investing and enhancing SMEs strongly oriented towards innovation and technological interconnection, considered preparatory elements for the acceleration of business and competitiveness. The fund is aimed at leading companies in the reference market, with a vocation for internationalisation and a strong propensity to digitalise the production chain. The large number of Italian SMEs, in which there is the lowest level of investment compared to the European scenario, constitutes a large audience of opportunities and high potential for development in the frontier technology sector.
The promoters are the same founders of the well-known Quadrivio Capital SGR Group, which this time intervened through Q-Group S.à r.l. (Luxembourg), a company that acts as coordinator (General Partner) of the fund, of which it appoints the Advisory Board that expresses its opinion on the investment proposals.
The unit value of the shares, determined by the asset management company, as at 30 June 2019 was 243.271, generating a negative change in fair value of €76 thousand.

Balance as at 31/12/2018	**-**
Purchases	+806.0
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-76.2
Balance as at 31/12/2019	**729.8**

Closed-end securities investment fund PMI Italia II

It is an Italian closed-end alternative investment fund reserved for professional investors that invests in bonds and other secured or unsecured debt instruments and/or debt securities, including those of an equity nature. Investments are dedicated to the sectors of mechanical engineering, manufacturing, infrastructure and transport, food & beverage, travel & leisure, services, pharmaceutical and biomedical industry, automotive excluding start-ups. The aim is to support investments or support working capital in the context of business volume development and debt sustainability, therefore aimed at companies with significant actual and/or expected growth rates and very limited financial exposure. It is managed by FININT SGR, one of the main independent managers in Italy.
The unit value of the shares, determined by the asset management company as at 30 September 2019 was 0.4445, generating a positive change in fair value of €11 thousand.

Balance as at 31/12/2018	**-**
Purchases	+531.2
Sales/Redemptions	-38.3
Gains/Losses on disposal	-
Fair value changes	+11.3
Balance as at 31/12/2019	**504.2**

	Closed-end real estate investment fund Clesio	Fondo immobiliare Leopardi - Milan
Balance as at 31/12/2018	**250.0**	**89.2**
Purchases	-	-
Sales/Redemptions	-	-
Gains/Losses on disposal	-	-
Fair value changes	-	-
Balance as at 31/12/2019	**250.0**	**89.2**

Notes on other investments in equity securities under the OCI Option

Dedagroup Stealth S.p.A. - Milan

This is a spin-off of a business unit of a company of the Dedagroup SpA group, which operates in the fashion sector through the production and maintenance of a software (Stealth) for the management of production, distribution, logistics, analysis and control, already used by the most famous fashion brands.
The valuation as at 31 December 2019 does not express the fair value changes with respect to 2018.

Balance as at 31/12/2018	**3,001.5**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2019	**3,001.5**
Stake held	**10.000%**

Enercoop S.r.l. – Trento (TN)

This company is a subsidiary of Fincoop S.p.A. (co-operative financial corporation in Trentino) and was set up in 2009 to purchase and manage a minority shareholding in Dolomiti Energia Holding S.p.A. Dolomiti Energia is currently one of the most important Italian multi-utility companies in relation to its size characterised by a stable business. Enercoop holds a 1.8% stake in Dolomiti Energia Holding S.p.A. for around €11m. Mediocredito purchased a 15% of Enercoop S.r.l. for €1.6m. The valuation as at 31 December 2019 does not express the fair value changes with respect to 2018.

Balance as at 31/12/2018	**1,917.2**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2019	**1,917.2**
Stake held	**15.000%**

Guala Closures S.p.A. (Spac Space 4 S.p.A.) – Alessandria (AL)

In August 2018, the company was admitted to listing in the STAR segment of the Italian Stock Exchange following its incorporation by Business Combination into the SPAC (Special Purpose Acquisition Company) Space 4 SpA. The operation of the promoters, well-known Italian professionals and managers, follows other similar successful previous launches - such as Fila Spa, Avio Spa, Aquafil Spa - and in this case it concerns an Italian company leader in the production of aluminium and non-refillable caps. The bank subscribed a value of €2m, equal to 200,000 shares to which 40,000 warrants were assigned; the same number of warrants was assigned to the Bank following its participation in the Business Combination. The year-end listing shows a positive change in fair value of €333 thousand.

Balance as at 31/12/2018	**1,127.0**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	+332.7
Balance as at 31/12/2019	**1,459.6**
Stake held	**0.298%**

S.W.S. Group S.p.A. - Trento

Through the subsidiary SWS Engineering S.p.A., the company operates in the area of engineering and design. Through the subsidiary Enginsoft S.p.A., it operates in automation and control engineering, specialising in consultancy, research and development of advanced applications of simulations with mathematical models.
The entry of Mediocredito in the company was finalised in 2011 in order to continue the process of exploitation and development of the company launched by the closed-end fund MC² Impresa.
The valuation as at 31 December 2019 does not express the fair value changes with respect to 2018.

Balance as at 31/12/2018	**1,201.0**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2019	**1,201.0**
Stake held	**14.966%**

Fine Foods & Pharmaceuticals NTM SpA – Zingonia (BG)

The equity investment in the company followed the listing and business combination process of the SPAC Innova Italy 1 in the AIM sector of the Italian Stock Exchange, activated during 2018. The company produces and develops on behalf of third parties generic drugs, supplements and medical devices in the form of granules, powders and pills and operates in an innovative way in the substitute meals sector. In the medium term, the bank is expected to achieve good profitability, considering its business sector, its management capacity and the presence of warrants accompanying the shares purchased. During the financial year, the Bank purchased the equity investment on the market for a total of €1m. The year-end listing shows a positive change in fair value of €270 thousand.

Balance as at 31/12/2018	**921.0**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	+269.9
Balance as at 31/12/2019	**1,190.9**
Stake held	**0.431%**

GPI S.p.A. - Trento

The GPI group, which is headed by the Trentino entrepreneur Fausto Manzana, is one of the leading operators in the management of IT systems for healthcare, ranging from administrative software to maintenance up to the management of single booking centres. It is constantly growing and, in order to nourish the plan for future expansion, it entered the Italian Stock Exchange (AIM segment) through a SPAC (Special Purpose Acquisition Company) vehicle, in which the Bank participated with an investment of €1m, paid during 2016. In 2017, warrants were converted for a capital amount of €285 thousand. For the Bank, joining GPI represents, in addition to supporting an important local reality, an investment opportunity with good profitability prospects in the medium term. In 2019, there was a positive change in fair value of €7 thousand.

Balance as at 31/12/2018	**1,048.3**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	+6.8
Balance as at 31/12/2019	**1,055.1**
Stake held	**0.817%**

Green Hunter Group S.p.A. – Milan

The company operates in the renewable energy sector. The entry of Mediocredito into the corporate structure with an investment of €1m alongside the financing of a project in 2010 coincides with the construction of a group of photovoltaic plants of approximately 20 MWp.
Following the approval of "Decreto spalma incentivi" (Incentive spreading decree) and the different reference scenario, an impairment loss was recorded for €437 thousand in 2014, based on an appraisal prepared by an independent advisor. At the end of 2019, there were no changes in fair value compared to the previous book value.

Balance as at 31/12/2018	**986.7**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2019	**986.7**
Stake held	**5.346%**

Iniziative Bresciane S.p.A. -

The company operates in the renewable energy sector, mainly hydroelectric, with plant located in Lombardy and is listed on the Milan Stock Exchange – AIM segment. The shareholders include Istituto Atesino di Sviluppo Spa and in 2017 the bank subscribed to a stake of approximately €1m. The company is characterised by excellent profitability margins and constant growth, also considering the recent projects in the start-up phase: in the medium term, the bank's profitability is expected to be good, given its business sector and management capacity. The year-end listing resulted in a negative change in fair value of €141 thousand to be recorded.

Balance as at 31/12/2018	**1,069.5**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-140.6
Balance as at 31/12/2019	**929.0**
Stake held	**1.452%**

Aquafil S.p.A. – Arco (TN)

The investment in Aquafil Spa derives from the listing and Business Combination process of the SPAC Space 3 vehicle in the STAR segment of the Italian Stock Exchange, activated by Space Holding srl during 2017. The company is one of the main international players in the production and marketing of synthetic fibres used in the textile flooring sectors for the contract and residential markets, as well as the automotive, fashion and sports markets. It is also a pioneer in the regeneration of nylon waste with the Econyl system and the prospects for development and growth are based above all on this type of green product. In the medium term, the bank is expected to achieve good profitability, considering its business sector, its management capacity and the presence of warrants accompanying the shares purchased. The year-end listing resulted in a negative change in fair value of €311 thousand to be recorded.

Balance as at 31/12/2018	**1,071.4**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-310.9
Balance as at 31/12/2019	**760.5**
Stake held	**0.237%**

Hotel Lido Palace S.p.A. – Riva del Garda (TN)

The company was established to build a luxury hotel on the well-known tourist destination overlooking Lake Garda encouraging the involvement - alongside the public entity - of private shareholders with proven experience in this sector and adequate financial partners. Mediocredito supported this initiative acting as managing bank in the context of a financial operation and purchased a 4.84% equity investment. The hotel is developing business volumes and operating profit margins. The fair value as at 31 December 2019 is in line with the previous value.

Balance as at 31/12/2018	**674.0**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2019	**674.0**
% stake held	**4.840%**

Gibus S.p.A. – Saccolongo (PD)

Gibus - a leading company at national and European level - operates in the high-end Outdoor Design sector, designing, manufacturing and distributing 100% made in Italy products for Ho.Re.Ca and Residential customers, exporting Italian Lifestyle throughout the world. The partnership agreement signed with IR Top Consulting, Partner Equity Markets of Borsa Italiana for the development of companies in the area in which the Bank operates, in particular through access to risk capital, led to a favourable assessment of Gibus Spa's entry into the capital in 2019, through participation in the Initial Public Offering (IPO) which allowed the company to be listed on the AIM segment of Borsa Italiana.
In 2019, there was a positive change in fair value of €8 thousand.

Balance as at 31/12/2018	**-**
Purchases	+501.6
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	+7.7
Balance as at 31/12/2019	**509.4**
Stake held	**1.667%**

Capital for Progress 2 S.p.A. -

It is a SPAC (Special Purpose Acquisition Company), activated by well-known Italian professionals and managers, with the aim of listing on the Milan Stock Exchange - AIM segment through the merger of the Target company identified.
In 2019, at the Shareholders' Meeting, during which the Bank joined the merger project, the quorum required for the completion of the Business Combination was not reached. Therefore, the company was put into liquidation for a countervalue received by the Bank of €1.46m, essentially at par.

Balance as at 31/12/2018	**1,357.4**
Purchases	-
Sales/Redemptions	-1,460.0
Gains/Losses to reserve on disposal	+102.6
Fair value changes	-
Balance as at 31/12/2019	**-**
Stake held	

Notes on investments in institutional equity securities under the OCI Option

Istituto Atesino di Sviluppo S.p.A. – Trento (TN)

It is a finance company set up in 1929, which is owned by clerical bodies, operating mainly within the Province of Trento: it invests, mainly by acquiring minority shareholdings, in companies with interesting development potential, with the aim of creating a medium-long term relationship with the entrepreneur and achieving satisfactory results for the shareholders. The Bank's entry into the company, managed by leading economic representatives of the provincial territory, took place in 2016 with the purchase of a minority stake of 0.5% for a value of approximately €1m. The current fair value is unchanged from the previous year.

Balance as at 31/12/2018	**979.7**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2019	**979.7**
Stake held	**0.511%**

La Finanziaria Trentina S.p.A. – Trento (TN)

It is an industrial holding established in 2004 by a group of entrepreneurs from Trentino bringing together subjects operating in various sectors in order to converge major investments in a single independent entity. In addition to the main corporate mission, private equity operations have been added to support entrepreneurs who have started processes of growth or generational change. The company's operations are carried out mainly in the energy, industry, infrastructure, real estate and venture capital sectors. The Bank's entry into the corporate structure, made up of leading entrepreneurs and economic exponents of the provincial territory, took place in 2016 and at the end of the reporting period there were no changes in fair value compared to the previous year.

Balance as at 31/12/2018	**804.9**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2019	**804.9**
Stake held	**1.190%**

	Sviluppo Aree Sciistiche Srl	Assietta Private Equity SGR S.p.A. – Milan	Cassa Centrale Banca S.p.a. - Trento	Funivie Madonna di Campiglio S.p.A. – Pinzolo (TN)
Balance as at 31/12/2018	**1,000.0**	**115.5**	**50.2**	**25.4**
Purchases	-	-	-	-
Sales/Redemptions	-	-74.0	-	-
Gains/Losses to reserve on disposal	-	-41.5	-	-
Fair value changes	-	-	-	-
Balance as at 31/12/2019	**1,000.0**	**-**	**50.2**	**25.4**
Stake held	**3.030%**		**0.000%**	**0.033%**

	Funivie Folgarida Marilleva S.p.A. – Pinzolo (TN)	Restart SIIQ SpA (ex Aedes SIIQ Spa) – Milan	AEDES SIIQ SpA - Milan	Federazione Trentina delle Cooperative Scarl - Trento
Balance as at 31/12/2018	**23.3**	**0.7**	**5.9**	**5.1**
Purchases	-	-	-	-
Sales/Redemptions	-	-	-	-
Gains/Losses to reserve on disposal	-	-	-	-
Fair value changes	-	+2.5	-0.5	-
Balance as at 31/12/2019	**23.3**	**3.1**	**5.4**	**5.1**
Stake held	**0.027%**	**0.016%**	**0.016%**	

	Formazione-Lavoro Società consortile per azioni - Trento	Trentino Volley S.r.l. Trento	Koelliker S.p.A. Milan	Lineapiù S.p.A. Prato
Balance as at 31/12/2018	**0.6**	**-**	**-**	**-**
Purchases	-	+31.0	-	-
Sales/Redemptions	-	-	-0.1	-
Gains/Losses to reserve on disposal	-	-	+0.1	-
Fair value changes	-	-31.0	-	-
Balance as at 31/12/2019	**0.6**	**-**	**-**	**-**
Stake held	**0.041%**	**5.350%**		**1.668%**

	Servizi Bancari Associati S.p.A. (Allitude S.p.A. as from 1 January 2020)
Balance as at 31/12/2018	**-**
Purchases	+1.6
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2019	**1.6**
Stake held	**0.000%**

The equity investments in Funivie Madonna di Campiglio S.p.A., Funivie Folgarida Marilleva S.p.A., Koelliker S.p.A., Lineapiù S.p.A., Restart SIIQ S.p.A., Aedes SIIQ S.p.A. and Fondo Immobiliare Leopardi (linked to Aedes SIIQ S.p.A.) derive from the restructuring of impaired loans. The equity investment in Sviluppo Aree Sciistiche Srl derives from the participation in the competitive procedures called for the bankruptcy of Aeroterminal Venezia Spa for the purchase, together with other local financial shareholders and Trentino Sviluppo, of the stake of Funivie Folgarida Marilleva contributing, thanks to the progressive aggregation with Funivie Madonna di Campiglio spa, to the establishment of the largest and most profitable ski resort in the Alps located in the Autonomous Province of Trento.

SECURITIES PORTFOLIO

The portfolio of debt securities held as part of treasury activities is made up as follows:

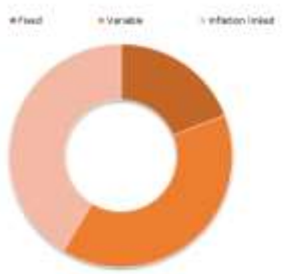
Amounts of portfolio of debt securities (thousands of Euro)

Issuer	2019			2018		
	Nominal Value	Amortised cost	Fair Value	Nominal Value	Amortised cost	Fair Value
Hold to Collect **Business model**	**178,000**	**182,110**	**180,488**	**185,000**	**188,499**	**178,306**
Governments	165,000	169,045	167,653	185,000	188,499	178,306
Banks	13,000	13,065	12,835	-	-	-
Hold to Collect & Sell **Business model**	**91,970**	**98,337**	**97,835**	**86,970**	**89,920**	**87,615**
Governments	57,500	63,136	62,574	40,000	41,732	39,673
Banks	34,470	35,201	35,261	46,970	48,188	47,942
Total	**269,970**	**280,446**	**278,323**	**271,970**	**278,419**	**265,921**

The bonds issued by banks have an average life of 1.4 years while government securities (Italian State bonds) have an average life of 5.3 years. 44% of the portfolio is represented by floating rate securities, 44% by inflation-linked securities and 33% fixed-rate securities.

Allocation of securities portfolio by interest rate type

2019



2018

HEDGING TRANSACTIONS AND DERIVATIVES

Cap options

The Bank offers its customers cap options to hedge loans sold to them. Concurrently with the sale of individual contracts, the Bank has been purchasing symmetrical cap options to cover the risks of the operations.
During the year, 4 new contracts with symmetrical coverage were signed for a total of €36.1m.
The table below compares total nominal amounts as at 31 December 2019 with 2018.

Financial derivatives – cap options (in thousands of Euros)

	NEW CONTRACTS		TOTAL NOMINAL AMOUNTS	
	2019	2018	Dec 19	Dec 18
- sales (customers)	*18,060*	-	*43,768*	*29,745*
- purchases (banks)	*18,060*	-	*43,768*	*29,745*
TOTAL	**36,120**	**-**	**87,537**	**59,489**

Warrants

As part of the acquisition of certain equity investments, the Bank was assigned the following warrants, on a free basis, listed on the Italian Stock Exchange and recognised at fair value (market value).

Issuer	Dec 2019		Dec 2018	
	Quantity (no.)	Fair value (€/thousand)	Quantity (no.)	Fair value (€/thousand)
Aquafil S.p.A	20,300	6.7	20,300	20.3
Capital for Progress 2 S.p.A.	-	-	19,200	3.1
Guala Closures S.p.A.	80,000	14.4	80,000	17.3
Fine Food & Pharmaceuticals NTM S.p.A.	30,000	63.0	30,000	22.4
Total	**130,300**	**84.1**	**149,500**	**63.1**

BORROWING OPERATIONS AND TREASURY MANAGEMENT

Borrowing flows for 2019 were essentially represented by deposits with maturities of between 18 months and 2 years for €161m - mostly (€152 million) opened by Cooperative Credit Banks -, bond issues for €124m over 3 years (of which €100m under the EMTN programme), funding from Cassa Depositi e Prestiti of €16m, loans from the European Investment Bank of €10m and time deposits from corporate and retail customers of €51m. In addition to these flows, there were deposits from customers on demand for €60 million.

Flows of funds (thousands of Euro)

TYPE	FLOWS				
	2019	%	2018	%	% Chg.
BONDS	**124,000**	**29.3**	**170,300**	**39.7**	**-27.2**
FUNDS FROM BANKS	**171,312**	**40.4**	**217,500**	**50.7**	**-21.2**
- EIB funds	*10,312*	*2.4*	-	-	
- ECB funds	-	-	-	-	
- other medium/long term bonds	*161,000*	*38.0*	*157,500*	*36.7*	*+2.2*
- current accounts and short-term deposits	-	-	*60,000*	*14.0*	*-100.0*
FUNDS FROM CUSTOMERS	**128,572**	**30.3**	**25,716**	**9.6**	**+211.8**
- CDP funds	*16,118*	*3.8*	*10,716*	*2.5*	*+50.4*
- funds from third parties	*1,333*	*0.3*	-	*0.0*	
- corporate/retail demand deposits	*59,908*	*14.1*	*25,521*	*5.9*	*+134.7*
- corporate/retail time deposits	*51,212*	*12.1*	*5,000*	*1.2*	*+924.2*
TOTAL	**423,884**	**100.0**	**429,037**	**100.0**	**-1.2**

In terms of substance, 2019 was characterised by a significant reorganisation of channels and employers: in fact, compared with €171m in new loans from Banks, as described above, exposure decreased by €227m, covered by bond issues and increased funding from corporate customers with demand and time deposits that increased by a total of €105m. On the other hand, funds managed on behalf of third parties decreased by €6m.
The total amount of funding was stable at €1,253m.

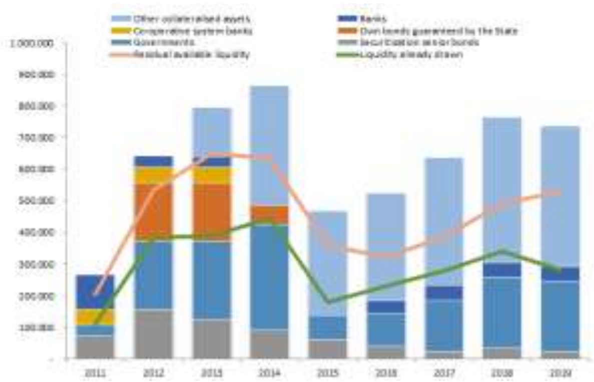
Total amounts of borrowing operations (in thousands of Euros)

TYPE	TOTAL AMOUNTS				
	Dec 19	%	Dec 18	%	% Chg.
BONDS	**295,792**	**23.6**	**192,168**	**15.0**	**+53.9**
FUNDS FROM BANKS	**673,629**	**53.7**	**901,097**	**70.5**	**-25.2**
- EIB funds	*60,462*	*4.8*	*66,462*	*5.2*	*-9.0*
- ECB funds	*275,538*	*22.0*	*276,676*	*21.6*	*-0.4*
- other medium/long term bonds	*307,546*	*24.5*	*458,251*	*35.8*	*-32.9*
- current accounts and short-term deposits	*30,083*	*2.4*	*99,708*	*7.8*	*-69.8*
FUNDS FROM CUSTOMERS	**284,067**	**22.7**	**184,996**	**14.5**	**+53.6**
- CDP funds	*42,277*	*3.4*	*42,329*	*3.3*	-0.1
- funds from third parties	*33,116*	*2.6*	*39,321*	*3.1*	-15.8
- corporate demand deposits and c/a	*143,441*	*11.4*	*85,871*	*6.7*	+67.0
- corporate time deposits	*65,233*	*5.2*	*17,475*	*1.4*	+273.3
TOTAL	**1,253,488**	**100.0**	**1,278,261**	**100.0**	**-1.9**

With regard to the reserves of liquid assets, in the portfolio for a lower amount than at the end of 2018 (-€27m), the new liquid assets available through the refinancing of the Central Bank and other bank counterparties as at 31 December 2019 amounted to approximately €248m, thanks also to the significant contribution by collateralised banking assets of approximately €260m.

Breakdown of eligible securities (thousands of Euro)

Issuer	Eligible	Potential liquidity
Governments	222,500	210,220
Banks	47,070	38,245
Securitisation senior bonds	22,941	20,753
Total bonds	**292,511**	**269,218**
Other collateralised assets	445,449	259,819
Total bonds and other assets	**737,960**	**529,037**
Liquidity already drawn		280,544
Residual available liquidity		**248,493**



PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets are functional investments that amount to approximately €8.4m, mainly buildings where the Trento headquarters and the Treviso, Bologna and Brescia branches are located (the latter purchased during the year).
Software products increased by €110 thousand due to investments related to the development of the online deposit account and, like all other categories of assets, were affected by the decrease resulting from the depreciation process.

	Dec 2019	%	Dec 2018	%	% Chg.
Functional assets	**8,410**	**98.6**	**8,151**	**98.6**	**+3.2**
- *Land and buildings*	7,551	88.6	7,278	88.0	+3.8
- *Furnishing*	226	3.2	266	3.2	-15.0
- *IT equipment*	85	2.7	79	1.0	+7.6
- *Other equipment*	398	4.7	442	5.3	-10.0
- *Vehicles*	18	0.2	38	0.5	-52.6
- *Software*	132	1.5	48	0.6	+175.0
Investment land	**116**	**1.4**	**116**	**1.4**	**-**
Total	**8,526**	**100.0**	**8,267**	**100.0**	**+3.1**

On 1 January 2019, "IFRS 16 - Leases" came into force, which envisages the recognition under property, plant and equipment of the value of the right-of-use relating to lease contracts that fall within the scope of application of the standard.
The Bank identified as such long-term car rental contracts and real estate leases relating to the Bolzano branch office; the following table summarises the effects of the above. For a detailed analysis of the effects described, refer to the paragraph "Transition to IFRS 16 and the Effects of First-time Adoption".

	Dec 2019	%	FTA 01/01/2019	%
Rights of use	**219**	**100.0**	**280**	**100.0**
- *Buildings*	154	70.3	194	69.3
- *Vehicles*	65	29.7	87	30.7

During 2019, the Bank continued to implement some technical and organisational measures in connection with workplace safety regulations with the purpose of minimising the risk of accidents and mitigating environmental risks.

In 2019, the Bank resolved on the adequacy of the business continuity plan as well as to postpone the test of the functionality of Disaster Recovery with the outsourcer of the information system managed by SBA S.p.A. during the first half of 2020 following the important migration activities of the management platform to the new table system of the supplier which, following the complex industrial integration activities, was incorporated into the new IT company Allitude S.p.A. of the cooperative banking group Cassa Centrale Banca.

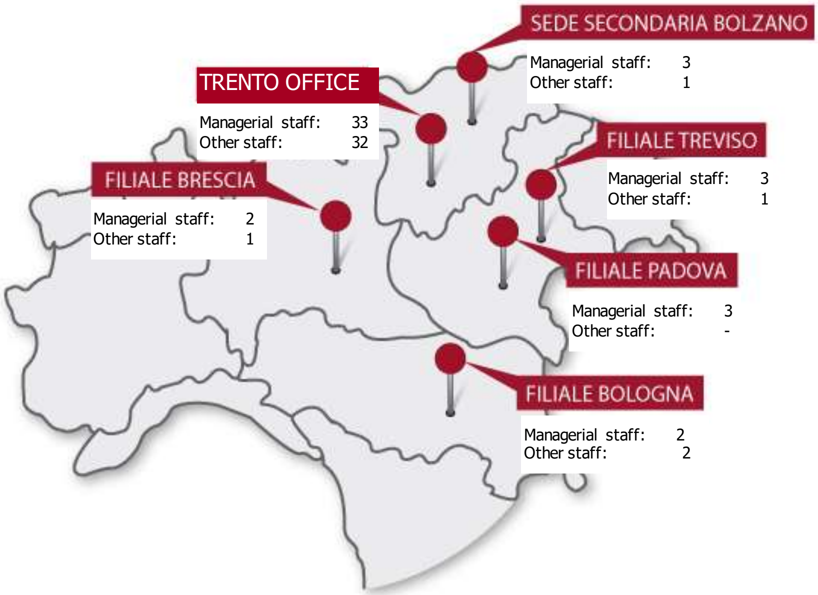
OPERATIONAL STRUCTURE

As at 31 December 2019, the number of employees increased by 1 unit compared to 31 December 2018. There were 83 employees, 2 of whom with a temporary contract: 64 contracts were full-time and 19 part-time.

Position and movement of employees[12]

	31/12/2018 situation	Resignation	Recruitments	Change of positions	31/12/2019 situation
Managerial staff (Executives)	5	-	-	+1	6
Managerial staff	39	-1	+1	+2-1	40
Other staff	38	-1	+2	-2	37
Total	**82**	**-2**	**+3**	**-**	**83**

Breakdown by area



Breakdown by age

	Men	Women	Total
≤ 30 years	3	0	3
> 30 years ≤ 45 years	13	8	21
> 45 years ≤ 55 years	22	17	39
>55 years	12	8	20
Total	**50**	**33**	**83**

Breakdown by length of service

	Men	Women	Total
≤ 5 years	9	2	11
> 5 years ≤ 10 years	4	1	5
> 10 years ≤ 20 years	13	9	22
> 20 years	24	21	45
Total	**50**	**33**	**83**

A total of 1,311 hours was dedicated to staff training; the following table shows a breakdown of "classroom days":

Area / Services	Planned behavioural training		Planned technical training		Required technical training	
	Days	No. of attendees	Days	No. of attendees	Days	No. of attendees
Control functions	-	-	12.0	4	4.0	3
Management and Staff	1.2	2	37.6	13	19.2	7
Market Area	12.8	17	16.5	18	0.4	1
Credit area	0.6	1	20.3	5	0.8	1
Legal area	-	-	1.6	2	11.2	3
Admin. and Finance Area	-	-	23.0	7	14.0	4
Total	**14.6**	**20**	**111.0**	**49**	**49.6**	**19**

The Administrative Board carried out their activities through 18 meetings of the Board of Directors, 8 meetings of the Board of Statutory Auditors and 1 Ordinary Shareholders' Meeting.

12 The item "Other staff" includes employees belonging to professional areas.

PRINCIPAL TRENDS IN THE FINANCIAL STATEMENTS AND STATE OF AFFAIRS

RECLASSIFIED STATEMENT OF FINANCIAL POSITION (ABRIDGED)

(in thousands of Euro)

Assets	31/12/2019	31/12/2018	Chg.	Chg. %
CASH AND CASH EQUIVALENTS	2	4	-2	-51.7
DERIVATIVES	291	274	+17	+6.2
EQUITY SECURITIES	28,983	29,242	-259	-0.9
DEBT SECURITIES	279,845	275,848	+3,997	-1.4
LOANS AND ADVANCES TO BANKS	21,807	40,960	-19,153	+46.8
LOANS AND ADVANCES TO CUSTOMERS	1,081,044	1,084,275	-3,231	-0.3
EQUITY INVESTMENTS	306	176	+130	+74.0
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	8,746	8,267	+479	+5.8
TAX ASSETS	16,202	18,221	-2,019	-11.1
OTHER ASSETS	4,938	5,334	-396	-7.4
TOTAL ASSETS	**1,442,164**	**1,462,601**	**-20,436**	**-1.4**

Equity and liabilities	31/12/2019	31/12/2018	Chg.	Chg. %
DUE TO BANKS	673,629	901,097	-227,468	-25.2
DUE TO CUSTOMERS	284,067	184,996	+99,070	+53.6
DEBT SECURITIES IN ISSUE	295,792	192,168	+103.623	+53.9
FINANCIAL LIABILITIES HELD FOR TRADING	198	202	-4	-1.9
TAX LIABILITIES	5,949	5,425	+524	+9.7
OTHER LIABILITIES	7,364	7,093	+271	+3.8
VALUATION RESERVES	1,512	187	+1,325	+708.5
CAPITAL AND RESERVES	169,627	168,260	+1,366	+1.7
NET INCOME FOR THE PERIOD	4,028	3,172	+856	+27.0
TOTAL EQUITY AND LIABILITIES	**1,442,164**	**1,462,601**	**-20,436**	**-1.4**

Each amount reported is rounded: any possible discrepancies are due to rounding.

RECLASSIFIED ABRIDGED INCOME STATEMENT[13]

(in thousands of Euro)

Items	2019	2018	Chg.	Chg. %
NET INTEREST INCOME	**17,548**	**19,316**	**-1,768**	**-9.2**
Net fee and commission income	1,956	1,470	+486	+33.0
Dividends	382	584	-202	-34.6
OPERATING MARGIN	**19,886**	**21,370**	**-1,485**	**-6.9**
Revenues from sale	1,465	1,261	+204	+16.2
Net fair value results	82	(68)	+150	-219.6
NET INTEREST AND OTHER BANKING INCOME	**21,432**	**22,563**	**-1,131**	**-5.0**
OPERATING COSTS	(10,940)	(10,695)	-245	+2.3
GROSS OPERATING INCOME	**10,492**	**11,868**	**-1,376**	**-11.6**
NET IMPAIRMENT ADJUSTMENTS	(4,324)	(7,194)	+2,870	-39.9
PROFIT (LOSS) BEFORE INCOME TAXES	**6,168**	**4,674**	**+1,493**	**+31.9**
INCOME TAXES	(2,140)	(1,503)	-637	+42.4
NET INCOME FOR THE PERIOD	**4,028**	**3,172**	**+856**	**+27.0**

Each amount reported is rounded: any possible discrepancies are due to rounding.

COMPOSITION OF INTERIM RESULTS WITH RESPECT TO NET INTEREST AND OTHER BANKING INCOME

(data in %)	2019	2018
Net interest income / Net interest and other banking income	81.9	85.6
Gross operating income / Net interest and other banking income	49.0	52.6
Profit (loss) before income taxes / Net interest and other banking income	28.8	20.7
Net income for the period / Net interest and other banking income	18.8	14.1

13 The half-yearly results of the reclassified income statement are presented here to highlight the gross operating income by separating the components related to the business from those arising from impairment processes. This result was obtained by reclassifying time reversal write-backs on loans from "interest income" to "net impairment adjustments" of €1.539m in 2019 and €1.967m in 2019, profits/losses from the sale of loans from net interest and other banking income to "net impairment adjustments" of €1.095m (profits) in 2019 and of €40 thousand (profits) in 2018 and the provisions for legal risks relating to disputes on loans from "operating costs" to "net impairment adjustments" of €1000 thousand (write-backs) in 2019 and €838 thousand (provisions) in 2018. Moreover, net losses on equity investments of €370 thousand (€550 thousand in 2018) were reclassified under net impairment adjustments and the effects of applying IFRS 16 were neutralised by reclassifying under other administrative costs both interest expense on the payable to lessees (€2.7 thousand) and depreciations of rights of use (€69.9 thousand). Finally, interest income includes interest expense on assets of €72 thousand in 2019 and €2 thousand in 2018 and interest expense includes interest income on liabilities of €1.281m in 2019 and €1.294m in 2018.

INCOME STATEMENT DYNAMICS

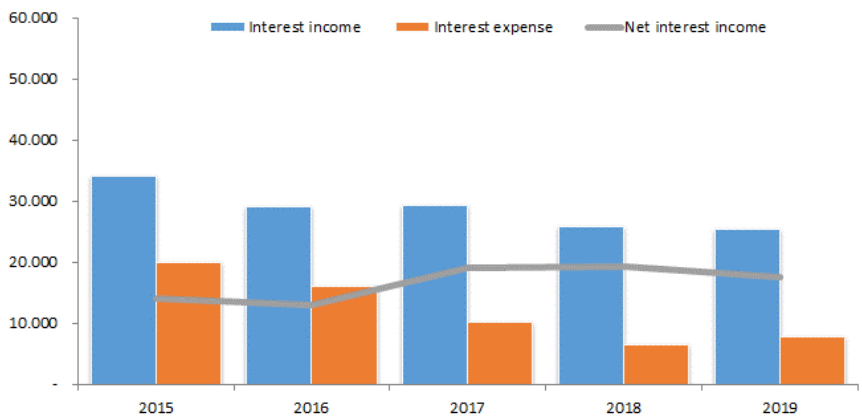
Net interest income

Breakdown of the net interest income (thousands of Euros)

Items	2019	2018	Chg.	Chg. %
INTEREST INCOME AND SIMILAR REVENUES	25,240	25,839	-598	-2.3
INTEREST EXPENSE AND SIMILAR CHARGES	(7,692)	(6,522)	-1,170	+17.9
NET INTEREST INCOME	**17,548**	**19,316**	**-1,768**	**-9.2**

As a whole, the money management spread (net interest income net of interest on arrears and doubtful loans) reached 1.22% from 1.33% recorded by the Bank in 2018; the trend in margins is related to the drop in average interest-bearing asset balances in the presence of stable average yields but a significant increase in the average cost of funding (0.61% vs. 0.50%; +0.11%), for a total negative effect of €1.9m, partly offset by higher takings from interest on doubtful positions and overdue of €170 thousand.

Trend in net interest income (thousands of Euro)



Net revenues from services and net interest and other banking income

Net commissions, amounting to €1.956m, increased by €486 thousand (+33.3%) compared to 2018, as a result of higher loan approval fees (+€251 thousand) and for early termination (+€202 thousand).

Net revenue from services (thousands of Euro)

Items	2019	2018	Chg.	Chg. %
FEE AND COMMISSION INCOME	**2,384**	**1,918**	**+466**	**+24.3**
- survey and investigation	1,143	891	+251	+28.2
- corporate finance	751	723	+28	+3.9
- administrative	99	100	-1	-0.7
- early termination	346	143	+202	+141.4
- others	45	61	-16	-25.8
FEE AND COMMISSION EXPENSE	**(428)**	**(448)**	**+20**	**-4.5**
- intermediation of applications for credit lines	(76)	(109)	+32	-29.7
- guarantees on lending / borrowing	(332)	(312)	+19	+6.2
- others	(20)	(27)	-7	-26.1
NET COMMISSIONS	**1,956**	**1,470**	**+486**	**+33.0**

In 2019, dividends of €382 thousand (€584 thousand in 2018) were collected which, combined with net commission income, brought the operating margin to €19.886m (-€1.485m; -6.9%).
Securities portfolio management generated capital gains of €1.5m (compared to €1.3m in 2018). The net result of assets and liabilities measured at fair value included capital gains of €82 thousand as a result of changes in the fair value of cap options and warrants.
The above-mentioned results, bring net interest and other banking income to €21.432m, down by 5% (-€1.1m) with respect to the comparative data of the previous year.

Operating costs

Operating costs came to €10.940m, up by +€245 thousand compared to the previous year (€10.695m) as a result, for the most part, of a contingent increase in payroll. Other administrative costs also increased in relative terms compared to the same period of the previous year (+€129 thousand): this result is related for €62 thousand to the increase in professional fees - including, in particular, those relating to external experts who assist in the packaging of the most complex project finance operations (+€29 thousand) - and for €59 thousand to the expenses incurred for the personalisation of the rating model used to calculate the collective impairment of receivables.

Operating costs (thousands of Euros)

Items	31/12/2019	31/12/2018	Chg.	Chg. %
ADMINISTRATIVE COSTS:	(10,239)	(9,946)	-293	+2.9
a) payroll:	(7,083)	(6,930)	-153	+2.2
- employees costs	(6,600)	*(6,455)*	*-145*	*+2.2*
- directors and auditors costs	(483)	*(475)*	*-8*	*+1.7*
b) other administrative costs [14]	(2,399)	(2,270)	-129	+5.7
c) contribution to the banking crisis resolution fund [15]	(757)	(746)	-11	+1.5
NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES	(132)	(150)	+18	-11.8
NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	(513)	(557)	+44	-7.8
OTHER OPERATING CHARGES/INCOME	(55)	(42)	-14	+32.6
OPERATING COSTS	**(10,940)**	**(10,695)**	**-245**	**+2.3**

Net provisions for risks and charges relate to the personnel incentive scheme.
Amortisation and depreciation for the period totalled €513 thousand, down by €44 thousand compared to December 2018. Taking into consideration other net expenses of €55 thousand, operating costs recorded an increase of €245 thousand, bringing the cost to income ratio to 51.0%, compared to 47.4% in 2018; net of the extraordinary components[16], the ratio increased to 50.1% from 46.5% in December 2018.

Efficiency indices

Items	2019	2018	Chg.
Operating costs/Net interest and other banking income (%)	51.0	47.4	+3.6
Payroll/Net interest and other banking income (%)	33.0	30.7	+2.3
Average cost per employee (thousands of Euros)	86.0	82.5	+3.5
Net interest and other banking income/average number of employees (thousands of Euros)	279.2	288.2	-9.0
Positive total/average number of employees (thousands of Euros)	18,790.4	18,681.8	+108.6

Net of the operating costs shown above, the Gross operating income stood at €10.895m, down (-€5.1m, -32.1%) compared to the result in the previous year.

Value adjustments and net income from financial activities

The analytical valuation of impaired loans produced value adjustments of €8.352m and write-backs of €4.690m, as well as recoveries of €293 thousand from collections on doubtful loans classified as loss-generating in previous periods.
On the other hand, the collective valuation process of the loans portfolio produced total net write-backs of €909 thousand. The collective valuation of HTC securities - minibonds and government securities classified as loans and advances to customers and securities of banks classified as loans and advances to banks - generated net write-backs of €125 thousand, while the analytical valuation of an unlikely to pay minibond generated

14 Recoveries from customers for indirect expenses and taxes incurred by the Bank (+€574 thousand in 2019, +€804 thousand in 2018) were reclassified, as a direct adjustment of the same, from the item "Other operating charges/income" to the item "Administrative costs". The item "Gains/losses on disposal of investments" (+€2.6 thousand in 2019, +€8.0 thousand in 2017) was reclassified to the item "Net adjustments to property, plant and equipment and intangible assets". Moreover, in 2019, the effects of applying IFRS 16 were neutralised by reclassifying under other administrative costs both interest expense on the payable to lessees (€2.7 thousand) and depreciations of rights of use (€69.9 thousand).

15 The amount relating to the contribution to the banking crisis resolution fund was split off from the item "other administrative costs" for a better understanding of their trend.

16 The extraordinary contribution to the bank crisis resolution fund (€203 thousand in both financial years) and early retirement incentives (€3 thousand in 2019) are considered extraordinary components, if any.

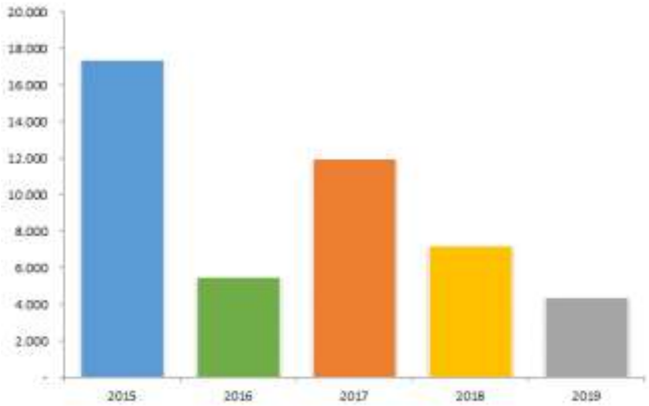
adjustments of €55 thousand. During the period, losses of €1.291m were charged directly to the income statement. The sale of doubtful loans generated net gains amounting to €1.095m.
The collective valuation of HTCS securities - government securities and securities issued by banks - generated net write-backs of €173 thousand, while the valuation of the subsidiary Paradisidue resulted in adjustments of €370 thousand.
The collective valuation of the guarantees issued and the available margins generated adjustments of €11 thousand.
The total net value adjustments on financial assets reached €4.324m, compared to €7.194m in the previous year.

The measurement of the financial statement assets is summarised in the table below:

(thousands of Euro)

Items		31/12/2019	31/12/2018	Chg.	Chg.
Value adjustments on HTC loans and advances	(see part C tab.	(3,682)	(5,043)	+1,361	-27.0
Net gains on the sale of HTC loans and advances	(see part C tab.	1,095	40	+1,055	+2,610.2
Provisions for legal disputes on loans and advances	(see	1	(838)	+839	-100.1
Value adjustments on HTCS debt securities	(see part C tab. 8.2)	173	(104)	+277	-266.0
Change in FV Investments in UCITS	(see part C tab. 7.2)	(1,531)	(974)	-557	+57.2
Value adjustments on equity investments	(see part C tab. 15.1)	(370)	(550)	+180	-32.7
Value adjustments on other fin. transactions	(see part C tab. 11.1)	(11)	275	+286	-104.0
Write-down of receivables, securities and equity		**(4,324)**	**(7,194)**	**+2,870**	**-39.9**

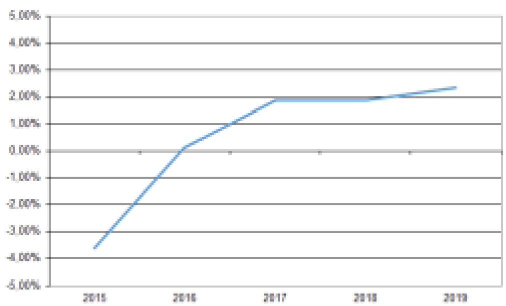
Trend in adjustments to loans and advances (thousands of Euro)



Profit (loss) for the year

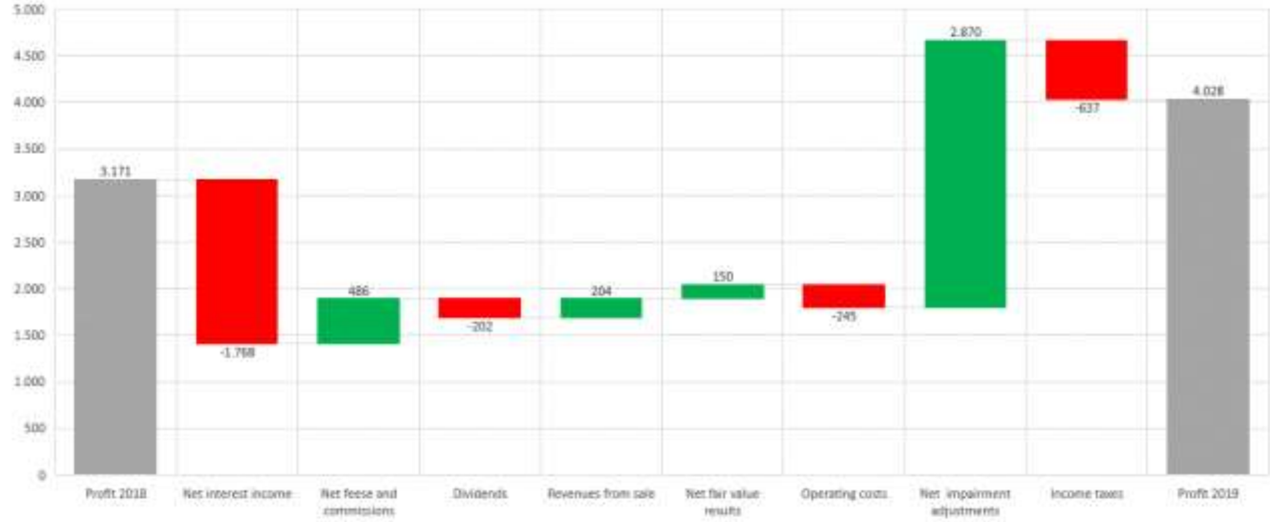
The profit on current operations before taxes was €6.168m, marking an increase by 32% compared to the previous year (+€1.493m). The net profit for the period was €4.028m, after the calculation of the tax burden of €2.140m[17], which expresses a tax rate of 34.7%.

Trend for ROE



17 When determining the tax burden for the 2019 financial year, deferred tax assets on the tax loss for the 2015 financial year were used for the entire residual amount of €347 thousand.

Comparison of net profit 2018 and 2019



EQUITY AND THE STATE OF AFFAIRS OF THE COMPANY

Equity

Reserves increased by €1.366m due to the allocation of the profit for 2018.
Valuation reserves increased by €81 thousand due to the reversal to the extraordinary reserve of negative reserves relating to equity securities under OCI options transferred in 2018 and by €1.244m for the adjustment of the value of financial assets measured at fair value with impact on overall profitability and defined benefit plans (actuarial gains/losses).

As shown in the table below, after taking into account the net income for the period, equity amounted to €175.166m, up by €3.547m.

(in thousands of Euro)

	Items	Dec 2019	Dec 2018	Chg.
130.	Valuation reserves	1,512	187	+1,325
160.	Reserves	81,301	79,934	+1,366
170.	Additional paid-in capital	29,841	29,841	-
180.	Share capital	58,485	58,485	-
200.	Profit for the period	4,028	3,172	+856
	Total equity	**175,166**	**171,619**	**+3,547**

Own funds capital adequacy

Own funds as well as the capital adequacy ratios were calculated on the data taken from the financial statements prepared in application of the international accounting standards IAS/IFRS and the supervisory regulations.
It should be noted here that on 12 December 2017, the European Parliament and the Council issued Regulation (EU) 2017/2395 "Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds" that updates CRR Regulation 575/2013, introducing the new article 473 bis "Introduction of IFRS 9", which offers banks the possibility of mitigating the impact on own funds deriving from the introduction of IFRS 9 in a transitional period of 5 years (from March 2018 to December 2022) by sterilising the impact in CET1 with the application of decreasing percentages over time. Mediocredito chose not to adopt this approach by calculating the entire effect due to the higher impairment, net of the tax component, in its own funds in 2018.

Common Equity Tier 1 capital – CET1

Common Equity Tier 1 capital consists of the share capital (€58.485m), additional paid-in capital (€29.841m), the reserves (the aggregate of the legal reserve, the extraordinary reserve, the reserves of special revaluation laws and those formed at the time of application/review of IAS/IFRS) for a total amount of €85.619m[18].

It includes also the valuation reserves related to the equity securities under the OCI Option and the debt securities managed in the HTC&S business model amounting to €2.362m (negative) and reserves from actuarial gains/losses related to defined benefit plans (severance indemnities) amounting to €445 thousand (negative).
It is adjusted by negative elements attributable to intangible assets of €132 thousand and by supplementary value adjustments to regulatory capital of €139 thousand.

2. Additional Tier 1 Capital (AT1)

The capital structure of the Bank does not present elements included in the Additional Tier 1 capital.

3. Tier 2 capital (T2)

The capital structure of the Bank does not present elements included in the Additional Tier 1 capital.

	2019	2018
A1. CET 1 before the application of prudential filters	**171,138**	**168,447**
of which CET1 instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	-139	-129
C. CET1 gross of the elements to be deducted and of the effects of the transitional regime (A+/-B)	**171,000**	**168,319**
D. Elements to be deducted from CET1	**+132**	**+395**
E. Transitional regime – Impact on CET1 (+/-)	**-**	**-**
F. Total CET 1 (C-D+/-E)	**170,868**	**167,924**
G. AT1 gross of the elements to be deducted and of the effects of the transitional regime	-	-
of which AT1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**	**-**
L. Total AT1 (G-H+/-I)	**-**	**-**
M. T2 gross of the elements to be deducted and of the effects of the transitional regime	-	-
of which T2 instruments subject to transitional provisions	-	-
N. Elements to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**-**	**-**
P. Total T2 (M-N+/-O)	**-**	**-**
Q. Total own funds (F+L+P)	**170,868**	**167,924**

The Own Funds are the first safeguard against risks that a bank has to deal with and, looking forward, the level of capitalisation is a crucial lever for developing the typical business of the Bank whilst simultaneously preserving its stability.
The statement included in part B. details the single items that contribute to determining the "risk-weighted assets" for the purposes of calculating the "solvency ratios", applying the standard method, as per the rules laid down by Basel III regulations; in particular:

- CET1 ratio: CET1 data / risk-weighted assets;
- T1 ratio: Tier 1 capital data / risk-weighted assets;
- Own funds ratio: Own funds data / risk-weighted assets.

With the acknowledgement in Italy of Directive 2013/36/EU (CRD IV) and in compliance with the provisions of the EBA with the Guidelines on common SREP, the Bank of Italy – in conclusion of the regular supervisory

18 The calculation of CET1 does not include the profit for the year in that the requirements set forth in Article 26, paragraph 2 of Regulation (EU) 575/2013 as specified by Decision (EU) 2015/656 of 4 February 2015 are not complied with.

review process (SREP) – revised the bank's capital ratios, requesting additional capital with respect to the minimum regulatory requirements.

Moreover, from 1 January 2019, the minimum requirements will increase by 0.625% as a result of the end of the transitory period for the gradual introduction of the Capital Conservation Buffer measure envisaged by CRD IV.
Starting from 1 January 2019, the Bank is required to constantly meet the following capital requirements:

- CET1 ratio of 7.38%, including capital conservation buffer of 2.50%. This ratio is binding at 4.88% (minimum of 4.50% and 0.38% of additional SREP requirements);
- Tier 1 ratio of 9.01%, including capital conservation buffer of 2.50%. This ratio is binding at 6.51% (minimum of 6.00% and 0.51% of additional SREP requirements);

Total Capital ratio of 11.19%, including capital conservation buffer of 2.50%. This ratio is binding at 8.69% (minimum of 8.00% and 0.69% of additional SREP requirements).

(in thousands of Euro)

Category/amounts	Non-weighted amounts		Weighted amounts	
	2019	2018	2019	2018
A. RISK-WEIGHTED ASSETS				
A.1 Credit risk and counterparty risk				
1. Standardised approach	1,469,864	1,504,325	864,473	866,987
2. Internal ratings-based approach				
2.1 Basic				
2.2 Advanced				
3. Securitisation				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			69,158	69,359
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risk				
1. Standardised approach				
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic approach			3,263	3,006
2. Standard approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total prudential requirements			**72,421**	**72,364**
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			905,265	904,556
C.2 CET1/Risk-weighted assets (CET1 capital ratio)			18.87	18.56
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			18.87	18.56
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			18.87	18.56

Own funds amounted to €170.9m; net of the minimum regulatory requirements, their residual value was as follows:

- €126.7m with respect to the 4.88% threshold set for CET1, reduced to €104.1m to take into account the additional conservation buffer;
- €89.3m with respect to the 9.01% threshold set for total tier 1 capital; and
- €69.6m with respect to the 11.19% threshold set for own funds;

which are considered adequate to ensure the development of the business activity and future compliance of the minimum equity requirements established by Basel III.

Trend in own funds

	2019	2018
Opening tier 1 capital	**167,924**	**180,198**
Share capital increase (+)	-	-
Share capital reduction (-)	-	-
Non-distributed income (-)	+1,366	+1,435
Change in Bank's creditworthiness (-)	-	-
Change in comprehensive income:	+1,325	-4,773
Assets through other comprehensive income	+1,375	-4,796
of which IFRS 9 First-time Adoption Effect		*-1,338*
Defined benefit plans	-51	+23
Other	-	-
Changes in goodwill and other intangible assets	-84	+16
Changes in deferred tax assets that depend on future profitability and do not derive from temporary differences	+347	+893
Changes in the impact of the transitional regime	-	-36
Losses in the current year		
Unrealised losses measured at fair value	-	+212
Unrealised gains measured at fair value	-	-
Deduction of deferred tax assets that depend on future profitability and do not derive from temporary differences	-	-248
Deferred tax assets that depend on future profitability and derive from temporary differences existing as at 1 January 2014	-	-
Variation in surplus elements to be deducted from additional tier 1 capital with respect to additional tier 1 capital	-	-
Other changes	-10	-9,809
of which IFRS 9 First-time Adoption Reserve		*-9,746*
Changes in additional tier 1 capital (AT1)	-	-
Losses in the current year	-	-
Variation in surplus elements to be deducted from additional tier 1 capital with respect to additional tier 1 capital	-	-
Closing tier 1 capital	**170,868**	**167,924**

Opening tier 2 capital	**-**	**106**
Share capital increases that cannot be included in tier 1 capital (+)	-	-
Share capital decreases that cannot be included in tier 1 capital (-)	-	-
Changes in the impact of transitional regime:	-	-106
Filters and deductions provided for by national regulations in accordance with Basel II (known as Prudential filters)	-	-106
Amortisation/Depreciation changes	-	-
Other changes	-	-
Closing tier 2 capital	**-**	**-**
Own funds	**170,868**	**167,924**

Rating

Following the evaluation activity carried out by the rating agency in November 2019, the rating was confirmed as indicated below:

Moody's Investor Service

Outlook	**Stable**
Counterparty Risk Rating	Baa3 / P-3
Bank Deposits	Baa3 / P-3
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Baa3(cr) / P-3(cr)
Issuer Rating	**Ba1**
Senior Unsecured - Dom Curr	Ba1

On 26 March 2020, following the Coronavirus pandemic crisis, the agency changed the outlook from stable to negative.

THE SYSTEM OF INTERNAL CONTROLS, COMPLIANCE WITH LAWS AND REGULATIONS AND RISK MANAGEMENT

Given its size and business model, the Bank operates in a moderate risk context that remained substantially stable also during 2019. In spite of this, it attaches great importance to risk management and control to ensure reliable and sustainable value creation in a context of controlled risk, protecting its financial soundness and reputation.
The departments involved in Risk Management and internal controls i.e. Internal Auditing, Compliance and Risk Management, regularly discuss the issues with the General Management and with the Manager responsible for preparing the company´s financial reports directly and through several committee meetings, which have been entrusted with the task of monitoring the different risk profiles and the correct functioning of the control system. These committees include the ALCO Committee, for financial risks, the Credit Risk Management Committee, the Investment Committee for the management and evaluation of venture capital investments as well as the Control Committee that is entrusted with the supervision of the overall system of control and risk management.
For more in-depth information relating to tasks, missions and characteristics of the departments and committees involved, please see the relevant sections in Part E - Notes to the Financial Statements.

AUDITING ACTIVITY

Internal Auditing responsibility is entrusted to the Auditing function that constantly monitors company processes and activities to ensure that they comply with regulations and assess the effectiveness of the overall system of internal controls.
The Internal Control System has been monitored by the Internal Auditing Office that, in the reports prepared at the end of the various checks carried out in the course of the year, has always given a focus to such an important aspect. During 2019, Internal Auditing activities were also focused on controlling the correct functioning of I and II controls within the Bank. Shortcomings, where encountered and in particular when considered significant, have been promptly referred to the relevant Operational Unit indicating possible solutions to be adopted, aimed at improving the complex system of internal controls. The Internal Auditing Service monitors that requested changes are implemented in the course of its follow-up activity and highlights the results in special reports.
A Service Agreement is in effect between the internal auditing function and the compliance function of the Bank in order to avoid duplication in their monitoring responsibilities and obtain better efficiency in the control process. To this end, an IT tool (CSD/SIC platform) is in place, which includes specific functionalities dedicated to the control system and, also in 2019, work continued on the review and continuous updating of 1st level controls and their simultaneous replication on the mentioned platform.

Moreover, the Internal Auditing Service reports on a regular basis to the Board of Directors, the Board of Statutory Auditors, the Control Committee and the General Management on the annual and multiannual work programme in advance and with regard to the final results of all the activities carried out, highlighting structural critical points, the most suitable improvements and providing an overall assessment of the internal control system.

COMPLIANCE ACTIVITY

The management of non-Compliance risk is assigned to the Compliance and Risk Management Department whose activities consist of identifying and assessing non-compliance risks, proposing organisational changes to mitigate them, providing support and advice to senior management and business units on all matters on which non-compliance risk is significant, monitoring (also together with the other company control functions) to ensure that compliance continues and promoting a business culture characterised by an observance for integrity and law.
The work method adopted was based on a "risk-based" approach – giving priority and structuring compliance activities in relation to the level of exposure to risk – and involved the use of documentary sources and extensive interaction with internal and external stakeholders who, in various capacities, contribute to the management of non-compliance risk.
In 2019, the traditional activities of controlling the risk of non-compliance and verification and updating of the internal control system concerned the following aspects:

- regulatory and operational compliance with European Directive no. 2015/849/EU (known as "IV Anti-Money Laundering Directive");

- analysis and close examination of European Directive no. 2018/843 (known as "V Anti-Money Laundering Directive");
- definition of the policy on investments in real estate, adaptation to Bank of Italy Circular no. 285 of 17 December 2013 - Part Three - Chapter 10;
- operational impact analysis of calendar provisioning (Regulation (EU) 575/2013);
- revision of the market abuse regulation, compliance with Regulation (EU) 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.

Moreover, the compliance function focused on the following specific issues:

- ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process);
- anti-money laundering, with a special reference to the procedures for carrying out customer due diligence;
- transparency of operations and banking and financial services and regularity of the relationships between intermediaries and customers;
- remuneration and incentive policies;
- liquidity management process;
- organisational procedures for the provision of investment services and activities to the public;
- risk assets and conflicts of interest;
- operational management of Non Performing Loans (NPLs);
- European Directive 2015/2366 - Payment Services Directive 2 (known as "PSD2").

RISK MANAGEMENT ACTIVITY

The management and monitoring of the overall risks for the Bank is entrusted to the “Risk Management” function that, in the organisational chart, reports directly to the Board of Directors - responsible for the overall monitoring of the risk management and control system – with a reporting line into the General Management. The “Risk Management” function attends the board committees in charge of assessing and managing risks and, in particular, is part of the Credit Risk Management Committee and the ALCO Committee for financial risks, and the Control Committee, of which it is the secretary.

The Bank’s system of internal controls is based on a model that ensures the organisational separation of the control functions from the business, guaranteeing its independence.

The “Risk Management” function aims to identify, assess and monitor the overall risk of the Bank through the integrated coordination of the various risk profiles (credit, financial, etc.), by offering support to the General Management and the Board of Directors in defining the decisions regarding sustainability and risk tolerance, the policies for the assumption, governance and significant risks for the Bank, in application of the regulatory framework set forth by the Supervisory Authorities.

In 2019, the main areas of intervention of the “Risk Management” function concerned:

- activities in terms of contribution to the definition and implementation of the Risk Appetite Framework (RAF) and Statement (RAS), and the associated risk governance policies and monitoring and control of these risks and subsequent management reporting;
- risk measurement, assessment and control system correlated to the obligations and compliance with the Internal Capital Adequacy Assessment Process (ICAAP), and the quarterly monitoring of the Bank’s significant risks;
- for credit risk, the activities relating to performance monitoring of credit exposures, risk concentrations, assessment of the consistency of asset classifications and the adequacy of provisions for IFRS 9 compliant impaired and performing exposures;
- preventive analysis of new regulations/policies and related organisational procedures, as well as their updates in accordance with internal regulations;
- monitoring the risks on public investment services.

COMPLIANCE WITH REGULATIONS

International accounting standard IFRS 16

From 1 January 2019, IFRS 16 "Leases" came into force, a new accounting standard that, replacing IAS 17, impacts on the accounting method for lease contracts as well as for rental, hiring, lease and gratuitous lease contracts, introducing a new definition based on the transfer of the "right-of-use" of the leased asset. In fact, the new standard requires that all lease contracts be recorded by the lessee in the Statement of financial position as assets and liabilities. A different method of recognition of costs is also introduced: while under IAS 17, lease payments were shown in the income statement under administrative costs, under IFRS 16 the charge is represented both through the amortisation of the "right-of-use" asset and as interest expense on debt. During 2019, the Bank carried out an assessment activity that led to the identification of the contracts subject to this standard. For further information, refer to the chapter "Transition to IFRS 16 and the Effects of First-time Adoption".

IV Anti-Money Laundering Directive (Legislative Decree no. 90/2017)

With Legislative Decree no. 90 of 25 May 2017, the "IV Anti-Money Laundering Directive" (Directive 2015/849/EU) on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing was implemented in Italy.
The Decree in question fully amended Legislative Decree no. 231/2007 also with regard to those standards not directly affected by the decree transposing the regulations.
In view of the changed regulatory environment, the Bank put in place a series of adjustments to fully implement the new provisions, taking into account the different timing required by the same legislative decree.
In connection with this composite regulatory environment, Mediocredito launched an adaptation project aimed at introducing new regulations within its system for managing and monitoring the risk of money laundering, by strengthening - where necessary - the specific envisaged controls. At the date of this report, the adaptation process is essentially complete, with a special reference to the following areas:

- management of occasional relations/transactions with "Politically Exposed Persons - PEPs", on the basis of the new and more extensive wording of the new introduction;
- use of the new definitions and the resulting personal data necessary for the purposes of customer due diligence ("residence", "domicile", etc.);
- use of the new principles to identify the beneficial owner;
- introduction of new restrictions on the use of cash and bearer securities;
- management of occasional relations/transactions with subjects residing in "high risk third countries", as part of the enhanced due diligence.

During the month of July 2019, the Bank of Italy issued the measures to fully implement the "IV Anti-Money Laundering Directive" and on the basis of these measures the Bank redefined the entire system of self-regulation, by envisaging its following structure:

- Money laundering and terrorist financing risk management policy;
- Regulations of the Anti-money laundering Function;
- Processes on:
  - customer due diligence;
  - storage and use of data and information relevant for anti-money laundering purposes;
  - system of internal anti-money laundering controls;
  - reporting of suspicious transactions;
  - self-assessment of money laundering risks.

Policy on investments in real estate (Bank of Italy Circular no. 285/2013)

In the last quarter of 2018, the Bank of Italy published an update to Circular no. 285 of 17 December 2013, which inserted a new chapter 10 on "Investments in real estate".
As a result, the Bank adopted the "Policy for investments in real estate", to bring internal regulations into line with the guidelines of the Supervisory Body, which encourages banks and banking groups to actively manage the real estate guarantees that assist loans in order to promote the efficiency and speed of the NPL recovery process (including through the acquisition - directly or indirectly through specialised companies known as REOCO - Real Estate Owned Company - of the properties used as collateral) and to define controls and adjustments in terms of organisational and corporate governance rules.
With regard to the main aspects of the new regulations, the following should be noted:

- banks and banking groups can acquire properties for instrumental purposes, by which is meant properties that are ancillary to banking and financial activities, while the possibility of carrying out real estate activities of a merely speculative nature continues to be ruled out;
- the general limit on real estate investments is confirmed to an extent not exceeding the total amount of own funds net of accumulated depreciations of real estate (taking account of equity investments), allowing it to be exceeded only if the real estate is acquired as part of the debt recovery activity or if the bank has regained possession of it following the termination of lease contracts;
- the specific capital requirement and the obligation to dispose of funds previously envisaged by Circular 229 were eliminated, in discontinuity with the past.

Basel III (Bank of Italy Circular no. 285/2013)

Regulation (EU) no. 575/2013 ("CRR"), which introduces the rules defined by the Basil Committee on banking supervision regarding capital adequacy (First Pillar) and public disclosure (Third Pillar) (known as Basel III) applies since 1 January 2014. The CRR is integrated by Directive 2013/36/EU ("CRD IV"), the Regulatory Technical Standards (RTS) and the Implementing Technical Standards (ITS).
With regard to liquidity risk, in compliance with the EBA guidelines, the internal liquidity adequacy assessment process (ILAAP) was carried out and the related report produced. Further details are provided in the relevant section of Part E of the Notes to the Financial Statements.

First Pillar

Regarding the first pillar, the Bank continued to adopt a simplified version of the Standardised Approach. Such methodology foresees sub-divisions in "portfolios" regarding the exposure of the bank and the application of a specific weighting factor to each portfolio.
As part of its basic guidelines, the Bank continued to perfect measures of Credit Risk Mitigation (CRM) in relation to the "exposures secured by property" portfolio. The related monitoring activity carried out in particular on non-performing positions was systematically implemented.
The structure comprises organisational controls - activities aimed at identifying and implementing the process stages, and procedural/operational controls. These consist of ways to activate an automated system for appraising the value of real estate (a service offered by an external provider), which is used in conjunction with real estate estimates carried out by the internal experts (belonging to an organisational unit that is autonomous and independent from the main businesses).

Second Pillar

The Risk Management supervised the capital adequacy assessment process (ICAAP) by reiterating the process at quarterly intervals to check and possibly improve the overall assessment structure, test the methodologies used to quantify measurable risks and to assess the results of the process both in terms of overall capital absorption and in terms of individual risk. This was done to verify that capital resources are able to cover the unexpected losses deriving from risks for which minimum capital requirements needs have not been established. The basic purpose of ICAAP is to determine Total Capital and check its capacity (in current terms - also introducing stress hypotheses - as well as prospective terms) to cover all relevant risks to which the Bank is exposed.
Out of these activities, the following conclusions have been made for 2019:

- confirmation of the procedure for the ICAAP Process and relative regulations both in terms of sphere of competence assigned to bodies and corporate functions, and of operational stages and information flow in relation to the size and nature of Bank activities;
- the consistency between ICAAP, RAF and Recovery Plan;
- confirmation of current and future capital adequacy.

Third Pillar

During 2019, the Public Disclosure as at 31 December 2018 was prepared and published.
The choices made by the Bank to comply with the disclosure requirements were approved by its supervisory body, which also performs the task - with the participation of the General Management - of adopting the necessary measures to comply with the requirements. Finally, the Board of Statutory Auditors – as body with control function - verifies the adequacy of the procedures adopted.
In particular, the disclosure presents, among other things, the composition of Own Funds with an indication of the capital requirements (including additional capital with respect to the minimum regulatory requirements)

that the Bank is required to apply following the conclusion of the regular supervisory review process (SREP) by the Supervisory Authority;
Also note that the other mandatory relevant information required by art. 432 of the CRR, namely:

- information pursuant to letter c), paragraph 2 of art. 435 of the CRR in relation to the corporate governance provisions contained in the "Report on corporate governance and ownership structures";
- information pursuant to art. 450 of the CRR regarding the implementation of the "General remuneration and incentive policies";

is published on the Bank's website.

Market abuse regulation (Regulation (EU) 596/2014)

Since 2011 and as part of the process of revising the organisational model pursuant to Legislative Decree no. 231/01, the Bank has a "Regulation for the prevention and management of market abuse". Over the years, the subject matter of Market Abuse has been the subject matter of a series of regulatory interventions, among which we highlight:

- Regulation (EU) 596/2014 on Market Abuse Regulation (MAR);
- Delegated Regulation (EU) 2016/522 supplementing Regulation (EU) 596/2014;
- Law no. 163 of 25 October 2017 - Delegation to the Government for the transposition of European directives and the implementation of other acts of the European Union.

In this context - while aware that the Bank has limited operations in the areas envisaged by the MAR regulations - the Supervisory Body pursuant to Legislative Decree no. 231/01 of the Bank, during 2019, deemed it appropriate to update the aforementioned "Regulations for the prevention and management of market abuse" and, at the same time, to separate it from Model 231/01 and name it "Market Abuse Regulation" so as to constitute an autonomous body of regulations.
The new Market Abuse Regulation was approved by the Supervisory Body in December 2019 and subsequently adopted by the Board of Directors.

Guidance on the management of non performing loans for Italy's Less significant institutions (NPL)

On 30 January 2018, the Bank of Italy published the final version of the "Guidance on the management of non performing loans for Italy's Less significant institutions" (hereinafter the "Guidelines"), together with the related consultation report. This document, which is consistent with the "Guidance to banks on non performing loans" addressed to "Significant" banks, confirms the aim to promote more active management of non-performing loans by banks and represents the Bank of Italy expectations on the management of NPLs.
The adaptation project defined by the Bank envisaged:

- preparation of a self-assessment on how the NPLs are managed;
- definition of specific policies for the management of NPLs;
- definition of specific policies for the valuation of properties used as collateral for exposures (including those relating to doubtful positions);
- revision of the "Regulation of Information Flows";
- revision of the "Regulation for the incentive system" for the structures involved in the management of NPLs;
- preparation of short-term (1 year) and medium/long-term (3/5 years) operating plans.

Following the preparatory activities carried out during 2018 and covering the following aspects, the Bank has:

- adopted the Guidelines prepared by ABI for the valuation of properties used as collateral for credit exposures and properties used as collateral for bad debts;
- approved the results of the self-assessment process of the procedures in use for the management of non-performing loans - NPLs (gap analysis) and the measures to be implemented for full regulatory compliance identified within the same gap analysis (dividing them into two separate phases): Phase 1 - Regulatory framework: definition of internal policies for the management of NPLs; Phase 2 - Operating plans: preparation of short-term (1 year) and medium/long-term (3/5 years) operating plans;
- adopted: i) the "Policy for the management of non-performing loans - NPLs"; ii) the "Policy for the identification and management of external experts" as well as the 2018-2021 multiannual operating plan for managing NPLs, regularly sent to the Supervisory Body;

- assessed on a quarterly basis the progress made with respect to the objectives contained in the operating plan for managing NPLs and approved a partial revision of the plan in the light of the preliminary results and forecasts for 2019;

during 2019, the operational processes for the management of non-performing loans were activated in the light of the guidelines issued by the Bank of Italy for less significant institutions. The guidelines are consistent with the "Guidance to banks on non performing loans" issued at European level by the Single Supervisory Mechanism for Significant Banks and represent the Supervisory Authority's expectations with regard to the management of NPLs.

The Bank also constantly monitors the application of the following regulations previously in force:

- Circular no. 285 of 17 December 2013 - 1st Update – First Part, Title IV, Chapter 1 "Corporate governance": the updated version of the Corporate Governance Project is published on the Bank's website (www.mediocredito.it),
- Public system for preventing, from an administrative point of view, fraud in the consumer credit sector, with specific reference to identity theft (Legislative Decree no. 141 of 13 August 2010) – A specific agreement is in place with the managing body (CONSAP) for membership of the system in question;
- Database of Relations (Presidential Decree no. 605/1973): the submission to the Inland Revenue of the balances of the reports as at 31 December 2017 was carried out on 15 February 2018, as prescribed in the regulations in force;
- *Foreign Account Tax Compliance Act* (FATCA);
- Tax identification of holders of financial accounts (CRS – Law no. 95/2015 – Directive 2014/107/EU)
- Legality rating (Ministerial Decree no. 57 of 20 February 2014);
- Internal regulations on the Companies' administrative responsibility under Legislative Decree no. 231/2001 supervised by the Supervisory Body assigned to the Board of Statutory Auditors;
- Measure dated 15 July 2015 of the Bank of Italy: Provisions on "Transparency of operations and banking and financial services; regularity of the relationships between intermediaries and customers";
- Usury regulations (Law no. 108 of 7 March 1996);
- Measure containing implementing provisions with respect to customer due diligence (art. 7, paragraph 2, of Legislative Decree no. 231 of 21 November 2007);
- Regulations on the Mortgage Credit Directive (2014/17/EU and Legislative Decree no. 72/2016) on consumer credit agreements relating to residential real estate;
- Compound interests (Legislative Decree no. 385/93 - Consolidated Banking Act", art. 120 par. 2) on the procedures and criteria for the production of interests in transactions put in place in the course of banking activities;
- Investment services and EMIR Regulation (Regulation (EU) no. 648/2012);
- Regulation governing transparency of financial information (Legislative Decree no. 195/2007 and articles 154-bis and 154-ter of the Consolidated Finance Act) - the Bank, issue of securities listed on regulated European markets, maintained Italy as a member State of origin.
- Risk assets and conflicts of interest in respect of related parties (Bank of Italy Circular no. 263/2006, 9th update): the OPC Committee, appropriately established to express the relevant preventive opinions, expressed 3 non-negative opinions.
- Bank of Italy Circular no. 285/2013 – Title IV Chapter 4 "The information system": the bank's policy is to define an annual operating plan of the IT initiatives, which sets out the contents of the strategic plan in clear and practical actions; the Plan is approved by the Board of Directors on an annual basis as part of the RAF;
- Bank of Italy Circular no. 285/2013 – Title IV Chapter 5 "The operational continuity": the Board of Directors examines on an annual basis the management of operational continuity in the event of an emergency, the adequacy tests of the continuity procedures and updates the related plan;
- Safety regulation (Legislative Decree no. 81/2008) – the Bank conferred an assignment relating to the PPSM and the "employer" function was outsourced in accordance with Article 16 of Legislative Decree no. 81/2008;
- Internal system for reporting violations - Whistle-blowing (Legislative Decree no. 385/93 - Consolidated Banking Act, Articles 52-bis and 52-ter) set up on an independent and autonomous digital platform and such as to guarantee the confidentiality of the whistle-blower and of the alleged person responsible for the violation.
- MiFID 2 (Directive 2014/65/EU) and MiFIR (Regulation 600/2014/EU);

- European "BRRD" Directive on Recovery plans ("Bank Recovery and Resolution Directive" 2014/59/EU);
- European Directive on data protection and movement (Directive 2016/680/EU).

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

(Legislative Decree no. 58/1998, Article 123-bis and "Supervisory Provisions Concerning Banks' Organisation and Corporate Governance" issued by the Bank of Italy on 4 March 2008)

Article 123-bis of the Consolidated Finance Act specifies that the report on operations of companies issuing securities, admitted to trading on a regulated market, contains a specific section on corporate governance and ownership structures. Paragraph 5 of the same article allows companies not issuing shares that are admitted to trading on a regulated market or in multilateral trading systems, to omit the publication of information regarding paragraphs 1 and 2, excepting those of paragraph 2, letter b). Mediocredito Trentino-Alto Adige S.p.A. falls within the bounds of paragraph 5 and, therefore, provides, in line with the Bank's size and operational and organisational characteristics, the information required as per paragraph 2, letter b), regarding the main characteristics of the risk management and internal control systems in relation to the financial disclosure process. We want to stress that the Bank has a specific process in place for corporate governance whose review has implemented the new regulations introduced by the Bank of Italy Circular no. 285/2013 and, as far as the Bank is concerned, mainly refers to the criteria for the composition and self-assessment of the Administrative Board.
In more details, the project for corporate governance is based on the necessary statutory provisions and regulations and the drawing up of a "Corporate Governance Project" document, which is inspired by the traditional model of governance in function of reduced complexity and costs and organisational impacts related to it. The rights of the shareholders, the proprietary structure, the statutory and internal regulations pertaining to the Board of Directors and the Board of Statutory Auditors, the System of Internal Controls and Risk Management, remuneration and compliance policies, the role of the manager responsible for preparing the company's financial reports and the organisational model as for Legislative Decree no. 231/2001.
The Bank has also enforced a prudent delegation system in order to encourage maximum involvement of the Board of Directors (Institution of strategic supervision) in the operational management of the Bank.

a) "Corporate Governance Plan": information on the ownership structures.

INFORMATION ON OWNERSHIP STRUCTURES Pursuant to Article 123 bis of the Consolidated Finance Act		
1.	Share capital structure	Ordinary shares
2.	Restrictions on the transfer of securities	No
3.	Major shareholdings	Yes
4.	Securities giving special rights	No
5.	Employee equity participation: mechanism for exercising voting rights	No
6.	Restrictions on voting rights	No
7.	Shareholder agreements	Yes
8.	Appointment and replacement of the Directors and statutory amendments	Yes
9.	Delegations of powers to increase share capital and authorisations of share buyback	No
10.	Change-of-control clauses	No
11.	Indemnities for Directors in the case of resignation, dismissal or cessation of relations	No

b) Update and review of the internal regulations and the internal control and risk management system also with respect to the financial reporting process (paragraph 2, letter b of Article 123-bis of Legislative Decree no. 58/1998)

With respect to the provisions of paragraph 2, letter b) of Article 123-bis of Legislative Decree 58/1998 (Consolidated Finance Act), in which the Bank is required to document information regarding the main characteristics of existing risk management and internal control systems used in relation to the financial reporting process, the following is detailed.

The risk management and internal control system used in relation to the financial reporting process refers to administrative and accounting procedures (and to relative controls), which feed into/relate to the financial statements and fall under the competence of the manager in charge. The role of the manager in charge, jointly with the definition of the respective tasks, powers and means, is governed by the internal regulations of the Bank that has inserted this body in the wider system of internal controls in which other units of control and management operate in synergy, such as the Board of Statutory Auditors, the Internal Audit department, the Control Committee, the Credit Risk Management Committee, the ALCO Committee, the Investment Committee as well as the Compliance and Risk Management Functions.
In keeping with its own size and operational features, the Bank prepares and applies traditional administrative and accounting procedures that are deemed adequate for allowing the monitoring and mitigation of accounting risks, i.e. risks linked to specific events and transactions that could generate a mistake in accounting data from which accounting reports and financial statements originate. The integrated system of control functions (within which a significant portion of qualified and professionally trained personnel operates) and the presence of regulations and operating procedures provide an adequate safeguard for reaching the objectives of reliability and compliance of the financial disclosures.
In particular, the system in question is affected by a simple organisational Bank structure characterised by limited size and by territorial and economic sector concentration of the business: the organisational structure, in fact, makes provision for a substantial concentration of middle and back-office activity in the administrative area in which the monitoring and accounting control function operates, under the direction of the appointed manager. For key and non-key processes, this means a series of accounting and quality checks (adequately documented), arranging a sequence of functions (mostly automated) for the survey of accounting anomalies that are monitored on a daily basis and corrected in close partnership with the Planning and Control function, which operates with the respective systems for checking and viewing information. The monitoring function therefore prepares the appropriate documentation in support of the accounts and accounting entries at the time of preparation of the financial statements and report on operations, verifying that the information deriving from the other areas of the bank (business and legal) are appropriately validated by authorised managers. The same functions routinely carry out control and validation activities on an ongoing basis, mostly on the key processes of disbursement, re-payment and credit valuation within the finance department (liquidity, funding and derivatives). The activities of monitoring and control are shared by the manager in charge with the departments of Internal Auditing and Compliance, Risk Management along with the Board of Statutory Auditors. Finally, the General Management carries out the function of organisational intervention, arranging new control points or operational/functional strengthening where shortcomings are highlighted as part of the risk monitoring process. The formalisation and circulation of information relating to the controls carried out and to any shortcomings noticed is mostly concentrated (for reasons of operative efficiency in a small sized bank) in the Internal Auditing function.
Following the organisational and statutory adjustments linked to the appointment of the Manager in charge, in application of the Savings Law (Law no. 262/05), the Bank refers to the models generally recognised and accepted at international level (CoSO Framework and CObiT) for the design and ongoing review of the procedural and control structure.
With regard to the adequacy assessment of the information system, during 2019, the Bank re-internalised the IT Audit service - previously provided by the Federazione Trentina delle Cooperative - and, through the specialist consultancy support of Cassa Centrale Banca, carries out ICT audits. CCB's support is provided through a specific team, set up as part of the organisational structure of the new cooperative banking group and has adequate resources specialised in the area and ensures compliance of its analysis and assessment methods with the *CObiT* standard issued by the international Information Systems Audit and Control Association (ISACA).

EXPECTED BUSINESS TREND AND R&D ACTIVITIES

The pandemic spread of coronavirus, which was evident at the date of approval of these financial statements, calls for a profound reflection on the negative outlook for the world economy, the sharp downturn and volatility of the financial markets and the overall social and economic context in which Mediocredito will be called upon to operate.
The intensity of the effects will certainly and also significantly be correlated by the speed and the capacity to reabsorb the epidemic as well as by the reaction of the individual States, by the concrete measures activated by the supranational structures and, as regards Italy, by an organic and coordinated strong response at Community level of which the first measures activated by the ECB are only a first step.
On the one hand, Mediocredito will have to manage the liquidity needs of SMEs in the best possible way through extensive and widespread moratoria and instalment suspensions - partly the result of laws or national agreements in the sector - and, on the other hand, also with its consulting capacity, to look beyond the end of the crisis to identify the most suitable financial structures for its customers to enable them to reconnect the development path with new investments.
In this regard, debt rescheduling, new finance supported also by innovative instruments, advisory efforts and direct interventions aimed at strengthening risk capital will be part of the essential method and mix for a strong recovery after the crisis.
Therefore, it is reasonable that, for 2020, the first year of the new 2020-2022 business plan, the indicated development objectives - in terms of volumes of new credit disbursed - should be revised down significantly, while the overall stock of loans will be less affected by the benefits related to the moratorium and the foreseeable containment of early repayment.
On the other hand, the constant reabsorption recorded in recent years of impaired loans - both in absolute values and as a percentage of total loans - could slow down, in close correlation with the impact of the health crisis on GDP trends that, for the current year, will undoubtedly be largely recessive.
With regard to the covering of the financial needs, the process of diversification of sources will be further strengthened in order to contain liquidity risk and improve stable funding: in this area, without prejudice to the important support of the shareholders of Credito Cooperativo, the aim will be to renew and strongly strengthen the TLTRO3 measures put in place by the ECB, to reduce the transformation of maturities and to focus on the return of retail deposits, taking advantage of the online channel with the Conto Rifugio account and, when possible, with the opening of a modern consulting office at the Trento office with the aim of a return to widespread private savings collection.
Therefore, the outlook for the 2020 income statement will show, as a result of the lower volumes of credit, a pressure on net interest income, even if the TLTRO3 initiatives - at a negative rate and increasing volumes of funding of approximately €190m - should guarantee higher margins on collateral financial assets - mainly made up of Italian government securities and, to a lesser extent, European government securities and bank securities - which are consequently expected to grow.
Net interest and other banking income will be negatively affected by the slowdown in operating activities, with consequent lower commissions, and positively by a possible increase in dividends, resulting from the diversification of the Bank's financial assets through the acquisition of a limited portion of shares in leading Italian listed companies; however, in the first two months of the year, it has already benefited from the capital gains on the sale of government securities for an amount substantially equal to that obtained over the entire year 2019.
In the context outlined above, net profitability for the year will be affected by write-downs on loans and advances that, as regards the first quarter, still show very limited trends - considering the policies to strengthen provisions in recent years and the limited default rates in the first quarter - but which, for the remainder of the financial year, will be related to the intensity of the crisis and the extent of impairment during the recession.
In terms of organisation, with great effort and commitment on the part of the ICT structure, all the Bank's personnel have been put in a position to work in "smart working". It is hoped that the company's organisational structure will benefit, in the future and after the current emergency, from this unprecedented experience to allow the Bank to refine its characteristics of flexibility, modernity and efficiency.
On the other hand, with regard to logistics investments, the Bank will acquire the portion of real estate - now rented - that houses the Padua branch and has substantially completed the search on the real estate market in Bolzano of the new branch office.
The processes - started in 2019 - of architectural innovation of IT systems with the migration of the banking management software to the Allitude platform and internal communication systems, combined with extensive training interventions, will be completed, with a view to a general modernisation of processes that are also functional to the development of efficient and competitive operating models.

With respect to the regulatory adjustments of the Legislator and the Supervisory Authority, the Bank will be committed to the following issues with the greatest impact.

- completion of the transposition and adaptation of the IV / V Anti-Money Laundering Directive: for these areas, regulatory compliance activities have already been prepared by updating the Bank's "anti-money laundering policy" and related operational processes for customer due diligence, the system of internal anti-money laundering controls, data retention, self-assessment and Suspicious Transaction Reports. During 2020, the following activities should be completed:
  - updating of the company's information system for the implementation, in particular, of the new methods for carrying out customer due diligence;
  - collection of any missing data and information relating to customers acquired before the entry into force of the provisions on due diligence and for whom the regulations in force before Legislative Decree no. 90 of 25 May 2017 established forms of exemption from due diligence obligations.
- Completion of the adjustment to the provisions of Calendar provisioning (Regulation (EU) 2013/575, as amended by Regulation (EU) 2019/630), applicable to positions disbursed after 26 April 2019 and subsequently classified as Non Performing Exposures, to ensure:
  - the updating of the internal rules on the management of impaired loans-NPLs;
  - the implementation of the banking information system, with a special reference to the correct management/classification of guarantees, the new classification of NPEs based on the collateral and the management of coverage timing based on this classification.

PROPOSAL FOR THE ALLOCATION OF THE NET PROFIT

Dear Shareholders,

The net profit for 2019 amounts to €4,028,083.93, entirely distributable.
Despite the Bank's level of capitalization and overall risk profiles, it is considered appropriate to follow the Bank of Italy's recommendation to allocate profits to strengthening equity in order to put the financial system in the best position to absorb the losses that will materialize due to the health emergency and to continue to support the economy.

Profit for the year	**€**	**4,028,083.93**
- undistributable reserves under article 6, paragraph 2 Legislative Decree no. 38/2005 freed during the year	€	-
- allocation to undistributable reserves under article 6, paragraph 2 of Legislative Decree no. 38/2005	€	-
- 5% to the legal reserve	€	201,000.00
Distributable amount	**€**	**3,827,083.93**
- at the disposal of the Board of Directors for initiatives as per Article 21 of the By-laws	€	200,000.00
- dividend to distribute to shareholders	€	-
- further allocation to the statutory reserve	€	3,627,083.93

During 2019, the Bank sold/disposed of 3 equity investments held under OCI options without recycling the gains/losses in the income statement; it is hereby proposed to allocate the net balance of these capital gains/losses, equal to €133,824.42 of capital losses, to the statutory reserve.

Net realised capital gains (losses) on equity securities	**€**	**(133,824.42)**
- capital gains	€	3,914.13
- capital losses	€	(137,738.54)

As a result, the equity as at 31 December 2019 is as follows:

- share capital	€	58,484,608.00
- additional paid-in capital	€	29,841,458.06
- legal reserve	€	19,606,007.66
- statutory reserve	€	53,544,241.91
- valuation reserve	€	1,645,581.51
- reserve from the reclassification of risk provision	€	18,936,305.62
- reserve from the FTA as per Legislative Decree no. 38/2005	€	2,273,855.22
- reserve from the IFRS 9 FTA		(9,746,345.90)
- reserve as for ex IAS 8	€	380,695.00
- undistributable reserve under article 6, paragraph 2 Legislative Decree no. 38/2005	€	-
Total	**€**	**174,966,407.08**

The Board of Directors

CERTIFICATION PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION ON ISSUERS

Certification of the Financial Statements pursuant to Article 81-ter of CONSOB Regulation No. 11971 of 14 May 1999 and its subsequent amendments and additions.

1. The undersigned Franco Senesi, chairman of the Board of Directors and Leo Nicolussi Paolaz, manager responsible for preparing the Mediocredito Trentino-Alto Adige S.p.A.'s financial reports, in consideration of the requirements of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998 herewith attest to:
   - the adequacy in relation to the characteristics of the business and
   - the actual application

   of the administrative and accounting procedures for the preparation of financial statements during 2019.

2. No significant matters arose in this respect. It should be pointed out that the bank is now subject to the obligation pursuant to Article 154-bis of Legislative Decree 58/98 to establish the role of "Manager responsible for preparing the company's financial reports", given that the Bank, in the context of the issues of bonds on the Euromarket (EMTN programme - European Medium Term Notes Programme) has issued bonds that are listed on the Luxembourg stock exchange by choosing Italy as member State of origin.
   The assessment of the administrative and accounting procedure for preparing the financial statements for the year ended 31 December 2019 has been based on procedures consistent with the reference standards adopted by the Bank for the internal control system.

3. It also hereby certified that:
   3.1. the financial statements:
      a) have been prepared in accordance with the applicable international accounting standards as endorsed by the European Union under EC Regulation no. 1606/2002 of the European Parliament and Council of 19 July 2002;
      b) correspond to the results of the books and accounting records;
      c) are suitable to provide a true and fair view of the statement of financial position, income statement and financial position of the Issuer;

   3.2. the report on operations includes a reliable analysis of the performance and the operating result as well as the position of the issuer together with a description of the main risks and uncertainties it is exposed to.

Trento, 9 March 2020

The Chairman
of the Board of Directors

Franco Senesi

Manager responsible for preparing
the company's financial reports

Leo Nicolussi Paolaz

INDEPENDENT AUDITORS' REPORT

KPMG S.p.A.
Revisione e organizzazione contabile
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37138 VERONA VR
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Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Mediocredito Trentino-Alto Adige S.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Mediocredito Trentino-Alto Adige S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Mediocredito Trentino-Alto Adige S.p.A. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost

Notes to the financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets at amortised cost"

Notes to the financial statements "Part B - Information on the statement of financial position - Assets": Section 4 "Financial assets at amortised cost"

Notes to the financial statements "Part C - Information on the income statement": Section 8 "Impairment losses/reversals of impairment losses"

Notes to the financial statements "Part E - Risks and relative hedging policies": Section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Lending to customers is one of the bank's core activities. Loans and receivables with customers recognised under financial assets measured at amortised cost, totalled €1,239 million at 31 December 2019, accounting for 85.9% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €5.2 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement and/or acquisition. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, the borrower's estimated repayment ability, an assessment of any guarantees, the impact of macroeconomic	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; — selecting a sample of exposures tested collectively, checking the application of the measurement models applied and

Key audit matter	Audit procedures addressing the key audit matter
variables, future scenarios and risks of the sectors in which the bank's customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures on loans and receivables with customers recognised under financial assets at amortised cost in the financial statements.

Comparative information

The financial statements of Mediocredito Trentino-Alto Adige S.p.A. as at and for the year ended 31 December 2018 have been audited by other auditors, who expressed an unqualified opinion thereon on 26 March 2019.

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

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

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

— identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 18 April 2019, the bank's shareholders appointed us to perform the statutory audit of its financial statements as at and for the years ending from 31 December 2019 to 31 December 2027.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The bank's directors are responsible for the preparation of the directors' report and a report on corporate governance and ownership structure at 31 December 2019 and for the consistency of such reports with the related financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's financial statements at 31 December 2019 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's financial statements at 31 December 2019 and have been prepared in compliance with the applicable law.

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

Verona 27 March, 2020

KPMG S.p.A.

(signed on the original)

Massimo Rossignoli
Audit Partner

BOARD OF STATUTORY AUDITORS' REPORT

(pursuant to the second paragraph of Article 2429 of the Civil Code)

Dear Shareholders,

Mediocredito Trentino-Alto Adige S.p.A. prepared the annual report for the financial year 2019 in accordance with Legislative Decree no. 38 of 28 February 2005, adopting the international accounting standards outlined for drafting the individual annual report of listed companies and banks.
The 2019 annual report for your Bank is composed of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the financial statements. It is also accompanied by the report on operations of the Board of Directors.
Finally, the tables and the notes to financial statements were prepared according to instructions issued by the Bank of Italy, as established under Circular no. 262 of 22 December 2005 and subsequent clarifications and updates. The Board of Directors forwarded the annual report to the Board of Statutory Auditors in a timely manner.
The Board of Statutory Auditors states that the Bank, as an entity of public interest, is subject to external auditing according to Legislative Decree no. 39 of 27 January 2010, implementing directive 2006/43/EC, by KPMG S.p.A. pursuant to Art. 2409 bis et sequitur of the Italian Civil Code. This company has been entrusted with the task of auditing the annual report of the Bank for the nine year period 2019-2027, under a resolution of the Shareholders' Meeting of 18 April 2019.

1. We have conducted our audit of the annual report in accordance with the code of conduct of the Board of Statutory Auditors as laid down by the National Institute of Certified Public Accountants and Bookkeepers and under said principles we referred to all the laws currently in force in Italy that regulate the annual report that now includes the new international accounting standards.
2. In the preparation of the annual report, the Board of Directors made no allowances for exceptions to the application of the new IAS/IFRS principles and therefore a "statement of conformity" is included in the general part of the notes to the financial statements. In particular, the directors adequately illustrated in the financial statements document the process of transition to IFRS 16, which came into force on 1 January 2019.
3. For comparative purposes, the financial statements present the corresponding figures for 2018 summarised as follows:

Statement of financial position				
Total assets			Euro	1,442,164,431.18
Payables and provisions	Euro	1,266,998,024.30		
Share capital and reserves	Euro	171,138,323.15	Euro	1,438,136,347.45
Profit for the year			Euro	4,028,083.93

Income statement		
Net interest and other banking income	Euro	22,532,671.19
Value adjustments	Euro	(5,047,652.15)
Operating costs	Euro	(10,950,011.00)
Revenues from equity investments, property, plant and equipment and intangible assets	Euro	(367,368.85)
Income taxes on current operations	Euro	(2,139,555.26)
Profit for the year	Euro	4,028,083.93

4. During the course of 2019, there were changes to the Bank's equity, changes owing to:
   - the recognition of €1,447,169.51 to reserves of part of the 2018 profit (undistributable portion);
   - the allocation to the extraordinary reserve of net losses from the sale of equity investments held under OCI options, suspended in the valuation reserve, for a total of €80,940.90;
   - the recognition using the valuation reserves of a positive €1,243,834.43 due to the adjustment of the value of financial assets measured at fair value through other comprehensive income and defined benefit plans (actuarial gains/losses) and of a positive €80,940.90 due to the allocation to the extraordinary reserve of net losses from the sale of equity investments held under OCI options;
   - the allocation to the fund as per Article 21 of the By-laws of €150,000.00;
   - the distribution of profit for a total €1,574,585.60;
   - a net profit of €4,028,083.93 was also recorded for the year 2019.

The equity of the Bank as at 31 December 2019 amounted to €175,166,407.08, composed of:

- Share capital – item 160:	Euro	58,484,608.00
- Additional paid-in capital – item 150:	Euro	29,841,458.06
- Reserves – item 140:	Euro	81,300,500.00
- Valuation Reserves – item 110:	Euro	1,511,757.09
- Profit for the year – item 180	Euro	4,028,083.93

5. Own Funds entered into the financial statements as at 31 December 2019 were calculated applying the regulations introduced by Directive no. 2013/36/EU related to the prudential supervision of banks (CRD IV - known as Basel III) applies since 1 January 2014.
   The result achieved shows how, on the whole, own funds increased by €2,943,766.25 as at 31 December 2019, compared to 31 December 2018, therefore standing at €170,867,721.88: the Total capital ratio stood at 18.87% as at 31 December 2019 compared to 18.56% in 2018. The Board of Statutory Auditors considers this equity adequate in terms of amount and quality, with respect to total risks assumed and suitable for allowing future growth of the Bank.
6. The Board of Statutory Auditors acknowledges the disclosures provided by the Board of Directors in relation to the adoption of the going concern assumption in preparing the financial statements, the illustration of risk measurement and management systems and the level of risk exposure, the testing of assets for impairment and uncertainties in the use of estimations of the values booked to the financial statements. More specifically, it verified that the method used for the valuation of financial assets is adequate in measuring the Bank's credit risk and that the loan adjustments coherently reflect the current risk. The Board of Statutory Auditors considers this disclosure and related processes adequate to the transparency needs, also in relation to the indications included in the documents issued by the Italian Supervisory Authorities.
   In particular, the valuation process of financial assets, guarantees issued and commitments to disburse funds produced the following results in relation to the income statement:

	Adjust.	Write-backs	Net effect
Loans (analytical adjustments)	(9,643,763.18)	3,443,894.05	(6,199,869.13)
Loans (net collective adjustments)	-	908,844.80	908,844.80
HTC debt securities	(122,210.95)	192,571.94	70,360.99
HTCS debt securities	(23,122.41)	196,133.60	173,011.19
Total item 130.	**(9,789,096.54)**	**4,741,444.39**	**(5,047,652.15)**
"Time reversal" write-backs item 10.	-	1,538,819.69	1,538,819.69
Net gains on the sale of loans and advances	(39,994.00)	1,135,173.74	1,095,179.74
Fair value change of investments in UCITS	(1,541,916.11)	11,317.83	(1,530,598.28)
Provisions for legal disputes on loans and advances	-	966.76	966.76
Provisions for commitments and guarantees issued item 170.a	(11,074.12)	-	(11,074.12)
Value adjustments on equity investments item 220.	(370,000.00)	-	(370,000.00)
Total	**(11,752,080.77)**	**7,755,686.74**	**(4,324,358.36)**

7. The Board of Statutory Auditors approved the criteria adopted for determining the amounts of IRES (Corporate income tax) and IRAP (Regional business tax) relating to the year in application of the current tax regulations. The Board of Statutory Auditors acknowledges that in compliance with the new rules, the financial statements show current and deferred taxes in relation to the temporary differences between the book value of an asset or liability and its value for tax purpose, as better explained in the notes to the financial statements. In this regard, it was verified that the Bank fully discharged deferred tax assets on the loss for 2015.
8. In application of the reference regulations and provisions, the Bank has adopted regulations aimed at governing the investments held by banks, the risk assets and the conflicts of interest in respect of related parties (Bank of Italy Circular no. 285/13, Third Part, Chapter 1) as well as personal cross investments (known as interlocking prohibition to protect competition, pursuant to Article 36 of Law Decree no. 201/2011). The Board of Statutory Auditors considers the organisational and risk safeguards identified by the Bank to be appropriate.
9. In compliance with the Bank of Italy's provisions on business continuity and disaster recovery, the Bank punctually updated internal regulations and planned functionality tests of disaster recovery with the outsourcer of the IT system managed by Allitude after the migration of the software platform planned for the first half of 2020.
10. Information pursuant to Article 10 of Law no. 72/83 on the subject of monetary revaluation of property, plant and equipment is provided in the notes to financial statements relative to revalued assets.
11. During the year, the Board of Statutory Auditors, in fulfilment of its duties, controlled the Bank's administration in the year under review. In 2019, the Board of Auditors held eight meetings and oversaw

the observance of the laws and by-laws governing all Shareholders' and Board of Directors meetings, which met eighteen times. The meetings were held in compliance with the statutory requirements, laws and regulations governing their operation. The Board of Statutory Auditors also verified that no imprudent or hazardous transactions were carried out, or transactions involving a potential conflict of interests, contrary to the resolutions passed by the Shareholders' Meeting, or which may compromise the integrity of the company's assets and minority rights.

It also verified the correct application of the Bank of Italy Circular no. 285/2013 regarding corporate governance, with reference to the adequacy of the quali-quantitative composition of the company bodies, the self-assessment of the latter and public disclosure.

12. The Board of Statutory Auditors oversaw the adequacy of the organisational structure, limited to those aspects within its competence, of the internal control system and of the administrative-accounting system and the reliability of the latter in giving a true and fair view of the operations of the Bank. In this regard, the Board of Statutory Auditors acknowledges the report written by the Manager responsible for preparing the company's financial reports of 9 March 2020, which was submitted to the Board of Directors prior to the issuing of the Certification pursuant to Article 81-ter of the Consob Regulation on Issuers.

    The Board of Statutory Auditors oversaw the observance of the Bank's sound management principles, also carrying out an assessment of the organisational system during the year under review, which was used by the offices in charge of monitoring credit, market, interest rate, liquidity, legal and compliance risks that are specific to banking activities. The Board of Statutory Auditors followed the ICAAP process in relation to risk control and management, which shows that the Company's capital is adequate even in a *stress scenario* – the ILAAP process – which points out the gradual reduction in dependence in funding from shareholders and, in general, from the concentration of employers and sources of funding - as well as the process of defining the Recovery Plan, assessing its regulatory compliance and consistency with the strategies and reference framework for risk, considering it compliant and adequate with the expected characteristics set out in the regulations.

    As Supervisory Body, it monitored the observance of the regulation pursuant to Legislative Decree no. 231/2001 regarding the administrative liability of legal entities and the regulation pursuant to Legislative Decree no. 231/2007.

    Lastly, it monitored compliance with the regulations governing professional services and investment activities with the public, and the overall adequacy of the controls of the risk of money laundering, for which no acts or events were highlighted, which came to light during the performance of their duties, which may represent a breach of the regulatory provisions.

13. In 2019, no complaints (reprehensible acts) were submitted to the Board of Statutory Auditors pursuant to Article 2408 of the Civil Code.
14. The Board of Statutory Auditors has constantly kept in touch with the person in charge of external auditing, during which no relevant data or information came to light.
15. The report on operations that accompanies the financial statements is drafted in compliance with the current regulations. In the opinion of the Board of Statutory Auditors, the annual report provides as a whole a correct representation of the statement of financial position, the financial situation and the economic result of the Bank for the year ended 31 December 2019 in compliance with the regulations governing the financial statements. This was illustrated in detail by the Board of Directors in the report on operations and in the notes to the financial statements, providing Shareholders and third parties with adequate information in relation to the Bank's transactions, including transactions with related parties. The Board of Statutory Auditors can also confirm that the annual report includes a description of the main risks and uncertainties to which the company is exposed. The report on operations by the Board of Directors includes all the main events that characterised the year and it focuses on expected business trends with a special reference to the effects that the current viral epidemic may have on the Bank's economic performance and prospective financial results.
17. The Board of Statutory Auditors acknowledged the report of the independent auditors KPMG S.p.A. of 27 March 2020 for the financial statements as at 31 December 2019, which contains no significant observations. Based on the work done as independent auditors of the financial statements as at 31 December 2019, no elements have come to the attention of the auditors to date that suggests that there are significant deficiencies in the internal control system in relation to the financial reporting process as at said date.

Dear Shareholders,

As a result of the above and considering the information provided by the independent auditors KPMG S.p.A., the Board of Statutory Auditors states that there were no occurrences of infringements or non-compliance to the law and expresses its positive opinion to the approval of both the financial statements and the proposal for the allocation of the profit for the year expressed by the Board of Directors. It also informs the shareholders' meeting, despite the costs relating to intangible assets recorded under assets in the accounts still not having been fully amortised, there are still ample reserves to cover the amount of these costs.

Trento, 27 March 2020

Astrid Marinelli	Renato Beltrami	Patrick Bergmeister
Chairman	Standing auditor	Standing auditor

TRANSITION TO IFRS 16 AND THE EFFECTS OF FIRST-TIME ADOPTION

On 1 January 2019, IFRS 16 came into force, a new accounting standard that, replacing IAS 17, impacts on the accounting method for leasing contracts as well as for rental, hiring, lease and loan agreements, introducing a new definition based on the transfer of the "right-of-use" of the leased asset. In fact, the new standard requires that all lease contracts are recorded by the lessee in the Statement of financial position as assets and liabilities. A different method of recognition of costs is also introduced: while under IAS 17, lease payments were shown in the income statement under administrative costs, under IFRS 16 the charge is represented both through the amortisation of the "right-of-use" asset and as interest expense on debt.

Identifying leases

During the first half of 2019, the Bank carried out an assessment to check the presence of contracts potentially falling within the scope of IFRS 16; this activity made it possible to identify the contracts subject to the new standard (long-term car rental and real estate lease).
The standard (IFRS 16 §5) allows the new standard not to be applied to contracts of less than €5 thousand or with a duration of less than 12 months; In particular, this last provision made it possible to exclude two real estate leases.

Discount rate

In determining the value of the right-of-use, the Bank is unable to determine the interest rate implicit in the lease as there is no price for the purchase option. In accordance with the provisions of IFRS 16 §26 the Bank has decided to use its marginal lending rate, determined as the sum of:

a. Swap rate for maturities equal to those of individual contracts, recorded on the market on the starting date of each contract (for contracts outstanding on the FTA date, the rates recorded on that date are considered), applying linear interpolation for intermediate maturities with respect to those estimated;
b. Spread on ITR, differentiated by maturity, used by the Bank on the starting date of each contract (for contracts outstanding on the FTA date, spreads used on that date are considered).

The same rate will be used for the calculation of interest on liabilities.

Right-of-use depreciation

For the depreciation of the right-of-use, the Bank will adopt the cost model (IFRS 16 §30) according to the straight-line method envisaged by IAS 16 §62 and already in use for the evaluation of real estate owned by the Bank.

Effects of first-time adoption

Type of contract	No. of contracts	Maturity ranging	Average discount rate	FTA Right-of-use	FTA Liabilities
Long-term car rental	9	Jul. 2020/Sept. 2022	0.96%	86,581	86,581
Real-estate lease	2	Nov. 2023	1.15%	193,608	193,608
Total	**11**		**1.09%**	**280,189**	**280,189**

With reference to the comparative data, note that the Bank has chosen to adopt IFRS 16 for the first time according to the "modified retrospective" approach, which does not imply the restatement of comparative data.

The following tables show the effects of the first-time adoption of IFRS 9 as at 1 January 2019.

RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS PUBLISHED IN THE 2018 FINANCIAL STATEMENTS AND THE IFRS 16 FINANCIAL STATEMENTS AS AT 1 JANUARY 2019 (FTA)

STATEMENT OF FINANCIAL POSITION – ASSETS

	Assets	31/12/2018	IFRS 16 effects	01/01/2019
10.	CASH AND CASH EQUIVALENTS	4,458		4,458
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	23,569,245		23,569,245
	a) FINANCIAL ASSETS HELD FOR TRADING	273,608		273,608
	c) OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE	23,295,637		23,295,637
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	105,000,851		105,000,851
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST	1,302,028,244		1,302,028,244
	a) LOANS AND ADVANCES TO BANKS	40,959,508		40,959,508
	b) LOANS AND ADVANCES TO CUSTOMERS	1,261,068,736		1,261,068,736
70.	EQUITY INVESTMENTS	175,700		175,700
80.	PROPERTY, PLANT AND EQUIPMENT	8,218,713	+280,189	8,498,902
90.	INTANGIBLE ASSETS	47,867		47,867
100.	TAX ASSETS	18,221,487		18,221,487
	(a) current	1,123,583		1,123,583
	(b) deferred	17,097,904		17,097,904
	pursuant to Law no. 214/2011	10,518,580		10,518,580
120.	OTHER ASSETS	5,334,288		5,334,288
	TOTAL ASSETS	**1,462,600,853**	**+280,189**	**1,462,881,042**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

	Equity and liabilities	31/12/2018	IFRS 16 effects	01/01/2019
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	1,278,261,880	+280,189	1,278,542,069
	a) DUE TO BANKS	901,097,039		901,097,039
	b) DUE TO CUSTOMERS	184,996,467	+280,189	185,276,656
	c) DEBT SECURITIES IN ISSUE	192,168,374		192,168,374
20.	FINANCIAL LIABILITIES HELD FOR TRADING	202,013		202,013
60.	TAX LIABILITIES	5,425,143		5,425,143
	(a) current	96,961		96,961
	(b) deferred	5,328,182		5,328,182
80.	OTHER LIABILITIES	3,286,077		3,286,077
90.	PROVISION FOR SEVERANCE INDEMNITIES	1,360,831		1,360,831
100.	PROVISIONS FOR RISKS AND CHARGES	2,445,835		2,445,835
	(a) commitments and guarantees issued	13,102		13,102
	(c) other provisions	2,432,733		2,432,733
110.	VALUATION RESERVES	186,982		186,982
120.	RESERVES	79,934,271		79,934,271
130.	ADDITIONAL PAID-IN CAPITAL	29,841,458		29,841,458
140.	SHARE CAPITAL	58,484,608		58,484,608
180.	NET PROFIT (LOSS) FOR THE PERIOD (+/-)	3,171,755		3,171,755
	TOTAL EQUITY AND LIABILITIES	**1,462,600,853**	**+280,189**	**1,462,881,042**

COMPANY FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION – ASSETS

	Assets	31/12/2019	31/12/2018
10.	CASH AND CASH EQUIVALENTS	2,154	4,458
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	24,129,201	23,569,245
	a) FINANCIAL ASSETS HELD FOR TRADING	290,517	273,608
	b) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	-	-
	c) OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE	23,838,684	23,295,637
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	114,419,491	105,000,851
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST	1,273,421,331	1,302,028,244
	a) LOANS AND ADVANCES TO BANKS	34,862,751	40,959,508
	b) LOANS AND ADVANCES TO CUSTOMERS	1,238,558,580	1,261,068,736
70.	EQUITY INVESTMENTS	305,700	175,700
80.	PROPERTY, PLANT AND EQUIPMENT	8,614,218	8,218,713
90.	INTANGIBLE ASSETS	131,859	47,867
	of which:		
	- goodwill	-	-
100.	TAX ASSETS	16,202,374	18,221,487
	(a) current	6	1,123,583
	(b) deferred	16,202,368	17,097,904
	pursuant to Law no. 214/2011	10,523,396	10,518,580
110.	NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE	-	-
120.	OTHER ASSETS	4,938,103	5,334,288
	TOTAL ASSETS	**1,442,164,431**	**1,462,600,853**

The Financial Statements were drawn up in Euro units with no decimal numbers as figures were previously rounded.

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

	Equity and liabilities	31/12/2019	31/12/2018
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	1,253,487,162	1,278,261,880
	a) DUE TO BANKS	673,628,933	901,097,039
	b) DUE TO CUSTOMERS	284,066,523	184,996,467
	c) DEBT SECURITIES IN ISSUE	295,791,706	192,168,374
20.	FINANCIAL LIABILITIES HELD FOR TRADING	198,205	202,013
60.	TAX LIABILITIES	5,948,851	5,425,143
	(a) current	581,676	96,961
	(b) deferred	5,367,175	5,328,182
80.	OTHER LIABILITIES	3,675,428	3,286,077
90.	PROVISION FOR SEVERANCE INDEMNITIES	1,432,396	1,360,831
100.	PROVISIONS FOR RISKS AND CHARGES	2,255,982	2,445,835
	(a) commitments and guarantees issued	18,599	13,102
	(b) pension fund and similar provisions	-	-
	(c) other provisions	2,237,383	2,432,733
110.	VALUATION RESERVES	1,511,757	186,982
140.	RESERVES	81,300,500	79,934,271
150.	ADDITIONAL PAID-IN CAPITAL	29,841,458	29,841,458
160.	SHARE CAPITAL	58,484,608	58,484,608
180.	NET PROFIT (LOSS) FOR THE PERIOD (+/-)	4,028,084	3,171,755
	TOTAL EQUITY AND LIABILITIES	**1,442,164,431**	**1,462,600,853**

The Financial Statements were drawn up in Euro units with no decimal numbers as figures were previously rounded. The algebraic sum of discrepancies due to rounding off is equal to -€1 and is booked to "other liabilities".

INCOME STATEMENT

	Items	31/12/2019	31/12/2018
10	INTEREST INCOME AND SIMILAR REVENUES	28,131,525	29,101,413
	of which interest income calculated with the effective interest method	27,036,345	28,189,028
20	INTEREST EXPENSE AND SIMILAR CHARGES	(9,047,386)	(7,818,212)
30	**NET INTEREST INCOME**	**19,084,139**	**21,283,201**
40	FEE AND COMMISSION INCOME	2,384,137	1,918,428
50	FEE AND COMMISSION EXPENSE	(428,296)	(448,382)
60	**NET FEE AND COMMISSION INCOME (EXPENSE)**	**1,955,841**	**1,470,046**
70	DIVIDENDS AND SIMILAR INCOME	381,921	584,061
80	NET TRADING INCOME	81,679	(68,268)
100	GAINS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	2,559,688	1,301,252
	a) financial assets measured at amortised cost	1,392,474	40,444
	b) financial assets measured at fair value through other comprehensive income	1,167,214	1,260,750
	c) financial liabilities	-	58
110	NET CHANGE IN OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(1,530,598)	(973,509)
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	(1,530,598)	(973,509)
120	**NET INTEREST AND OTHER BANKING INCOME**	**22,532,670**	**23,596,783**
130	NET ADJUSTMENTS DUE TO CREDIT RISK TO:	(5,047,652)	(7,114,487)
	a) financial assets measured at amortised cost	(5,220,663)	(7,010,284)
	b) financial assets measured at fair value through other comprehensive income	173,011	(104,203)
150	**NET INCOME FROM FINANCIAL ACTIVITIES**	**17,485,018**	**16,482,296**
160	ADMINISTRATIVE COSTS:	(10,741,104)	(10,749,908)
	a) payroll	(7,085,915)	(6,930,097)
	b) other administrative costs	(3,655,189)	(3,819,811)
170	NET PROVISIONS FOR RISKS AND CHARGES	(142,338)	(713,334)
	a) commitments and guarantees issued	(11,074)	274,939
	b) other net accruals	(131,264)	(988,273)
180	NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(553,699)	(522,019)
190	NET ADJUSTMENTS TO INTANGIBLE ASSETS	(32,138)	(43,029)
200	OTHER OPERATING CHARGES/INCOME	519,269	762,409
210	**OPERATING COSTS**	**(10,950,010)**	**(11,265,881)**
220	PROFIT (LOSS) FROM EQUITY INVESTMENTS	(370,000)	(550,000)
250	GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS	2,631	8,030
260	**PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES**	**6,167,639**	**4,674,445**
270	INCOME TAXES ON CURRENT OPERATIONS	(2,139,555)	(1,502,690)
280	**PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAX**	**4,028,084**	**3,171,755**
290	PROFIT (LOSS) FROM DISCONTINUED OPERATIONS AFTER TAX	-	-
300	**PROFIT (LOSS) FOR THE YEAR**	**4,028,084**	**3,171,755**

The Financial Statements were drawn up in Euro units with no decimal numbers as figures were previously rounded. The algebraic sum of discrepancies due to rounding off of liabilities is equal to +€2 and is booked to "other operating charges/income".

STATEMENT OF COMPREHENSIVE INCOME

	Items	31/12/2019	31/12/2018
10.	NET PROFIT (LOSS) FOR THE PERIOD	**4,028,084**	**3,171,755**
	Other income components net of taxes without reversal to income statement		
20.	EQUITY SECURITIES DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	+188,298	(1,745,965)
70.	DEFINED BENEFIT PLANS	(50,604)	+22,675
	Other income components net of taxes with reversal to income statement		
120.	CASH FLOW HEDGES	-	-
140	FINANCIAL ASSETS (OTHER THAN EQUITY SECURITIES) MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	+1,106,141	(1,592,015)
170.	**TOTAL OTHER INCOME COMPONENTS NET OF TAXES**	**+1,243,834**	**(3,315,305)**
180.	**COMPREHENSIVE INCOME** **(Item 10+170)**	**5,271,918**	**(143,550)**

STATEMENT OF CHANGES IN EQUITY 31/12/2018 - 31/12/2019

	Balance as at 31.12.2018	Changes in opening balance	Balance as at 1.1.2019	Allocation of the previous year's result		Change for the year									Equity as at 31.12.2019
				Reserves	Dividends and other allocations	Changes in reserves	Transaction booked to equity: Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	2019 Comprehensive income	
Share capital:	**58,484,608**	-	**58,484,608**	-	-	-	-	-	-	-	-	-	-	**58,484,608**
a) ordinary shares	**58,484,608**	-	**58,484,608**	-	-	-	-	-	-	-	-	-	-	**58,484,608**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	**29,841,458**	-	**29,841,458**	-	-	-	-	-	-	-	-	-	-	**29,841,458**
Reserves:	**79,934,271**	-	**79,934,271**	+1,366,229	-	-	-	-	-	-	-	-	-	**81,300,500**
a) profit	**79,934,271**	-	**79,934,271**	+1,366,229	-	-	-	-	-	-	-	-	-	**81,300,500**
- legal reserve	**19,251,008**	-	**19,251,008**	+154,000	-	-	-	-	-	-	-	-	-	**19,405,008**
- statutory reserves[19]	**48,838,754**	-	**48,838,754**	+1,212,229	-	-	-	-	-	-	-	-	-	**50,050,983**
- other profit reserves[20]	**11,844,509**	-	**11,844,509**	-	-	-	-	-	-	-	-	-	-	**11,844,509**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves:	**186,982**	-	**186,982**	+80,941	-	-	-	-	-	-	-	-	+1,243,835	**1,511,757**
a) at FV through OCI	**-3,737,294**	-	**-3,737,294**	+80,941									+1,294,439	**-2,361,914**
b) cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c) others	**3,924,275**	-	**3,924,275**	-	-	-	-	-	-	-	-	-	-50,604	**3,873,671**
- Severance indemnities	**-394,057**	-	**-394,057**	-	-	-	-	-	-	-	-	-	-50,604	**-444,661**
- property reval. Law no. 413/91	**745,631**	-	**745,631**	-	-	-	-	-	-	-	-	-	-	**745,631**
- property reval. Law no. 342/2000	**3,572,701**	-	**3,572,701**	-	-	-	-	-	-	-	-	-	-	**3,572,701**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss) for the period	**3,171,755**	-	**3,171,755**	-1,447,170	-1,724,586	-	-	-	-	-	-	-	4,028,084	**4,028,083**
Equity	**171,619,074**	**-**	**171,619,074**	-	**-1,724,586**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,271,919**	**175,166,407**

STATEMENT OF CHANGES IN EQUITY 31/12/2017 – 31/12/2018

	Balance as at 31.12.2017	Changes in opening balance	Balance as at 1.1.2018	Allocation of the previous year's result		Change for the year									Equity as at 31.12.2018
				Reserves	Dividends and other allocations	Changes in reserves	Transaction booked to equity: Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	2018 Comprehensive income	
Share capital:	58,484,608	-	58,484,608	-	-	-	-	-	-	-	-	-	-	**58,484,608**
a) ordinary shares	58,484,608	-	58,484,608	-	-	-	-	-	-	-	-	-	-	**58,484,608**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additional paid-in capital	29,841,458	-	29,841,458	-	-	-	-	-	-	-	-	-	-	**29,841,458**
Reserves:	88,245,538	-9,746,347	78,499,191	+1,435,080	-	-	-	-	-	-	-	-	-	**79,934,271**
a) profit	88,245,538	-9,746,347	78,499,191	+1,435,080	-	-	-	-	-	-	-	-	-	**79,934,271**
- legal reserve	19,093,008	-	19,093,008	+158,000	-	-	-	-	-	-	-	-	-	**19,251,008**
- statutory reserves[21]	47,561,674	-	47,561,674	+1,277,080	-	-	-	-	-	-	-	-	-	**48,838,754**
- other profit reserves[22]	21,590,856	-9,746,347	11,844,509	-	-	-	-	-	-	-	-	-	-	**11,844,509**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves:	4,840,489	-1,338,202	3,502,287	-	-	-	-	-	-	-	-	-	-3,315,305	**186,982**
a) assets available for sale	*938,887*	*-938,887*	-	-	-	-	-	-	-	-	-	-		-
a) at FV through OCI	-	-399,314	-399,314										-3,337,980	**-3,737,294**
b) cash flow hedge	-	-	-	-		-	-	-	-	-	-	-	-	-
c) others	3,901,600	-	3,901,617	-	-	-	-	-	-	-	-	-	+22,675	**3,924,275**
- Severance indemnities	-416,732	-	-416,715	-	-	-	-	-	-	-	-	-	+22,675	**-394,057**
- property reval. Law no. 413/91	745,631	-	745,631	-	-	-	-	-	-	-	-	-	-	**745,631**
- property reval. Law no. 342/2000	3,572,701	-	3,572,701	-	-	-	-	-	-	-	-	-	-	**3,572,701**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss) for the period	3,167,666	-	3,167,666	-1,435,080	-1,732,586	-	-	-	-	-	-	-	3,171,755	**3,171,755**
Equity	**184,579,756**	**-11,084,549**	**173,495,210**	-	**-1,732,586**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-143,550**	**171,619,074**

19 The item also includes the distributable reserve pursuant to Art. 6 paragraph 2 of Legislative Decree no. 38/2005.

20 "Other profit reserves" include the reserve from the first-time adoption of IAS/IFRS (including therein provisions for general bank risks and loan risks) and the reserve from the first-time adoption of IFRS 9.

21 The item also includes the undistributable reserve pursuant to Art. 6 paragraph 2 of Legislative Decree no. 38/2005.

22 "Other profit reserves" include the reserve from the first-time adoption of IAS/IFRS (including therein provisions for general bank risks and loan risks) and the reserve from the first-time adoption of IFRS 9.

CASH FLOW STATEMENT (INDIRECT METHOD)

A.	OPERATING ACTIVITIES	2019	2018
1.	**Operations**	**+11,053,525**	**+13,214,942**
-	profit (loss) for the year	+4,028,085	+3,171,756
-	capital gains/losses on financial assets held for trading and on assets/liabilities measured at fair value through profit or loss	+1,509,882	+1,041,933
-	capital gains/losses on hedging activities	-	-
-	net adjustments to credit risk	+2,859,905	+5,408,895
-	net adjustments/write-backs to property, plant and equipment and intangible assets	+585,836	+557,018
-	net provision for risks and charges and other costs/revenues	+168,609	+1,011,273
-	unpaid duties, taxes and tax credits	+2,139,556	+1,502,690
-	other adjustments	-238,348	+521,377
2.	**Cash flow generated/absorbed by financial assets**	**+15,265,722**	**+42,499,871**
-	financial assets held for trading	-	-
-	financial assets designated at fair value	-	-
-	other financial assets mandatorily at fair value	-2,073,645	-242,390
-	financial assets measured at fair value through other comprehensive income	-8,301,992	+121,892,755
-	financial assets measured at amortised cost	+25,236,883	-86,330,693
-	other assets	+404,476	+7,180,145
3.	**Cash flow generated/absorbed by financial liabilities**	**-23,031,627**	**-53,122,252**
-	financial liabilities measured at amortised cost	-23,840,331	-52,608,619
-	financial liabilities held for trading	-	-
-	financial liabilities designated at fair value	-	-
-	other liabilities	+808,704	-513,633
	Net cash flow generated/absorbed by operating activities	**+3,287,620**	**+2,592,507**

B.	INVESTING ACTIVITY	2019	2018
1.	**Cash flow generated by**	**+2,631**	**+8,263**
-	sale of equity investments	-	-
-	dividends from equity investments	-	-
-	sale of property, plant and equipment	+2,632	+8,263
-	sale of intangible assets	-	-
-	sale of company divisions	-	-
2.	**Cash flow absorbed by**	**-1,567,966**	**-865,583**
-	purchase of equity investments	-500,000	-700,000
-	purchase of property, plant and equipment	-951,835	-138,670
-	purchase of intangible assets	-116,131	-26,913
-	purchase of company divisions	-	-
	Net cash flow generated/absorbed by operating activities	**-1,565,335**	**-857,320**

C.	FINANCING ACTIVITY	2019	2018
-	issue/purchase of treasury shares	-	-
-	issue/purchase of equity instruments	-	-
-	distribution of dividends and other objectives	-1,724,586	-1,732,586
	Net liquidity generated/absorbed by financing activities	**-1,724,586**	**-1,732,586**
	NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	**-2,304**	**+2,598**

RECONCILIATION

Statement of financial position items	2019	2018
Cash and cash equivalent at the beginning of the period	**4,458**	**1,860**
Net liquidity generated/absorbed during the period	-2,304	+2,598
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at the end of the year	**2,154**	**4,458**

NOTES TO THE FINANCIAL STATEMENTS

PART A ACCOUNTING POLICIES

A.1 GENERAL PART

SECTION 1 – STATEMENT OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The separate financial statements of Mediocredito Trentino-Alto Adige S.p.A. have been prepared in compliance with the applicable International Accounting Standards (IAS/IFRS) issued by the *International Accounting Standards Board®* and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Commission under EU regulation no. 1606/2002.
They were prepared according to instructions issued by the Bank of Italy in the exercise of its power, as these were established with Article 9 of Legislative Decree no. 38/2005, with Circular no. 262 of 22 December 2005 and subsequent amendments.

SECTION 2 – GENERAL PRINCIPLES OF PREPARATION

General aspects

The financial statements comprise the Statement of financial position, the Income statement, the Statement of comprehensive income, the Statement of changes in equity, the [23]Cash flow statement and Notes to the financial statements. They are also accompanied by a Board of Directors' report on operations, the economic results and the Bank's financial position.
The financial statements are drawn up in Euros, while data in the Notes to the financial statements are expressed in thousands of Euros, based on the application of the general principles set forth by IAS 1: to this end, we refer to the prospective of the company as a going concern (par. 23), the accrual basis of accounting (par. 25 and 26), consistency in the presentation and classification of items (par. 27), the relevance and aggregation of items, the prohibition regarding offsetting, comparative information as well as the specific accounting principles illustrated in Part A.2 in the Notes to the financial statements.
There were no departures from the application of the IAS/IFRS. The new accounting standard IFRS 16 was applied effective as from 1 January 2019: refer to the chapters dedicated to this in the report on operations.
For completeness, with regard to the formats defined by the Bank of Italy, the Notes to the financial statements sometimes contain the titles for the sections that relate to the items that are not accompanied by an amount, either for the year the financial statements cover or for the previous year, whichever is deemed important for providing better information.

Going concern assumption

The international accounting standards - recalled by the coordination table with The Bank of Italy, Consob and Isvap coordination forum on applying IAS/IFRS with document no. 2 of 6 February 2009 "Disclosure in financial reports on the going concern assumption, financial risks, tests of assets for impairment and uncertainties on the use of estimations", and also with document no. 4 of 3 March 2010 "Disclosure in financial reports on impairment of assets, clauses in debt contracts, debt restructuring and on the «fair value hierarchy» require directors to make an especially accurate assessment of whether the going concern assumption is appropriate.
To this end, paragraphs 23-24 of IAS 1 state that: "When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements must be prepared on a going concern basis unless management either intend to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In making its assessment, when management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties must be disclosed. When financial statements are not prepared on a going concern basis, that fact must be disclosed together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern".
The economic growth forecast and the performance of financial markets that are still uncertain also in the light of the spread of the Covid19 virus and the continuation of monetary policy measures to support the real economy that is not yet self-sufficient still require a very accurate assessment of the existence of the going concern basis.
Relating to this, the directors of Mediocredito Trentino-Alto Adige S.p.A., after examining the risks and uncertainties that are correlated to the current macroeconomic context, confirm that they are reasonably certain that the Company will continue its operational existence in the near future. Consequently, they have prepared the financial statements as at 31 December 2019 based on the going concern assumption.
They also confirm that they have not observed any symptom that might cast doubts on the ongoing concern assumption and the actual income generating capacity, either in the economic and financial structure or in the business trend.

SECTION 3 – EVENTS AFTER THE REPORTING DATE

In the period between 31 December 2019 and the date of approval of these financial statements, there were no material events that have occurred such as to appreciably impinge on the Bank's activities, economic results and portfolio risk. However, note that there is a worrying spread of contagion from Covid19, the effects of which on the economy and the financial situation of the banking system in general and the Bank in particular cannot be quantified to date. For further information in this regard, refer to the chapter "Expected business trend" in the report on operations.
In January, the Board of Directors of the Bank approved the three-year 2020-2022 Strategic Plan.
On 26 March 2020, following the Coronavirus pandemic crisis, the agency changed the outlook from stable to negative.

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23 The cash flow statement is drawn up by applying the "indirect" method on the basis of which the cash flows from operating activities are represented by the result for the year adjusted for the effects of non-monetary transactions. The cash flows are subdivided into those deriving from operating, investing and financing activities.

SECTION 4 – OTHER ASPECTS

Parent company

Exemption from the obligation to prepare consolidated financial statements: the Bank does not prepare consolidated financial statements as the consolidation of the subsidiary Paradisidue S.r.l. (financial statements assets as at 31 December 2019 of €7.6m) is not deemed significant to the improvement of the disclosures provided *(IAS 8 and paragraphs 26, 29, 30 and 44 of the "Systematic framework for the Preparation and Presentation of Financial Statements" or Framework)*. The subsidiary owns a building whose value, appropriately estimated, corresponds to market values and the equity investment is booked in the financial statements of the Bank at equity.

Auditing

The Bank as an Entity of Public Interest is subject to statutory auditing according to Legislative Decree No. 39 of 27 January 2010, in implementation of directive 2006/43/EC, and the appointed auditing company is KPMG S.p.A. Said company had been entrusted with the task of auditing the financial statements of the Bank for the nine-year period 2019-2027, by means of resolution of the Shareholders' Meeting of 18 April 2019.
Pursuant to art. 2427, paragraph 1, 16-*bis*, the agreed fees for 2019 are indicated below:

- External audit of annual accounts (including limited audit of the half-yearly condensed financial statements): €48,000 plus VAT, including expenses and Consob contribution within 10% of considerations;
- National guarantee fund: €600 plus VAT;

Risk and uncertainties due to the use of estimates

The Bank has completed the estimation processes that support the book value of the most significant valuation-related items booked to the financial statements as at 31 December 2019, as set out in the current accounting standards and reference regulations. These processes are largely based on the estimated future possible recovery concerning the values recorded in the financial statements in accordance with the rules laid down by the current regulations and are carried out based on the going concern assumption, i.e. leaving aside hypotheses regarding forced liquidation of the items being measured. For this information we refer you to the report on operations and the Notes to the financial statements, Part E.
The checks carried out by internal operational and control functions as well as the control body support the book values of the items mentioned as at 31 December 2019.

Changes in accounting estimates

During 2019, the CSD/CRIF model for calculating collective impairment under IFRS 9 was customised to correct anomalies of overestimation of the Bank's portfolio risk and of the model's lack of discriminating capacity, which is not very suitable for application to single-product banks.
The action involved the development of ad hoc integration functions estimated on the total CSD development sample but by replicating the distinctive characteristics of the business of Mediocredito. In particular, a re-estimation, on the entire CSD sample - thus guaranteeing the statistical robustness of the model - of the integration function was envisaged, replacing the internal performance module, the mortgage module alone, supplemented by a recalibration at a target rate given by the ratio between the risk of Mediocredito and that of the total sample. Moreover, CSD carried out rating scale optimisation works for all banks in order to resolve the anomalies encountered by customer banks.
The Bank estimated the quantitative impact of this customisation that - on the figures as at 30 September 2019 - was equal to a lower overall collective write-down of €20 thousand (equal to 0.4% of the total write-downs as at that date). Based on these results and in compliance with the principle of irrelevance, the balances as at 31 December 2018 were not restated, as required by IFRS, in that there would be no improvement in terms of disclosure.

Disclosure pursuant to paragraphs 125, 126 et sequitur of Law no. 124/2017.

With reference to the disclosure pursuant to paragraphs 125, 126 et seq. of Law no. 124/2017, we inform you that in 2019 the Bank did not receive any subsidies, contributions, paid assignments and, in any case, economic advantages of any kind from public administrations, companies controlled in law or in fact by public administrations or companies in which public administrations have an interest.
The guarantees granted on behalf of the Bank and in favour of the EIB by the Autonomous Province of Trento, Bolzano and the Autonomous Region of Trentino-South Tyrol (shareholders of the bank) are remunerated at market price and do not constitute State aid. 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.

A.2 ILLUSTRATION OF THE MAIN ITEMS IN THE FINANCIAL STATEMENTS

SECTION 1 – FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

1.1 Classification criteria

This category includes financial assets other than those recognised as Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost. In particular, the item includes:

- financial assets held for trading, mainly represented by debt and equity securities and by the positive value of derivative contracts held for trading as well as derivative instruments with a positive fair value that are related to assets or liabilities measured at fair value;
- other financial assets mandatorily measured at fair value, represented by financial assets that do not meet the requirements for measurement at amortised cost or at fair value through other comprehensive income. These are financial assets whose contractual terms do not exclusively envisage capital repayments and interest payments on the amount of capital to be repaid (known as "SPPI test" not passed) or that are not held within the framework of a business model whose objective is the possession of assets aimed at

collecting contractual financial flows ("Hold to Collect" Business model) or whose objective is achieved both through the collection of contractual financial flows and through the sale of financial assets ("Hold to Collect and Sell" Business model);
- financial assets designated at fair value, i.e. financial assets thus defined at the time of initial recognition and where the requirements are met. In relation to this case, an entity may irrevocably designate a financial asset as measured at fair value through profit or loss at the time of recognition if, and only if, by doing so, it eliminates or significantly reduces a valuation inconsistency.

Therefore, this item includes:
- debt securities and loans that are included in an Other/Trading business model (therefore not attributable to the "Hold to Collect" or "Hold to Collect and Sell" business models) or that do not pass the SPPI test, including the portions of syndicated loans subscribed that, from the outset, are intended for sale and are not attributable to a Hold to Collect and Sell business model;
- 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 was not exercised;
- investments in UCITS.

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. Positive and negative current values deriving from transactions in place with the same counterparty can be offset only if there is a current legal right to offset the recognised amounts and the intention is to settle the positions to be offset on a net basis.

Derivative contracts also include those embedded in combined financial contracts - in which the host contract is a financial liability - which have been recognised separately because:
- their economic characteristics and risks are not closely related to the characteristics of the underlying contract;
- embedded derivatives, even if separate, meet the definition of a derivative;
- the hybrid instruments to which they belong are not measured at fair value with the related changes recognised in the Income Statement.

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. In such cases, which are expected to be 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 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value on the date of reclassification, and that date is considered as the date of initial recognition for the allocation to the various stages of credit risk (stage assignment) for the purposes of determining impairment.

For further information on the classification criteria of financial instruments, refer to the following chapter "Classification criteria of financial assets".

1.2 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.

Upon initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or income directly attributable to the instrument itself.

1.3 Measurement criteria

Subsequent to initial recognition, financial assets measured at fair value through profit or loss are measured at fair value. The effects of the application of this measurement criteria are charged to the Income Statement.

Market prices are used to determine the fair value of financial instruments listed on an active market. In the absence of an active market, commonly adopted estimation methods and valuation models are employed that take into account all risk factors correlated with the instruments and that are based on market data, such as: valuation of listed instruments with similar characteristics, discounted cash flow calculations, option price calculation models, values posted in recent comparable transactions, etc. For equity securities and derivative instruments involving equity securities not listed on an active market, the cost method is used as a fair value estimate only in a residual way and limited to a few circumstances, i.e. in the case of non-applicability of all the measurement methods mentioned above, or in the presence of a wide range of possible fair value assessments, in which the cost represents the most significant estimate.

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

1.4 Derecognition criteria

Financial assets are derecognised only when the transfer resulted in the substantial transfer of all risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.

If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.

Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above mentioned flows.

1.5 Income component recognition criteria

Interest income on securities and differentials and spreads on derivative contracts classified to this category, but which are linked to other assets/liabilities measured at fair value for management purposes, are recognised on an accrual basis to the income statement items for interest, accounting for any commissions (up-front fees) paid or collected early in a lump-sum.

Profits and losses realised on the disposal or redemption and unrealised profits and losses on changes in the fair value of the trading portfolio are classified to item "80 Net trading income", except for the share relative to derivative contracts that are linked to assets or liabilities measured at fair value for management purposes, which are entered to item "110 Net income/loss from financial assets and liabilities measured at fair value through profit or loss".

SECTION 2. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

2.1 Classification criteria

This category includes financial assets that meet both of the following conditions:
- the financial asset is held according to a business model whose objective is achieved both through the collection of contractual cash flows and through sale ("Hold to Collect and Sell" Business model), and
- the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (known as "SPPI test" passed).

The item also includes capital instruments, not held for trading, for which the option to be designated at fair value through other comprehensive income was exercised at the time of initial recognition.
In particular, this item includes:
- debt securities that are part of a Hold to Collect and Sell business model and passed the SPPI test;
- equity investments that do not qualify as establishing control or joint control over or association with companies and are not held for trading, 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, including the portions of syndicated loans subscribed that, from the outset, are intended for sale and are not attributable to a Hold to Collect and Sell business model.

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.
In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at fair value through other comprehensive income into one of the other two categories envisaged by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is recognised as an adjustment to the fair value of the financial asset at the date of reclassification. Whereas in the event of reclassification in the category of fair value through profit or loss, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss) for the year.
For further information on the classification criteria of financial instruments, refer to the following chapter "Classification criteria of financial assets".

2.2 Recognition criteria

Upon initial recognition, assets in this category are entered at cost, which is defined as the fair value of the instrument, including transaction costs and income directly attributable to the instrument. If recognition occurs subsequent to reclassification from Assets at amortised cost, the value of initial recognition is equal to the fair value at the time of transfer.

2.3 Measurement criteria

Subsequent to initial recognition, Assets classified at fair value through other comprehensive income are measured at fair value determined on the basis of the criteria already illustrated for Financial assets measured at fair value through profit or loss.
For equity securities included in this category not listed on an active market, the cost method is used as a fair value estimate only in a residual way and limited to a few circumstances, i.e. in the case of non-applicability of all the measurement methods mentioned above, or in the presence of a wide range of possible fair value assessments, in which the cost represents the most significant estimate.
For further information on the criteria for determining fair value, please refer to the "A.4 Fair value disclosure" section in Part A of the Notes to the Financial Statements.
Financial assets measured at fair value through other comprehensive income - both in the form of debt securities and loans - are subject to checking the significant increase in credit risk (impairment) required by IFRS 9, as are Assets at amortised cost, with the consequent recognition in the income statement of an adjustment to cover expected losses. More specifically, on instruments classified in 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.
For further details, refer to the next chapter "Impairment of financial assets".

2.4 Derecognition criteria

Financial assets are derecognised only when the transfer resulted in the substantial transfer of all risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.
If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.
Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above mentioned flows.

2.5 Income component recognition criteria

Debt securities

Interest income, calculated according to the effective interest rate method, is entered to item 10. "interest income and similar revenues" whereas valuation profit and loss, with the exception of impairment profit and loss, are recognised, net of any tax effect, in item 110. of shareholders' equity "Valuation reserves".
If the financial asset is derecognised (transferred), the cumulative gain or loss previously recognised in the reserve is reclassified to the income statement (item 100.b "Gains (losses) on disposal or repurchase of financial assets measured at fair value through other comprehensive income").
Impairment profit and losses are recognised in item 130.b "Net adjustments due to credit risk to financial assets measured at fair value through other comprehensive income"; however, the provision to cover losses must be recognised in other comprehensive income (item 110. of shareholders' equity "Valuation reserves") and must not reduce the book value of the financial asset in the asset side of the Statement of Financial Position.

Equity securities

Dividends are entered to item 70. "dividends and similar income" whereas valuation profit and loss, including impairment profit and loss, are recognised, net of any tax effect, in item 110. of shareholders' equity "Valuation reserves".
If the financial asset is derecognised (transferred), the cumulative profit or loss previously recognised in the reserve must not be reclassified to the income statement, although the Bank may transfer these amounts to shareholders' equity (item 140. "Reserves").

SECTION 3. FINANCIAL ASSETS MEASURED AT AMORTISED COST

3.1 Classification criteria

This category includes financial assets (in particular, loans and debt securities) that meet both of the following conditions:
- the financial asset is held according to a business model whose objective is achieved both through the collection of contractual cash flows ("Hold to Collect" Business model), and
- the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (known as "SPPI test" passed).

More specifically, this item includes:
- loans with banks in different technical forms meeting the requirements set out in the previous paragraph;
- loans with customers in different technical forms meeting the requirements set out in the previous paragraph;
- debt securities meeting the requirements set out in the previous paragraph.

This category also includes operating loans related to the provision of financial activities and services as established by the Consolidated Banking Act and the Consolidated Finance Act (for example for the distribution of financial products and servicing activities).
According to the general 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, which are expected to be highly infrequent, financial assets may be reclassified from the category measured at amortised cost into one of the other two categories envisaged by IFRS 9 (Financial assets measured at fair value through other comprehensive or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised in the income statement in the event of reclassification as a financial asset measured at fair value through profit or loss and equity, in the specific valuation reserve, in the event of reclassification as a financial asset measured at fair value through other comprehensive income.
For further information on the classification criteria of financial instruments, refer to the following paragraph "Classification criteria of financial assets".
Loans generated by finance lease transactions are included.

3.2 Recognition criteria

If the asset is entered to this category upon reclassification from "financial assets measured at fair value through other comprehensive income", the amount of the previously accumulated valuation reserve is eliminated from shareholders' equity, reducing the fair value of the asset at the reclassification date; consequently, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. Moreover, with the same adjustment for credit risk, it is necessary to recognise a provision to cover losses as an adjustment to the gross book value of the financial asset from the reclassification date.

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

3.3 Measurement criteria

Subsequent to initial recognition, financial assets in question are measured at amortised cost using the effective interest rate method, adjusted by any provision to cover losses. The effective interest rate is the rate that exactly discounts estimated future cash flows of the asset (principal and interest) to the amount disbursed including costs/income related to the financial asset itself. This accounting method, which is based on a financial approach, 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 on "Impairment of 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 impaired financial assets and the remaining (stages 1 and 2) performing financial assets.
With reference to the accounting representation of the above valuation effects, impairment losses relating to this type of asset are recognised in the Income Statement:

- upon initial recognition, for an amount equal to the 12-month expected credit loss;
- upon subsequent measurement of the asset, where the credit risk has not significantly increased compared to initial recognition, in relation to changes in the amount of impairment for losses expected in the following twelve months;
- upon subsequent measurement of the asset, where the credit risk significantly increased compared to initial recognition, in relation to the recognition of impairment for expected losses over the life of the asset as provided for in the contract;
- upon subsequent measurement of the asset, where – after a significant increase in credit risk since initial recognition – the "significance" of this increase has since disappeared, in relation to the adjustment of cumulative impairment losses to take account of the change from a full lifetime expected credit loss of the instrument to a 12-month expected credit loss.

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 (or security "tranche"), depending on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD), derived from AIRB models and properly adjusted to take account of the provisions of IFRS 9.
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 "impaired", 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, as described in detail in the chapter "Impairment losses of financial assets", forward looking information and possible alternative recovery scenarios.
Impaired assets include financial instruments that have been granted the status of doubtful, 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.
The original effective interest rate of each asset remains unchanged over time even though the relationship has been restructured resulting in a change in the contractual interest rate and even if the relationship ceases to bear the contractual interest for practical purposes.
If the reasons for the loss of value no longer apply as a result of an event that occurs after impairment has been recorded, write-backs are carried out and entered to the income statement. The amount of write-backs may not exceed the amortised cost that the instrument would have had in the absence of previous adjustments.
Value readjustments related to the passage of time are recognised in net interest income.
In some cases, during the life of the financial assets in question and, in particular, of loans, the original contractual terms can be amended by the parties to the contract. 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.
In general, 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. In fact, in some cases it may be clear, without resorting to complex analyses, that the changes introduced substantially modify the characteristics and/or contractual flows of a given asset while, in other cases, further analyses (including quantitative analyses) will have to be carried out in order to appreciate their effects and check the need to derecognise or not the asset and the recognition of a new financial instrument.
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: for example, renegotiations for commercial reasons and forbearance due to financial difficulties of the counterparty:
  - the first, aimed at "retaining" the customer, involve a debtor who is not in financial difficulty. This case study includes all the renegotiation operations that are aimed at adjusting the cost of the debt to market conditions. These transactions involve a change in the original terms of the contract, usually requested by the debtor, which concerns aspects related to the cost of the debt, with a consequent economic benefit for the debtor. In general, it is considered that whenever a bank renegotiates in order to avoid losing its customer, such renegotiation should be considered as substantial in that, if it is not renegotiated, the customer could finance itself from another intermediary and the bank would suffer a decrease in expected future revenues;
  - or the latter, carried out for "credit risk reasons" (forbearance measures), are attributable to the bank's attempt to maximise the recovery of the cash flows of the original loan. As a rule, the underlying risks and benefits are not substantially transferred after the changes and, consequently, the accounting representation that provides the most relevant information for the reader of the financial statements (except for what will be said below on the subject of objective elements), is that made through "modification accounting" - that implies the recognition in the income statement of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate - and not through "derecognition";
- the presence of specific objective elements ("triggers") that affect the characteristics and/or contractual flows of the financial instrument (such as, for example, a change in the currency or a change in the type of risk to which one is exposed, when correlated with equity and commodity parameters), which are deemed to entail derecognition in view of their impact (expected to be significant) on the original contractual flows.

3.4 Derecognition criteria

Financial assets are derecognised only when the transfer resulted in the substantial transfer of all risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.
If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.

Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above mentioned flows.

3.5 Income component recognition criteria

Interest income on loans and securities is entered to item 10. "interest income and similar revenues".
Gains and losses on the disposal of loans and securities are entered to item 100. "gains (losses) on disposal or repurchase of financial assets measured at amortised cost". Impairment losses and write-backs to loans and securities are entered to item 130. "net adjustments due to credit risk to financial assets measured at amortised cost".

SECTION 4. HEDGING TRANSACTIONS

The Bank 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 (in the carved out version approved by the European Commission) for each type of hedge (both for specific hedges and for macro hedges).

4.1 Classification criteria

The purpose of hedging operations is to neutralise potential losses that may be incurred on a certain element or group of elements and is attributable to a certain risk by means of profits earned on a different element or group of elements in the event that the risk in question should actually present itself.
A derivative financial instrument is classified as a hedge if the relationship between the hedging instrument and the hedged element is formally documented, if it is effective when hedging begins, and, prospectively, over the entire life of the hedge.
Consequently, it becomes necessary to verify that the hedge of the derivative instrument is highly effective in offsetting changes in the fair value or expected cash flows of the hedged element both at the beginning of the operation and throughout its duration.
The effectiveness of the hedge depends on the extent to which changes in the fair value of the hedged instrument and the relative expected cash flows are offset by the respective values of the hedging instrument. Effectiveness may therefore be evaluated by comparing the above-mentioned changes, while taking into account the aim pursued by the company when the hedge was created. A hedge is considered effective (within the limits set by the interval 80-125%) if the changes in the fair value of the hedging instrument almost completely neutralise the changes in the hedged instrument for each risk element hedged against.
Given the Group's decision to continue to apply IAS 39 in full to hedging transactions, it is not possible to designate equity securities classified as Financial assets measured at fair value through other comprehensive income (FVOCI) as hedged items for price or foreign exchange risk, since these instruments do not impact the income statement, even in the event of a sale (except for dividends that are recognised in the income statement).

4.2 Recognition criteria

There are two types of hedges:
- fair value hedges, which aim to cover the exposure to changes in the fair value of hedged assets or liabilities attributable to a specific risk. This type of hedge may be used to hedge against market risks inherent in fixed-rate bond issues;
- cash flow hedges, which aim to cover the exposure to the risk of changes in the expected future cash flows attributable to specific risks associated with items on the financial statements. This type of hedge is specifically used to stabilise floating-rate interest flows on deposits.

The items, "Hedging derivatives" under assets (Item 80.) and liabilities (Item 60.) of the statement of financial position correspond to the positive and negative values, respectively, of derivatives that are part of effective hedges.

4.3 Measurement criteria

Hedging derivatives are measured at fair value, specifically:
- in fair value hedges, the change in the fair value of the hedged element is offset by the change in the fair value of the hedging instrument. This offset is recognised by entering the changes in value in both the hedged element (as regards changes produced by the underlying risk factor) and the hedging instrument to the income statement. Any difference, which represents the partial ineffectiveness of the hedge, is consequently considered the net economic effect;
- in cash flow hedges, the hedged item continues to be measured according to the original method, whereas changes in the fair value of the derivative are entered to equity for the effective portion of the hedge, and to the income statement, for the ineffective portion of the hedge.

The effectiveness of hedges is verified at the outset and when the financial statements for the period are prepared. If a hedge ceases to be effective, the related derivative contracts are classified as instruments held for trading and entered to Item 20. "Financial assets held for trading" or Item 40. "Financial liabilities held for trading", whereas changes in fair value are entered to Item 80. of the income statement "Net trading income". The hedged financial instrument is measured according to the method used for the category in which it is classified.

4.4 Derecognition criteria

Hedged financial assets and liabilities are derecognised when the contractual rights to cash flows deriving from the assets expire, or when the financial assets/liabilities are disposed of with a substantial transfer of the relative risks and rewards. Furthermore, operations cease to be regarded as hedges and be accounted for accordingly if the hedge carried out through the derivative ceases or is no longer highly effective, or if the derivative expires, is sold, rescinded or exercised, or the hedged element is sold, expires or redeemed.

4.5 Income component recognition criteria

Income components are allocated to the relative items on the income statement according to the following indications:
- Accrued differentials on derivative instruments hedging against the interest rate risk (as well as interest on the hedged positions) are allocated to item 10. "Interest income and similar revenues" or 20. "Interest expense and similar charges";
- Capital gains and losses on the valuation of hedging derivatives and the positions covered by fair value hedges (which may be attributed to the risk covered) are allocated to item 90. "Net hedging gains (losses)";

- Capital gains and losses deriving from the valuation of derivative instruments used in cash flow hedges (for the effective portion) are allocated to a specific valuation reserve (item 130. "Valuation reserve") in equity, net of the deferred tax effect. The ineffective portion of said capital gains and losses is entered to item 90. "Net hedging gains (losses)" of the income statement.

SECTION 5. EQUITY INVESTMENTS

5.1 Classification criteria

According to IAS, the item "Equity investments" includes equity investments in subsidiaries, affiliates and jointly-controlled companies.
Subsidiaries are defined as companies for which more than half the voting rights are held either directly or indirectly, unless it may be shown that the possession thereof does not constitute control; control is defined as wielding the power to determine financial and management policies.
Jointly-controlled companies are defined as those for which control is shared with other parties according to a contract. Affiliates are defined as companies, for which at least 20% of voting rights are held either directly or indirectly, or over which significant influence is possessed despite holding a lesser share of voting rights; significant influence is defined as the power to participate in determining financial and management policies, without having control or joint control.
Certain equity stakes of more than 20%, in which the Bank only holds rights over a portion of the returns on investment, do not have access to management policies and can exercise limited governance rights to safeguard its economic interests, are not considered to be subject to significant influence. The remaining equity investments, i.e. not in subsidiaries and affiliates, are classified as financial assets (fvtpl or fvtoci) and treated accordingly.

5.2 Recognition criteria

Equity investments are entered at cost, including accessory charges, when acquired.

5.3 Measurement criteria

Subsidiaries and affiliates are measured according to the equity method and the impact thereof is entered to the income statement: according to this method, equity investments are initially entered at cost and the book value is increased or decreased to account for the Bank's share in the investee company's profits or losses realised after the date of acquisition. The Bank's share of the investee's profits for the year is entered to the income statement. Dividends received from an investee are entered against the book value of the equity investment. It may become necessary to make adjustments to the book value of equity investments when the share of the Bank's interest in an affiliate is modified.
If there is evidence that the value of an equity investment may have decreased, an estimate of the recovery value of the equity investment is made. If the recovery value is less than the book value, the relative difference is entered to item 220. "Profit (loss) from equity investments". This item also includes any future write-backs where the reasons for the previous write-downs no longer apply.

5.4 Derecognition criteria

Equity investments are derecognised when the contractual rights to cash flows deriving from the assets expire, or when the financial assets are disposed of with a substantial transfer of the relative risks and benefits.

5.5 Income component recognition criteria

Profits and losses realised by investor companies, impairment losses and the effects of measurement according to the equity method are allocated to item 220. "Profit (loss) from equity investments" in the income statement, whereas dividends collected are entered against the book value of the equity investments.

SECTION 6. PROPERTY, PLANT AND EQUIPMENT

6.1 Classification criteria

Property, plant and equipment include land, instrument real estate, real estate investments, plant, fixtures and furnishings, and all types of equipment. This category consists of property, plant and equipment held for use in the production or provision of goods and services, to be leased to third parties, or for administrative purposes, and which are believed likely to be used for more than one accounting period. Rights-of-use acquired under leases and relating to the use of property, plant and equipment are also included.

6.2 Recognition criteria

Property, plant and equipment are initially entered at cost, which includes the price of purchase and any accessory charges that may be directly attributed to the acquisition and commissioning of the assets.
Extraordinary maintenance expenses that entail increase in the future economic benefits of the asset are added to the book value of the asset, whereas other ordinary maintenance costs are entered to the income statement.
Leases, in accordance with IFRS 16, are recognised based on the right-of-use model whereby, at the initial date, the lessee has a financial obligation to make payments due to the lessor to offset its right to use the underlying asset during the lease term.
When the asset is made available to the lessee for use (starting date), the lessee recognises both the liability and the asset consisting of the right-of-use.

6.3 Measurement criteria

Property, plant and equipment, including non-instrumental real estate, are measured at cost, once any depreciation and impairment have been deducted. Upon first application, real estate is entered at cost, which is defined as past book value adjusted accordingly to specific monetary revaluation laws.
Property, plant and equipment are systematically depreciated on a straight-line basis over their useful life. The buildings are depreciated for a portion considered adequate to represent the depreciation of the assets over time following their use, taking into account the

extraordinary maintenance expenses, which are added to the value of the assets. Land is not depreciated and is entered separately even when acquired with annexed buildings.
IAS 16 does not provide for:
- depreciation of land since land is an asset with an indefinite useful life; for fully owned properties (from the ground up), this has led to the need to separate the value of land from the annexed buildings by commissioning an expert appraisal;
- the valuable artistic heritage, the other historical, artistic and decorative assets in that their useful life cannot be estimated and their value is normally destined to increase over time;
- investment properties that, as required by IAS 40, are measured at fair value through profit or loss and therefore must not be depreciated.

If there is any evidence that shows that a property, plant and equipment measured at cost has undergone impairment, its book value is compared with its recovery value. Any adjustments are entered to the income statement. If the reasons that led to the recording of the loss cease to exist, a value re-adjustment is made, the amount of which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment. Property, plant and equipment recognised in accordance with IAS 2 are measured at the lower of cost and net realisable value, it being understood that a comparison is made between the book value of the asset and its recovery value where there is any indication that the asset may have suffered a loss in value. Any adjustments are entered to the income statement.
With reference to the asset consisting of the right-of-use, recognised in accordance with IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment; in this case, the asset is subsequently depreciated and tested for impairment in case of impairment indicators.

6.4 Derecognition criteria

Property, plant and equipment are derecognised when they have been disposed of, or when the assets have been permanently taken out of use and no future economic benefits are expected from disposal.

6.5 Income component recognition criteria

Income components are entered to the relative items on the income statement according to the following indications:
- periodic depreciation, accumulated impairment losses, and write-backs are allocated to item 180. "net adjustments to property, plant and equipment".
- profits and losses on the disposal of assets are allocated to item 250. "gains (losses) on disposal of investments".

SECTION 7. INTANGIBLE ASSETS

7.1 Classification criteria

The portfolio of intangible assets includes intangible factors of production with a useful life of several years, mainly represented by application and system software.

7.2 Recognition criteria

Said assets are entered at the price of purchase including accessory charges and increased by expenses incurred at a later date to raise their value or initial production capacity.

7.3 Measurement criteria

Intangible assets are amortised according to the straight-line method based on the estimated residual useful life of the assets. If evidence is found indicating the existence of accumulated losses, intangible assets are tested for impairment and any losses in value are recorded; later write-backs may not exceed the amount of the previously recorded impairment losses.

7.4 Derecognition criteria

Intangible assets are derecognised when their economic function has been fully exhausted.

7.5 Income component recognition criteria

Periodic amortisation, accumulated impairment losses, and write-backs are allocated to item 190. "Net adjustments to intangible assets".

SECTION 8. OTHER ASSETS

Other assets essentially include items awaiting settlement and items not attributable to other statement of financial position items, including receivables arising from the supply of non-financial goods and services, tax items other than those recognised under a specific item (for example, related to withholding tax), gold, silver and precious metals and accrued income other than those that should be capitalised on the related financial assets, including those arising from contracts with customers pursuant to IFRS 15, paragraphs 116 et seq.

SECTION 9. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets or groups of assets/liabilities for which a disposal process has been initiated and their sale is considered highly probable are classified as assets under "Non-current assets and groups of assets held for sale" and are classified as liabilities under "Liabilities associated with assets held for sale". These assets/liabilities are measured at the lower of its book value and its fair value less costs to sell, with the exception of certain types of assets (e.g. financial assets within the scope of IFRS 9) for which IFRS 5 specifically requires that the measurement criteria of the relevant accounting standard be applied.

The balance of income and charges (dividends, interest, etc.), whether positive or negative, and the measurements of said assets/liabilities according to the above methods, net of the relative current and deferred taxes, is entered to item "290. Profit (loss) from discontinued operations after tax" of the income statement.

SECTION 10. CURRENT AND DEFERRED TAXATION

Income taxes, calculated in compliance with national tax regulations, are recognised as a cost on an accrual basis, consistent with the recognition of the costs and revenues that generated them in the financial statements. Therefore, they represent the balance of current and deferred taxes related to the income for the year. Current tax assets and liabilities include the net balance of the company's tax positions with the Italian and foreign Tax Authorities. In particular, these items include the net balance between current tax liabilities for the year, calculated on the basis of a prudent forecast of the tax burden due for the year, determined on the basis of current tax regulations, and current tax assets represented by advances and other tax credits for withholding taxes incurred or other tax credits from previous years for which the bank requested offsetting with taxes from subsequent years.
Current tax assets also include tax credits for which the bank has requested a refund from the competent tax authorities, while current tax liabilities also cover the risk of charges due to tax disputes.
Deferred tax entries are calculated according to temporary differences, without time limits, between the value attributed to an asset or liability according to statutory standards and the corresponding tax values resulting in future taxable amounts or tax deductions. For this purpose, "temporary taxable differences" means those that, in the future, will determine taxable amounts, while "temporary deductible differences" those that, in the future, will determine deductible amounts.
Deferred taxation is calculated based on the applicable rates, with respect to, (i) the temporary taxable differences, with respect to which there is the likelihood of effectively incurring taxes, and (ii) the temporary deductible differences, with respect to which there is the reasonable certainty that there will be future taxable amounts at the time when the related tax deductibility becomes apparent (known as probability test).
Prepaid and deferred taxes are recognised at the level of equity with no offsetting entries.
If the deferred tax assets and liabilities refer to income statement items, the contra-entry is represented by income tax.
In cases where deferred tax assets and liabilities concern transactions that directly affected shareholders' equity without affecting the income statement (such as first-time adoption adjustments of IAS/IFRS, the measurements of financial instruments recognised at fair value through other comprehensive income or derivative contracts hedging cash flows, actuarial gains/losses on defined benefit plans (severance indemnities), they are recognised with contra-entry to equity, involving specific reserves when required (e.g. valuation reserves).
Deferred taxes on statement of financial position items in respect of which tax has been deferred "taxable in any case of use" are recognised in the financial statements as a reduction in equity.

SECTION 11. PROVISIONS FOR RISKS AND CHARGES

The provisions for risks and charges consist of sums allocated in relation to current obligations that originated in a past event for which is likely that economic resources will be disbursed to fulfil the obligation, provided that it is possible to estimate the amount to be disbursed in a reliable manner.

Provisions for risks and charges against commitments and guarantees issued
The sub-item of provisions for risks and charges under examination includes the provisions for credit risk recognised against commitments to disburse funds and guarantees issued 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 measured 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 issued that, by virtue of their specific characteristics, do not fall within the aforementioned scope of application of the impairment in accordance with IFRS 9.

Other provisions
The other provisions for risks and charges include the allocations relating to legal obligations or connected with employment agreements or with disputes, including those of a tax-related nature, originated from a past event for which it is likely that economic resources will be expended to comply with said obligations, provided that a reliable estimate of the related amount can be obtained.
Consequently, a provision is recognised if and only if:
- an actual obligation exists (legal or implicit) being the result of a past event;
- it is likely that the employment of resources producing economic benefits will be required to fulfil the obligation; and
- a reliable estimate can be made of the amount resulting from the fulfilment of the obligation.

The amount recognised as provision represents the best estimate of the expense required for fulfilling the obligation existing at the end of the reporting period and shows the risks and uncertainties that inevitably characterise a variety of facts and circumstances. If the time factor is significant, provisions are discounted at current market rates. Provisions and increases due to the time factor are recognised in the Income Statement.
The provision is reversed when the use of resources producing economic benefits to fulfil the obligation becomes unlikely or when the obligation is extinguished.
In particular, the Bank uses the item other provisions for risks and charges for:
- personnel and third-parties for which it is likely that economic resources will be disbursed;
- risks of bankruptcy revocatory actions discounted with the Zero Coupon rate at the Statement of Financial Position date, by estimating the average duration of legal proceedings of this kind, and other risks for ongoing disputes;
- charitable activities and donations allocated upon approval of the financial statements.

The item also includes any long-term employee benefits, the charges of which are determined using the same actuarial criteria as those described for the provision for post-retirement benefit obligations.

SECTION 12. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

12.1 Classification criteria

Due to banks, Due to customers and Debt securities in issue include various forms of Interbank funding, customer deposits, repurchase agreements with the obligation of forward repurchase and sums collected through certificates of deposit and outstanding bonds and other funding instruments, net of any buybacks.
It also includes any debts recorded by the company as a lessee under finance leases (leases pursuant to IFRS 16).

12.2 Recognition and derecognition criteria

The initial recognition of these financial liabilities occurs on the date the contract is signed, which normally coincides with the date of receipt of the sums collected or the date of issue of the debt securities.
Initial recognition is carried out based on the fair value of the liabilities, generally equal to the amount received or the issue price, plus any additional costs/income directly attributable to the individual funding or issue transaction. Internal administrative costs are excluded.

12.3 Measurement criteria

Subsequent to initial recognition, financial liabilities in this category are measured at amortised cost using the effective interest rate method.
Exceptions are short-term liabilities, for which the time factor is negligible, which remain recorded at the value received.
Lease payables are revalued when there is a lease modification (e.g. a change in the scope of the contract), which is not accounted for/considered as a separate lease.

12.4 Derecognition criteria

Financial liabilities are derecognised when they have expired or been extinguished. They are also derecognised if previously issued bonds are bought back. The difference between the book value of liabilities and the amount paid to purchase them is recognised in the income statement.
Any replacement on the market of treasury shares after they have been repurchased is considered tantamount to a new issue, with the entry of the new placement price.

SECTION 13. FINANCIAL LIABILITIES HELD FOR TRADING

13.1 Classification and recognition criteria

These financial instruments are recognised at the subscription or issue date at a value equal to the fair value of the instrument, without considering any transaction cost or income directly attributable to the instruments themselves.
In particular, this category of liabilities includes trading derivatives with a negative fair value as well as embedded derivatives with a negative fair value that are present in complex contracts - where the primary contract is a financial liability - but not strictly related to them. Any liabilities that originate from uncovered short positions generated by securities trading and certificates are also included.

13.2 Measurement criteria

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

13.3 Derecognition criteria

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the corresponding cash flows expire or when the financial liability is sold substantially transferring all related risks and benefits.

13.4 Income component recognition criteria

The same criteria are applied, with the necessary adaptations, as are used for the recognition of income components of financial assets held for trading (see point 1 – Financial assets held for trading).

SECTION 14. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

14.1 Classification criteria

Financial liabilities designated at fair value are recognised in this item, with contra entry to the Income Statement, based on the option granted to companies (known as "fair value option") under IFRS 9 and in compliance with the provisions of the relevant regulations.
In particular, this category includes financial liabilities to be measured at fair value through profit or loss when:

- designation at fair value eliminates or reduces the inconsistency in measurement or recognition ("accounting asymmetry") that would otherwise result from the measurement of assets or liabilities or from the recognition of related gains and losses on different bases;
- the management and/or measurement of a group of financial instruments at fair value with an impact on the income statement is consistent with a documented risk management or investment strategy oriented along those lines by company management and/or Board of Directors;
- there is a hybrid instrument containing a host contract that is not an asset within the scope of IFRS 9 and an embedded derivative that is to be separated.

14.2 Recognition criteria

These liabilities are recognised at the issue date at their fair value, which normally coincides with the cost of the instrument, without considering transaction costs or income directly attributable to the instrument itself, which are instead recognised in the income statement and include the value of any embedded derivative, net of placement fees paid.

In particular, the Bank recognised as financial liabilities measured at fair value the fixed-rate funding instruments the market risk of which has been systematically hedged.

14.3 Measurement criteria

These liabilities are measured at fair value and the result is recognised in accordance with the following rules set out in IFRS 9:
- fair value changes that are attributable to changes in creditworthiness must be recognised in the Statement of comprehensive income (Equity);
- the remaining fair value changes must be recognised in the Income Statement.

The amounts recognised in the Statement of comprehensive income are not subsequently reclassified to the income statement. This accounting method must not be applied when the recognition of the effects of one's creditworthiness under equity leads to or accentuates an accounting mismatch in the income statement. In this case, the gains or losses related to the liability, including those determined as a result of the change in its creditworthiness, must be recognised in the income statement.
Market prices are used to determine the fair value of financial instruments listed on an active market. In the absence of an active market, estimation methods and valuation models are employed that take into account all risk factors correlated with the instruments and that are based on market data, such as: methods based on the valuation of listed instruments with similar characteristics, discounted cash flow calculations, option price calculation models, and values posted in recent comparable transactions.
For more details, please refer to the section on general criteria for measuring fair value (Part A.4).

14.4 Derecognition criteria

Financial liabilities measured at fair value are derecognised from the financial statements when the contractual rights to the corresponding cash flows expire or when the financial liability is sold substantially transferring all related risks and benefits.

14.5 Income component recognition criteria

Interest expense in this category is entered on an accrual basis to the income statement items relative to interest; accounting for any commissions (up-front fees) paid or received early in a lump-sum.
Realised and unrealised profits and losses deriving from the change in fair value of financial assets are entered to item 110.a "Net change in financial assets and liabilities measured at fair value through profit or loss - financial assets and liabilities designated at fair value".

SECTION 15. CURRENCY TRANSACTIONS

15.1 Classification and recognition criteria

Currency transactions consist of all assets and liabilities denominated in currencies other than the Euro and are entered at the exchange rate on the date of the transaction.

15.2 Measurement criteria

At the end of each reporting period or interim reporting date, items in foreign currencies are measured as follows:
- monetary items are converted at the exchange rate at the end of the reporting period;
- non-monetary items measured at historical cost are converted at the exchange rate on the date of the operation;
- monetary items measured 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 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.

SECTION 16. OTHER INFORMATION

16.1 Provision for severance indemnities

Following the reform of supplementary pensions implemented by Legislative Decree no. 252/2005 those amounts of the severance indemnities that had accrued as at 31 December 2006 remain under the management of the Bank while amounts accruing starting from 1 January 2007 must either be paid into supplementary pension schemes or to the fund managed by INPS (according to the choice expressed by the employee).
The coming into force of the above mentioned reform made for a change in the way the fund was recorded both with regard to amounts accrued as at 31 December 2006 and to amounts accruing starting from 1 January 2007.
In particular:
- amounts accruing starting from 1 January 2007 go to a "defined-contribution plan" regardless of whether the employee opted for a supplementary pension scheme or for the treasury fund managed by INPS. The Bank therefore records amounts paid into these funds as payroll without employing actuarial criteria;
- amounts accrued as at 31 December 2006 go to a "defined-benefit plan" and are entered at the value calculated according to actuarial criteria in compliance with IAS 19. The liability in relation to the accrued severance indemnity is calculated on an actuarial basis with no pro-rata calculation of services rendered, as the service that must be measured has entirely accrued.

Classification, recognition, derecognition and measurement criteria

The provision for severance indemnities – for the amount accrued as at 31 December 2006 – is entered at the value calculated according to actuarial criteria provided in IAS 19 for defined-benefit programmes for employees and is certified by independent actuaries.
The Projected Unit Credit Method is used for discounting; this method involves predicting future disbursements according to historical and statistical analyses and the demographic curve and then discounting these flows according to a market interest rate. The discount

rates are calculated according to the term structure of interest rates as obtained, by a bootstrap procedure, from the swap rate curve for the dates of measurement.
The amount that started accruing from 1 January 2007 is not added to the severance indemnities fund but rather it is paid into the pension funds and/or the treasury fund managed by INPS.

Income component recognition criteria
With regard to the recognition of the annual changes resulting from the actuarial calculations of the components of the "defined benefit plans", the IAS 19 previously in force consisted of two options:
1. the recognition in the income statement
2. the recognition in equity (statement of comprehensive income).

Until 31 December 2012, the Bank had adopted the first method, accounting in the income statement for all changes in provision for severance indemnities accrued during the period.
With EC Regulation no. 475 of 5 June 2012, the new version of IAS 19 "Employee Benefits" was approved. Such regulation, applicable as per mandatory requirements, for accounting periods beginning on or after 1 January 2013, provides a single method for accounting of actuarial gains/losses, which have to be included immediately in the calculation of net liabilities to employees, as contra-entry for an equity item (OCI - Other Comprehensive Income) to be included in the statement of comprehensive income for the period.
Based on the above regulation, the Bank adopted the revised IAS 19 starting from the financial statements for 2013, implementing the recognition in the income statement of gains and losses attributable to the actuarial nature of these differences directly in equity, with data related to financial statements for 2012 reclassified in accordance with IAS 8.
For more detailed information concerning the composition and values of the items affected by the estimates, please refer to the specific sections in the notes to the financial statements.
Payments into the supplementary pension schemes are booked to the income statement under item 150.a) "Payroll" in relation to defined contribution programmes.

16.2 Leasehold improvements
The costs sustained for restructuring property belonging to third parties are capitalised in consideration of the fact that for the duration of the rental contract the using company has control of the assets and may receive their future economic benefits. Such costs, recorded in "Other assets" as provided for by the instructions of the Bank of Italy, are amortised over a period which must not exceed the duration of the rental contract, and amortisation quotas are recorded in "Other maintenance charges".

16.3 Treasury shares
Any treasury shares held are recorded as a reduction in equity. Similarly, their original cost and the gains or losses deriving from their subsequent sale are recognised as changes in equity.

16.4 Accruals and deferrals
Accruals and deferrals that include expenses and income for the period accrued on assets and liabilities are recognised in the financial statements to adjust the assets and liabilities to which they refer.

16.5 Recognition of revenues
Revenues are recognised when they are received, or when it is likely that future benefits will be received or said benefits may be reliably quantified. In particular:
- interest income is recognised on an accrual basis according to the contractual interest rate or the effective interest rate if the amortised cost method is applied;
- interest on arrears, when provided for by a contract, is recognised in the income statement only when it is actually collected;
- dividends are recognised to the income statement when it is resolved to distribute them, which coincides with when they are collected.

17.4 Provisions for guarantees and commitments
Provisions and write-downs due to the impairment of guarantees issued and commitments to disburse funds are calculated applying the same methods adopted for financial assets measured at amortised cost and for financial assets measured at fair value through other comprehensive income.

16.6 Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition net of any principal repayments, plus or minus cumulative amortisation, calculated using the effective interest rate method, of any difference between initial amount and amount at maturity and net of any reduction for impairment.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the net carrying amount of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability – or for a shorter period when certain conditions are met (for example review of market interest rates).
After initial recognition, amortised cost enables allocation of revenues and costs directly by decreasing or increasing the value of the instrument over its entire expected life via the amortisation process. The determination of amortised cost is different depending on whether financial assets/liabilities have fixed or variable rates and, in this last case, if the volatility of the rate is known or not beforehand.
For instruments with fixed rate or fixed rate by time bands, future cash flows are quantified on the basis of the known interest rate (sole or variable) over the life of the financing. For financial assets/liabilities with a variable rate, for which the volatility is not known beforehand (for example because it is linked to an index), the determination of cash flows is carried out based on the last rate available. At every revision of the interest rate the amortisation plan and the effective interest rate for the entire life of the investment, until maturity, are recalculated. Any changes are recorded in the income statement as income or loss.
Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.

Transaction costs include internal or external marginal costs and income attributable to the issue, the acquisition or the disposal of a financial instrument that are not debited to customer. Such commissions, which must be directly attributable to the single financial asset or liability, modify the original effective interest rate; thereby the effective interest rate associated to the transaction differs from contractual interest rate.
Transaction costs do not include costs/income relating to more than one transaction and the components related to events that may occur during the life of the financial instrument, but that are not certain at the time of the initial agreement, such as for example commissions for distribution, for non-use and for advance termination. Amortised cost does not include costs the Bank would sustain independently from the transaction (e.g. administrative and communication costs, stationery expenses), those, which though directly attributable to the transaction are part of standard practice for the management of lending (e.g. activities related to the loan granting process, administrative management of syndicated loans) as well as commissions on services received following structured finance activities that would in any case have been received independently from the subsequent financing of the transaction.
With reference to loans, fees paid to distribution networks are considered costs directly attributable to the financial instrument.
Regarding securities issued, amortised cost considers placement commissions on bond issues paid to third parties, while it does not consider legal and advisory/review expenses for the annual update of prospectuses.

17.6 Fair value measurements

General qualitative and quantitative information on criteria for measuring fair value can be found in Part A.4.

A.3 INFORMATION ON TRANSFERS OF FINANCIAL ASSETS BETWEEN PORTFOLIOS

During 2019, the Bank did not make any transfers of financial assets between portfolios and therefore this section is not completed.

A.4 FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

This section deals with methods for determining fair value in relation to the types of assets and liabilities of the Bank.
The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. not a forced liquidation or below cost sale). The fair value is an evaluation criterion of the market, not specific to the entity. An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
For financial instruments, fair value is determined through the use of prices obtained from financial markets in the case of instruments listed on active markets or via internal valuation techniques for other financial instruments.
A market is regarded as active if listed prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer or brokered market, industry group, pricing service or regulatory agency.
When the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price of a hypothetical independent arm's length transaction, motivated by normal business considerations, as at the measurement date.
With regard to financial instruments, IFRS 13 establishes a hierarchy of criteria based on the origin, type and quality of information used in the calculation. The "fair value hierarchy" defines three levels for the measurement of the fair value:

- Level 1: the fair value of instruments classified in this level is determined based on quotation prices observed in active markets for identical assets or liabilities;
- Level 2: the fair value of instruments classified in this level is determined based on valuation models that use inputs that can be observed either directly or indirectly in the market (other than listed prices in level 1);
- Level 3: the fair value of instruments classified in this level is determined based on valuation models that use inputs that cannot be observed in the market.

The choice of these methodologies is not optional but must be applied according to a hierarchy since this classification has the objective to establish a hierarchy in terms of the reliability of the values depending on the degree of discretion applied by the companies, giving priority to the use of observable market inputs that reflect the assumptions that participants would use in the valuation (pricing) of the asset/liability. The objective of the hierarchy is also to increase consistency and comparability in fair value measurements.
The valuation method defined for a financial instrument is adopted over time and is changed only as a result of significant changes in market conditions or for the issuer of the financial instrument.
The Bank's activities considered listed on an active market (Level 1) are: equities, bonds and securities listed on a regulated market for which at least two executable prices with a difference between a bid-ask price of less than 15% can be determined on a daily basis over the last month.
The following instruments are valued on the basis of techniques that make use of market parameters (Level 2):

- bonds under the FVO for which it is not possible to use Level 1 fair value;
- bonds classified under the HTCS portfolio for which it is not possible to use Level 1 fair value;
- bonds classified under the Cash Flow hedge portfolio (only for the purposes of testing the hedge effectiveness);
- equity securities listed on a market that is not considered to be active;
- OTC interest rate derivative.

With regard to OTC derivatives, a methodological approach was adopted that allows to include credit risk in determining the fair value of financial instruments: in particular, to fulfil the requirements of the new IFRS 13, it enhances the effects of changes in the counterparty creditworthiness (Credit Value Adjustment - CVA) and the effects of changes in own creditworthiness (Debit Value Adjustment - DVA). The adjustment values are dependent on exposure, the probability of default (PD) and loss given default (LGD) of the counterparties.

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

Level 2 fair value

The following instruments are valued on the basis of techniques that make use of market parameters (Level 2):

- bonds under the FVO for which it is not possible to use Level 1 fair value;
- bonds classified under the HTCS portfolio for which it is not possible to use Level 1 fair value;
- bonds classified under the Cash Flow hedge portfolio (only for the purposes of testing the hedge effectiveness);
- equity securities listed on a market that is not considered to be active;
- OTC interest rate derivative.

In detail, for each of the categories of instruments identified above we apply the valuation models mentioned below.

<u>Bonds classified under HTCS or under the FVO</u>
The methods used for the valuation of these bonds are:

- amortisation plan with future coupons estimated based on forward rates and yield curve including credit spread for variable rate securities;
- amortisation plan with estimated future coupons and yield rate including credit spread for fixed rate securities.

<u>Equity securities listed on a market that is not considered to be active</u>
Equity securities listed on a market that is not considered as "active" are characterised by difficult trading and high volatility in the presence of low volumes traded in accordance with this Regulation; for these securities, the fair value measurement is mainly carried out by applying statistical/financial models envisaged for Level 3 fair value.

Bonds and interest rate derivatives entered into a hedged portfolio using hedge accounting
The calculation of the fair value for hedging derivatives is done by adopting the "Notional Cash Flow After Last Known Coupon" model and the yield curve including issue spread for the valuation of the variable rate component: evaluation differences between this model and the more correct model based on amortisation plan with future coupons estimated based on forward rates are considered negligible.
For consistency, the same model is also applied to the hedged bonds only for the purpose of verifying the effectiveness of the hedge[24].
For the measurement of the fair value of the fixed rate component, we use a model taking into account amounts specified in the amortisation plan and estimating future coupons based on the current coupon rate and the yield curve including issue spread.

Interest rate trading derivatives
For the evaluation of trading derivatives, the fair value provided from time to time by qualified counterparties whose methods are considered to be consistent with those outlined in this policy is adopted, applying to them the necessary correction to take account of counterparty risk (CDA/DVA).

Level 3 fair value

For certain types of financial instruments (equity investments not listed or, in some cases, listed on markets that are not considered to be active), the determination of fair value is based on valuation models that must assume the use of parameters that are not directly observable on the markets, therefore implying estimates and assumptions on the part of the evaluator (Level 3). In particular, the valuation of the financial instrument is based on a calculation model that is based on financial or similar methods. The cost of purchase is used if the valuation is objectively not possible or if the cost and effort to obtain it is too high (for the characteristics and extent of participation).

Assets and liabilities at amortised cost

To integrate the above information in relation to individual financial statement items, for assets and liabilities reported at amortised value, the fair value shown in the Notes to the financial statements is calculated as follows:

- For loans and advances to customers and banks, the fair value (Level 2) is calculated by discounting the future contractual flows on the basis of the market rates curve at the closing of the year according to an approach based on the *discount rate adjustments*, which provides that risk factors - represented by the PD and LGD parameters used in calculating impairment of the portfolios - are taken into account in the rate used to discount the future flows, also considering the general worsening of the risk differentials recorded under current market conditions;
- For bonds issued and in the portfolio, the fair value (Level 2) is calculated with the help of external providers, based on the discounting of future cash flows expected from the contractual plan of the security on the basis of the market rates curve at the closing of the year, adjusted as necessary to take into account the risk profile of the issuer;
- The fair value of loans and amounts due to customers and banks on demand is estimated from the book value (Level 3).

Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA)

The inclusion of the counterparty and own credit risk, for the purpose of determining the fair value of derivatives, as required by IFRS 13, implies that the value calculated on the basis of risk-free rates (MTM) is subject to an adjustment. Such adjustment is referred to as CVA for derivative asset and DVA for derivative liabilities in the Statement of Financial Position.
For the determination of the Credit Valuation Adjustment (CVA) for derivatives purchased from bank counterparties and Debit Valuation Adjustment (DVA) of derivatives sold to customers, we use the methodologies developed by the Cassa Centrale Banca in collaboration with IT companies in the sector (including the outsourcer for the Bank).
IFRS 13 requires the use of valuation techniques that maximize the use of observable market data and data which are attributable to factors taken into account in the valuation of financial instruments by all market participants. Given the characteristics of the transactions entered into and the type of banks as counterparties, it is reasonable to estimate the PD (Probability of Default), both for the Bank's own credit risk and the bank counterparties', using the historical approach. This represents a suitable alternative to the market approach, by referencing to the tables of default historical data reported by the rating agency Moody's using the default rates associated with rating classes (Table "European Corporate Default and Recovery Rates"). As regards LGD (Loss Given Default), in accordance to the methodology of the above-mentioned working group, a loss of 60% of the EAD is assumed in line with practices for unsecured derivatives.

Quantitative information on relevant non-observable inputs used in the evaluation of fair value

It is noted that Level 3 instruments, which have more discretion in determining the fair value, represent only a small percentage (2.4%) of total assets. The quantitative impact of unobservable inputs used in measuring fair value is therefore deemed insignificant.

A.4.2 Processes and sensitivity of valuations

The methodologies for determining the fair value of financial instruments and the criteria for allocation of the instruments themselves within the "Fair Value Hierarchy" are governed by the policy of valuation of assets and liabilities adopted by the Bank.
The Policy Assessment identifies for each financial product/family of products the input parameters and their sources as well as the valuation methods.
The valuation models used must be consistent with the degree of complexity of the products offered/negotiated, reliable in estimating values, used and known by other market participants.
The evaluation process consists of the following phases:

1. The first phase identifies the types of product, the financial parameters and their sources to be used, which must be of proven reliability and be widely accepted among market participants.
2. The second phase of the evaluation process specifies the method for determining the fair value, for each type of product.

24 The Cash Flow Hedge system envisages that the hedged instrument follows the rules of the IAS category in which it is classified.

In phase 1, for securities classified under Level 2 of the fair value hierarchy, the process of determining the spread of the issuer creditworthiness is particularly relevant, as detailed below.

Issuer's creditworthiness

For assets/liabilities on the wholesale market, the credit spread applied is recorded for each issuer (including Mediocredito Trentino – Alto Adige SpA), according to one of the following methodologies, in order of priority:
1. spread applied to the most recent bond issue of significant amount, placed with no connected eligible counterparties;
2. spread determined taking into account the credit rating of each counterparty (including Mediocredito Trentino – Alto Adige S.p.A.) and contingent conditions of the funding market;
3. latest credit spread as reported by Reuters for Moody's rating level.

For liabilities in the retail market, the credit spread applied is the one recognised for the issuer Mediocredito Trentino – Alto Adige S.p.A. by considering the most recent bond issue placed with retail counterparties.
For the assessment of unsecured bonds by corporate counterparties, in the absence of significant issues on the basis of which it is possible to estimate the credit spread, the spread is set to the minimum provided for unsecured financing transactions of the same original duration.

A.4.3 Hierarchy of fair value

The choice of the level of fair value is not optional, but must be applied in a hierarchical order, as this classification has the objective to establish a hierarchy in terms of the reliability of the values depending on the degree of discretion applied, giving priority to the use of observable market inputs that reflect the assumptions that market participants would use in the evaluation (pricing) of assets/liabilities. The objective of the hierarchy is also to increase consistency and comparability in fair value measurements. The valuation method defined for a financial instrument is adopted over time and can only be changed as a result of significant changes in the market or the financial instrument issuer conditions.

A.4.4 Other Information

All non-financial assets, whether they are measured at fair value on a recurring or non-recurring basis, are used at their maximum potential and in the best way.

QUALITATIVE INFORMATION

A.4.5 FAIR VALUE HIERARCHY

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

	2019			2018		
Financial assets/liabilities measured at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets measured at FV through profit or loss	84	207	23,839	63	211	23,296
a) financial assets held for trading	84	207		63	211	
b) financial assets designated at fair value						
c) other financial assets mandatorily measured at fair value [1]			23,839			23,296
2. Financial assets measured at FV through other comprehensive income	90,356	13,392	10,671	80,933	13,282	10,785
3. Hedging derivatives						
4. Property, plant and equipment						
5. Intangible assets						
Total	**90,440**	**13,599**	**34,510**	**80,996**	**13,493**	**34,081**
1. Financial liabilities held for trading		198			202	
2. Financial liabilities designated at fair value		-			-	
3. Hedging derivatives		-			-	
Total		**198**			**202**	

1 In both financial years, the amount contains €11.4m of receivables for cash reserves related to the two securitisations that did not pass the SPPI test.

In 2019, the Bank did not carry out transfers of financial assets/liabilities between Level 1 and Level 2.
The fair value of derivative assets includes counterparty credit risk (CVA) of €4 thousand while the fair value of derivative liabilities includes Mediocredito credit risk (DVA) of €12 thousand; both values are equal to those of 2018.

A.4.5.2 Annual changes in assets measured at fair value on a recurring basis (Level 3)

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	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 fair value				
1. Opening balance	**23,296**			**23,296**	**10,785**			
2. Increases	**2,123**			**2,123**	**33**			
2.1 Purchases[1]	2,112			2,112	33			
2.2 Profits in:	11			11	0			
2.2.1 Income statement [2]	11							
- of which: Capital gains								
2.2.2 Equity					0			
2.3 Transfers from other levels								
2.4 Other increases								
3. Decreases	**1,580**			**1,580**	**147**			
3.1 Sales [3]					74			
3.2 Redemptions [4]	38			38				
3.3 Losses in:	1,542			1,542	72			
3.3.1 Income statement [5]	1,542			1,542				
- of which: capital losses	-							
3.3.2 Equity [6]					72			
3.4 Transfer to other levels								
3.5 Other decreases								
4. Closing balance	**23,839**			**23,839**	**10,672**			

1 With regard to financial assets measured at fair value through profit or loss, the amount refers for €298 thousand to the units of the closed-end fund Assietta Private Equity III, for €396 thousand to the units of the closed-end fund Assietta Private Equity IV, for €81 thousand to the units of the closed-end fund HAT Technology and Innovation, for €806 thousand to the units of the Industry 4.0 SICAV fund and €531 thousand to the units of the PMI Italia II fund. On the other hand, with regard to financial assets measured at fair value through other comprehensive income, the amount refers for €31 thousand to the capital account payment and to cover losses in Trentino Volley Srl and for €2 thousand to the entry in the capital of Servizi Bancari Associati S.p.A.

2 This is the positive change in fair value of the PMI Italia II fund of €11 thousand.

3 These are made up for €74 thousand of the sale of the equity investment in Assietta Private Equity SGR SpA (this generated a capital loss of €41 thousand represented in item 3.3.2) and for €129 of the sale of the investment in Koelliker SpA (this generated a capital gain of equal value represented in item 2.2.2).

4 With regard to financial assets measured at fair value through profit or loss, the amount refers to the repayment, following the entry of new subscribers, of part of the amount paid for the purchase of units in the PMI Italia II fund.

5 With regard to financial assets measured at fair value through profit or loss, these include €712 thousand for the negative change in fair value of the closed-end fund Assietta Private Equity III, €41 thousand for the negative change in fair value of the closed-end fund Assietta Private Equity IV, €556 thousand for the negative change in fair value of the Closed-end real estate investment fund closed-end fund Finint Fenice, €156 thousand for the negative change in fair value of the closed-end fund HAT Technology and Innovation and €76 thousand for the negative change in fair value of the Industry 4.0 SICAV fund.

6 In addition to the capital loss referred to in point 3, the item includes the negative change in fair value of Trentino Volley Srl for €31 thousand.

A.4.5.3 Annual changes in financial liabilities measured at FV on a recurring basis (Level 3)

The Bank does not hold any financial liabilities measured at fair value on a recurring basis for Level 3 in the current year nor in the period of comparison.

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

Type of transaction/Amount	2019				2018			
	BV	FV			BV	FV		
		Lev 1	Lev 2	Lev 3		Lev 1	Lev 2	Lev 3
1. Financial assets measured at amortised cost	1,273,421	167,653	968,190	110,564	1,302,028	178,306	987,204	139,387
2. Property, plant and equipment held for investment purposes	116	-	-	116	116	-	-	116
3. Non-current assets and groups of assets held for sale	-	-	-	-	-	-	-	-
Total	**1,273,537**	**167,653**	**968,190**	**110,680**	**1,302,144**	**178,309**	**987,204**	**139,503**
1. Financial liabilities measured at amortised cost	1,253,487	-	975,017	271,873	1,278,262	-	1,028,685	242,375
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**1,253,487**	**-**	**975,017**	**271,873**	**1,278,262**	**-**	**1,028,685**	**242,375**

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

There are no items for the table A.5 Information on day one profit/loss, set forth by the Bank of Italy.

PART B
INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	2019	2018
a) Cash	2	4
b) Demand deposits with Central Banks	-	-
Total	**2**	**4**

SECTION 2 – FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 20

2.1 Financial assets held for trading: breakdown by type

Items/Amounts	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A Cash assets						
1. Debt securities						
1.1 Structured securities						
1.2 Other debt securities						
2. Equity securities						
3. Investments in UCITS						
4. Loans						
4.1 Repurchase agreements						
4.2 Others						
Total A						
B Derivative instruments						
1. Financial derivatives	84	207		63	211	
1.1 trading[1]	84	207		63	211	
1.2 related to fair value option						
1.3 others						
2. Credit derivatives						
2.1 trading						
2.2 related to fair value option						
2.3 others						
Total B	**84**	**207**		**63**	**211**	
Total (A+B)	**84**	**207**		**63**	**211**	

1 These consist, in Level 1, of warrants listed on the Italian Stock Exchange acquired on a free basis as part of equity investment purchases, and in Level 2, of cap options with banks as counterparties whose characteristics mirror those with ordinary customers as counterparties, shown in item 20 of liabilities, which should be consulted for a more in-depth description. The fair value takes into account the CVA for €4 thousand in both financial years.

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

Items/Amounts	2019	2018
A. Cash assets		
1. Debt securities	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
2. Equity securities	-	-
a) Central Banks	-	-
b) Other financial corporations	-	-
of which: insurance companies	-	-
c) Non-financial corporations	-	-
d) Other issuers	-	-
3. Investments in UCITS	-	-
4. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations		
f) Families		
Total A	**-**	**-**
B. Derivative instruments	**291**	**274**
a) Clearing House	-	-
b) Other	291	274
Total B	**291**	**274**
Total (A+B)	**291**	**274**

Financial assets held for trading: annual changes

	Financial trading derivatives
A. Opening balance	**274**
B. Increases	**194**
B1. Purchases	-
B2. Positive changes in fair value	194
B3. Other changes	-
C. Decreases	**177**
C1. Sales	0
C2. Redemptions	-
C3. Negative changes in fair value	174
C4. Transfers to other portfolios	-
C5. Other changes	3
D. Closing balance	**291**

The item "other decreases" includes the capital loss on the sale of a warrant, whose cash flow (€227) is shown under sales.

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

Items/Amounts	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Investments in UCITS	-	-	12,399	-	-	11,856
4. Loans	-	-	11,440	-	-	11,440
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others[1]	-	-	11,440	-	-	11,440
Total	**-**	**-**	**23,839**	**-**	**-**	**23,296**

1 These are receivables for cash reserves relating to self-securitisations that did not pass the SPPI test.

Commitments relating to investments in UCITS

Fund	2019	2018
Assietta Private Equity III	183	481
Assietta Private Equity IV	1,243	1,639
Finint PMI Italia II	507	1,000
HAT Technology & Innovation	642	722
Industry 4.0 SICAV	2,194	-

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

Items/Amounts	2019	2018
1. Equity securities	**-**	**-**
of which: banks	-	-
of which: other financial corporations	-	-
of which: other non-financial corporations	-	-
2. Debt securities	**-**	**-**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which: insurance companies	-	-
e) Non-financial corporations	-	-
3. Investments in UCITS [1]	**12,399**	**11,856**
4. Loans	**11,440**	**11,440**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	11,440	11,440
of which insurance companies	-	-
e) Non-financial corporations	-	-
f) Families	-	-
Total	**23,839**	**23,296**

1 This item is made up of €7.8m of units of the closed-end real estate investment fund Finint Fenice; it also includes the value of the units of the closed-end real estate investment fund Clesio of €0.2m, the closed-end fund Assietta Private Equity III of €2.2m, the closed-end fund Assietta Private Equity IV of €0.7m, the closed-end fund HAT Technology and Innovation of €0.2m, PMI Italia II of €0.5m, Industry 4.0 SICAV of €0.7m and the real estate fund Leopardi of €0.1m.

Financial cash assets: annual changes in gross exposures

Annual changes in investments in UCITS are shown in the section "Other information" of part B.

SECTION 3 – FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - ITEM 30

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

Items/Amounts	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities [1]	84,443	13,392	-	74,333	13,282	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	84,443	13,392	-	74,333	13,282	-
2. Equity securities [2]	5,913	-	10,671	6,601	-	10,785
3. Loans	-	-	-	-	-	-
Total	**90,356**	**13,392**	**10,671**	**80,934**	**13,282**	**10,785**

1 These consist of €57.5m of government securities and €21.1m of bonds issued by banks (Level 1) and €13.4m of bonds issued by banks (Level 2), of which €91.6m purchased by the Bank to create reserves of readily liquid assets eligible for refinancing with the ECB and €0.4m for other purposes.

2 In Level 3, the equity investments in Funivie Madonna di Campiglio S.p.A., Funivie Folgarida Marilleva S.p.A., Lineapiù S.p.A., Restart SIIQ S.p.A, Aedes SIIQ S.p.A. and Fondo Immobiliare Leopardi (linked to Aedes SIIQ S.p.A.) derive from the restructuring of impaired loans.

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

Items/Amounts	2019	2018
1. Debt securities	**97,835**	**87,615**
a) Central Banks	-	-
b) Public administrations	62,574	39,673
c) Banks	35,261	47,942
d) Other financial corporations	-	-
of which insurance companies	-	-
e) Non-financial corporations	-	-
2. Equity securities	**16,584**	**17,386**
a) Banks	50	50
b) Other issuers	16,534	17,336
- other financial corporations	4,689	4,244
of which insurance companies	-	-
- non-financial corporations	11,845	13,092
- others	-	-
3. Loans	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	-	-
of which insurance companies	-	-
e) Non-financial corporations	-	-
f) Families	-	-
Total	**114,419**	**105,001**

Equity securities include the equity investment in Lineapiù S.p.A., classified as doubtful loans and fully written down in previous years.

Financial cash assets: annual changes in gross exposures

Annual changes in equity and debt securities are shown in the "Other information" section of Part B.

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

	Gross value				Total value adjustments			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	97,835	62,574	-	-	59	-	-	-
Loans	-	-	-	-	-	-	-	-
Total	**97,835**	**62,574**	**-**	**-**	**59**	**-**	**-**	**-**
Total (T-1)	**87,205**	**39,673**	**410**	**-**	**209**	**23**	**-**	**-**
of which: acquired or originated impaired financial assets			-	-		-	-	-

For performing loans (stages 1 and 2), the gross value coincides with the net value, while in the case of any impaired exposures, a proxy should be used for the total value adjustments represented by the cumulative capital losses due to credit risk that, added to the fair value recognised in the financial statements, provide the gross value of the exposure[25]. Therefore, the value adjustments are shown in the table for information purposes only.

25 Consulting document "CIRCULAR No. 262 "BANK'S FINANCIAL STATEMENTS: LAYOUTS AND PREPARATION" and MEASURE OF THE BANK OF ITALY "THE FINANCIAL STATEMENTS OF THE IFRS INTERMEDIARIES OTHER THAN BANK INTERMEDIARIES" – May 2017

SECTION 4 – FINANCIAL ASSETS MEASURED AT AMORTISED COST – ITEM 40

4.1 Financial assets measured at amortised cost: breakdown by type of loans and advances to banks

Type of transaction/Amount	2019						2018					
	Book value			Fair value			Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Lev 1	Lev 2	Lev 3	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Lev 1	Lev 2	Lev 3
A. Deposits with central banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Time deposits	-	-	-	-	-	-	-	-	-	-	-	-
2. Mandatory reserve	-	-	-	-	-	-	-	-	-	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans and advances to banks	**34,863**	**-**	**-**	**-**	**12,835**	**21,807**	**40,960**	**-**	**-**	**-**	**-**	**40,960**
1. Loans	21,807	-	-	-	-	21,807	40,960	-	-	-	-	40,960
1.1 Current accounts and demand deposits	20,181	-	-				40,137	-	-			
1.2 Time deposits	1,626	-	-				823	-	-			
1.3 Other loans:	-	-	-				-	-	-			
- Repurchase agreements	-	-	-				-	-	-			
- Lease financing	-	-	-				-	-	-			
- Other	-	-	-				-	-	-			
2. Debt securities	13,055	-	-	-	12,835	-	-	-	-	-	-	-
2.1 Structured securities	-	-	-				-	-	-			
2.2 Other debt securities	13,055	-	-				-	-	-			
Total	**34,863**	**-**	**-**	**-**	**12,835**	**21,807**	**40,960**	**-**	**-**	**-**	**-**	**40,960**

Mediocredito has met its mandatory reserve obligations to the Bank of Italy indirectly through Cassa Centrale Banca S.p.A., with which it holds a deposit made for this purpose equal to €1.626m as at 31 December 2019 and to €823 thousand as at 31 December 2018 indicated in item B.1.2.

4.2 Financial assets measured at amortised cost: breakdown by type of loans and advances to customers

Type of transaction/Amount	2019					
	Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Lev 1	Lev 2	Lev 3
Loans	**994,554**	**57,356**	**-**	**-**	**937,989**	**88,342**
1.1. Current accounts	9,891	-	-			
1.2 Repurchase agreements	-	-	-			
1.3 Mortgages	798,887	45,984	-			
1.4 Credit cards, personal loans including "one-fifth of salary deducted loan"	-	-	-			
1.5 Lease financing[1]	71,314	2,854	-			
1.6 Factoring	-	-	-			
1.7 Other loans[2]	114,462	8,518	-			
Debt securities	**186,233**	**415**	**-**	**167,653**	**17,366**	**415**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	186,233	415	-	167,653	17,366	415
Total	**1,180,787**	**57,771**	**-**	**167,653**	**955,355**	**88,757**

1 The amount is net of the portion disbursed in relation to third-party funds, which is included in the item "other loans" to the amount of €4.7m.

2 They also include building leasing turnkey operations for €12.8m.

Type of transaction/Amount	2018					
	Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Lev 1	Lev 2	Lev 3
Loans	**993,713**	**70,330**	**-**	**-**	**978,785**	**97,980**
1.1. Current accounts	10,696	0	-			
1.2 Repurchase agreements	-	-	-			
1.3 Mortgages	804,381	55,011	-			
1.4 Credit cards, personal loans including "one-fifth of salary deducted loan"	-	-	-			
1.5 Lease financing [1]	63,277	4,091	-			
1.6 Factoring	-	-	-			
1.7 Other loans[2]	115,359	11,229	-			
Debt securities	**196,579**	**447**	**-**	**178,306**	**8,419**	**447**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	196,579	447	-	178,306	8,419	447
Total	**1,190,291**	**70,777**	**-**	**178,306**	**987,204**	**98,428**

1 The amount is net of the portion disbursed in relation to third-party funds, which is included in the item "other loans" to the amount of €4.9m.
2 They also include building leasing turnkey operations for €11.4m.

Information on the nature of the management operations on funds made available by the State or other public entities ("third party fund administration").

Item "other loans" includes €33.1m of funding provided from funds made available by the Autonomous Province of Trento for €1.4m, the Autonomous Province of Bolzano for €28.4m and the Veneto Region, directly or through the instrumental company Veneto Sviluppo, for €3.4m.
All of the above funds, intended for particular funding operations as envisaged and governed by specific legislation[26], require Mediocredito to fully assume the risk.

Financial cash assets: annual changes

Annual changes in debt securities are shown in the "Other information" section of Part B.

4.3 Financial assets measured at amortised cost: breakdown by debtor/issuer of loans and advances to customers

Type of transaction/Amount	2019			2018		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Stage 1 and 2	Stage 3	of which: acquired or originated impaired
1. Debt securities:	**186,233**	**415**		**196,579**	**447**	
a) Public administrations	168,954			188,234		
b) Other financial corporations	4,770			2,999		
of which: insurance companies	-			-		
c) Non-financial corporations	12,509	415		5,346	447	
2. Loans to:	**994,554**	**57,356**		**993,713**	**70,330**	
a) Public administrations	67,824			79,374		
b) Other financial corporations	45,017	7,571		45,654	10,842	
of which: insurance companies	-			-		
c) Non-financial corporations	838,147	44,094		821,550	54,161	
d) Families	43,566	5,691		47,135	5,328	
Total	**1,180,787**	**57,771**		**1,190,291**	**70,777**	

26 In particular:
– for the Autonomous Province of Trento: Provincial Law 6/99;
– for the Autonomous Province of Bolzano: Regional Laws 21/93 and 3/91, Provincial Law 9/91 and Law 817/71;
– for the Veneto Region: Regional Law 18/94, 6/96, 5/2001, 33/2002, 40/2003 and POR 2007-2013.

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

	Gross value				Total value adjustments			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	199,454	167,652	-	741	166	-	327	-
Loans	945,021	27,221[1]	76,310	112,528	1,775	3,193	55,171	26
Total	**1,144,475**	**194,874**	**76,310**	**113,269**	**1,941**	**3,193**	**55,498**	**26**
Total (T-1)	**1,164,771**	**220,938**	**72,649**	**136,875**	**2,310**	**3,859**	**66,098**	**-**
of which: acquired or originated impaired financial assets			-	-		-	-	-

1 The amount shown is related to loans for which, for the purposes of staging assessment, the staging model adopted by the Bank applies the Low Credit Risk Exemption, envisaged by IFRS 9, which requires that on FTA or subsequent measurement, a transaction can be classified as stage 1 if it meets the following requirements:
- absence of lifetime PD at the disbursement date;
- no "30 days past due" event in the 36 months prior to the measurement date, and
- rating class less than or equal to 4 for Small Businesses and Companies, less than or equal to 3 for POE and less than or equal to 5 for Private individuals.

The "Gross value" of financial assets shown in the table corresponds to the book value gross of total value adjustments (case-by-case and collective), which are instead shown in the "Total value adjustments" columns, and does not include accrued interests on arrears in that they are considered non-recoverable. In the case of stage 3 adjustments, the amount shown corresponds to the present value, at the end of the reporting period, of the difference between contractual flows and expected cash flows.

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 Equity investments: information on equity relations

Names	Registered office	Operating office	% stake	% of votes available
A. Subsidiaries				
1. Paradisidue S.r.l.	Trento	Trento	100.000	100.000
B. Joint ventures				
C. Companies under significant influence				

7.4 Insignificant equity investments: accounting information [1]

Names	Book value of equity investments	Total assets	Total equity and liabilities	Total revenues	Profit (Loss) from current operations after taxes	Net profit (loss) from groups of assets held for sale	Net income (loss) for the year (1)	Other income components net of taxes (2)	Comprehensive income (3)=(1)+(2)
A. Subsidiaries	**306**	**7,585**	**7,760**	**294**	**(370)**	**-**	**(370)**	**-**	**(370)**
1. Paradisidue S.r.l.	306	7,585	7,760	294	(370)	-	(370)	-	(370)
B. Joint ventures									
C. Companies under significant influence									

1 Statement of Financial Position data as at 31 December 2019.

7.5 Equity investments: annual changes

	2019	2018
A. Opening balance	**176**	**26**
B. Increases	**500**	**700**
B.1 Purchases	500	700
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**370**	**550**
C.1 Sales	-	-
C.2 Value adjustments	370	550
C.3 Write-downs	-	-
C.4 Other changes	-	-
D. Closing balance	**306**	**176**
E. Total revaluations	-	-
F. Total adjustments	1,378	1,008

Commitments relating to equity investments in subsidiaries

The Bank granted the subsidiary Paradisidue S.r.l. a loan account with a credit limit of €10.0m – for which the amount of €7.564m was drawn as at 31 December 2019 for the purpose of acquiring and renovating a building as part of bankruptcy proceedings.
The Bank granted the subsidiary Paradisidue S.r.l. an unsecured loan of €741.2 thousand.

SECTION 8 – PROPERTY, PLANT AND EQUIPMENT – ITEM 80

8.1 Property, plant and equipment for operational use: breakdown of assets valued at cost

Assets/Amount	2019	2018
1. Assets owned	**8,279**	**8,103**
a) land[1]	1,950	1,950
b) buildings[2]	5,601	5,328
c) furniture	226	266
d) IT equipment	85	79
e) others	416	480
2. Rights-of-use acquired under leases [3]	**219**	**-**
a) land	-	-
b) building	154	-
c) furniture	-	-
d) IT equipment	-	-
e) others	65	-
Total	**8,499**	**8,103**
of which: obtained through the realisation of guarantees received	**-**	**-**

1 This is the historical cost of the land on which the registered office in Trento stands, owned from the ground up, accounted for separately under the fifty-eighth paragraph of IAS 16.
2 Subject to revaluation under special laws of which: €106.3 thousand under Law no. 576/75, €409.6 thousand under Law no. 72/83, €887.7 thousand under Law no. 413/91 and €4,410.7 thousand under Law no. 342/2000.
3 This item includes the amounts relating to the rights-of-use acquired under leases recognised as assets of the Bank in accordance with IFRS 16. It should be noted here that the Bank has chosen to adopt IFRS 16 for the first time according to the "modified retrospective" approach, which does not imply the restatement of comparative data; therefore, the 2018 figure is not shown.

8.2 Property, plant and equipment held for investment purposes: breakdown of assets valued at cost

Assets/Amount	2019				2018			
	Book value	Fair Value			Book value	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Assets owned	**116**	**-**	**-**	**116**	**116**	**-**	**-**	**116**
a) land[1]	116	-	-	116	116	-	-	116
b) building	-	-	-	-	-	-	-	-
2. Rights-of-use acquired under leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) building	-	-	-	-	-	-	-	-
Total	**116**	**-**	**-**	**116**	**116**	**-**	**-**	**116**
of which: obtained through the realisation of guarantees received								

1 This is a plot of land obtained as a result of debt recovery proceedings.

Depreciation of property, plant and equipment was calculated on the basis of the following annual depreciation charges that are deemed to adequately express the residual useful life of the assets.

Lands.......................................not depreciated (indefinite useful life)
Lands incorporated from buildings owned (from the ground up).......................................not depreciated (indefinite useful life)
Buildings for operational use....................................... 3.00%
Furnishing....................................... 12.00%
Air conditioning and various equipment....................................... 15.00%
Plants and lifts....................................... 7.50%
Furnishings....................................... 15.00%
Electronic equipment....................................... 20.00%
Cars and motor vehicles....................................... 25.00%
Telephone systems....................................... 12.50%

8.6 Property, plant and equipment for operational use: annual changes

	Land	Buildings	Furnishing	IT equipment	Other	Total
A. Gross opening balance	**1,950**	**10,199**	**2,060**	**663**	**1,858**	**16,730**
A.1 Total net write-downs	-	4,871	1,794	584	1,378	8,627
A.2 Net opening balance	**1,950**	**5,328**	**266**	**79**	**480**	**8,103**
B. Increases:	-	**737**	**64**	**45**	**151**	**997**
B.1 Purchases		494	48	32	46	620
B.2 Capitalised expenditure on improvements		49				49
B.3 Write-backs						
B.4 Positive fair value changes booked to						
a) equity						
b) income statement						
B.5 Exchange differences						
B.6 Transfers from property held for investment purposes						
B.7 Other changes		194	16	13	105	328
C. Decreases:	**-**	**309**	**104**	**39**	**148**	**601**
C.1 Sales [1]			16	13	19	47
C.2 Depreciation		309	88	26	131	554
C.3 Adjustments due to impairment booked to						
a) equity						
b) income statement						
C.4 Negative fair value changes booked to						
a) equity						
b) income statement						
C.5 Exchange losses						
C.6 Transfers to:						
a) property, plant and equipment held for investment purposes						
b) assets held for sale						
C.7 Other changes						
D. Net closing balance	**1,950**	**5,755**	**226**	**85**	**482**	**8,499**
D.1 Total net write-downs	-	5,181	1,866	597	1,491	9,137
D.2 Gross closing balance	**1,950**	**10,936**	**2,092**	**682**	**1,972**	**17,633**
E. Measured at cost	-	-	-	-	-	-

1 Amounts in the item "sales" refer to the transfer of fully depreciated assets whose cash flow, equalling €3 thousand, is included in the item "Cash flow generated by sale of property, plant and equipment" of the cash flow statement. For balancing purposes (for item "Total net write-downs") the change in accumulated depreciation relating to such assets was shown in item "Increases B.7 – other changes".

All assets for operational use are measured at cost inclusive of monetary revaluation under special laws.

Items B.1, B.7 and C.2 of table 8.6 also include the amounts relating to the rights-of-use acquired under leases recognised as assets of the Bank in accordance with IFRS 16. It should be noted here that the Bank has chosen to adopt IFRS 16 for the first time according to the "modified retrospective" approach, which does not imply the restatement of comparative data; as a result, the amount relating to the initial recognition (FTA) of rights-of-use is shown under item B.7 "Other increases" instead of under item A. "Gross opening balance".

Property, plant and equipment for operational use purchased under finance lease: annual changes

	Buildings	Other	Total
A. Gross opening balance	**-**	**-**	**-**
A.1 Total net write-downs	-	-	-
A.2 Net opening balance	**-**	**-**	**-**
B. Increases:	**194**	**96**	**290**
B.1 Purchases	-	9	9
B.2 Capitalised expenditure on improvements [1]	-	-	-
B.7 Other increases (FTA initial balances)	194	87	281
C. Decreases:	**40**	**30**	**70**
C.2 Depreciation	40	30	70
D. Net closing balance	**154**	**65**	**219**
D.1 Total net write-downs	40	30	70
D.2 Gross closing balance	**194**	**96**	**290**

1 With regard to the disclosures required by IFRS 16, paragraph 53, letter h), note that no additions were made during the year to the assets consisting of rights-of-use.

8.7 Property, plant and equipment held for investment purposes: annual changes

No changes were recorded during the period in relation to property, plant and equipment held for investment purposes (measured at cost). Gross and net opening and closing balances, as well as the fair value measurement as at the end of the reporting period, equal €116 thousand.

8.9 Commitments to purchase property, plant and equipment

At the end of these financial statements, the Bank had no contractual commitments for purchasing property, plant and equipment.

SECTION 9 – INTANGIBLE ASSETS – ITEM 90

9.1 Intangible assets: breakdown by type of asset

Assets/Amount	2019		2018	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill				
A.2 Other intangible assets	**132**	**-**	**48**	**-**
A.2.1 Assets measured at cost:	132	-	48	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	132	-	48	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**132**	**-**	**48**	**-**

Amortisation was calculated:

- on the basis of the expected useful life at a percentage of 33.33% with regard to application software;
- on the basis of the duration of the outsourcing contract (5 years) with regard to the cost of software for the company's new IT system;
- applying the rate of 20% for the software of the internal data and network infrastructure.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: others		Total
		Limited duration	Unlimited duration	Limited duration	Unlimited duration	
A. Gross opening balance	**-**	**-**	**-**	**3,149**	**-**	**3,149**
A.1 Total net write-downs	-	-	-	3,101	-	3,101
A.2 Net opening balance	**-**	**-**	**-**	**48**	**-**	**48**
B. Increases	**-**	**-**	**-**	**116**	**-**	**116**
B.1 Purchases	-	-	-	116	-	116
B.2 Increases in intangible assets generated internally		-	-	-	-	-
B.3 Write-backs		-	-	-	-	-
B.4 Positive fair value changes:		-	-	-	-	-
- equity		-	-	-	-	-
- income statement		-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**32**	**-**	**32**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	32	-	32
- Amortisation		-	-	32	-	32
- Write-downs:	-	-	-	-	-	-
+ equity		-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value:	-	-	-	-	-	-
- equity		-	-	-	-	-
- income statement		-	-	-	-	-
C.4 Transfer to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**-**	**-**	**-**	**132**	**-**	**132**
D.1 Net total value adjustments	-	-	-	3,133	-	3,133
E. Gross closing balance	**-**	**-**	**-**	**3,265**	**-**	**3,265**
F. Measured at cost	-	-	-	-	-	-

Intangible assets are measured at cost.

9.3 Intangible assets: other information

The Bank does not have:

- Revaluated intangible assets;
- Intangible assets acquired by way of government concessions;
- Intangible assets pledged as collateral for liabilities;
- Commitments to purchase intangible assets;
- Leased intangible assets.

SECTION 10 – TAX ASSETS AND TAX LIABILITIES - ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 Deferred tax assets: breakdown

	2019	2018
	16,203	**17,098**
A. With contra-entry to income statement	**15,788**	**16,208**
Adjustments to loans deductible in future years	15,145	15,155
Tax loss - 2015	-	347
Depreciation of buildings for operational use	25	21
Other	618	685
B. With contra-entry to equity	**415**	**890**
Financial assets measured at fair value through OCI	356	848
Other	59	42

Deferred tax assets are considered fully recoverable, taking into account the expected taxable income to be generated in subsequent periods.

10.2 Deferred tax liabilities: breakdown

	2019	2018
	5,367	**5,328**
A. With contra-entry to income statement	**5,248**	**5,259**
Provision for credit risks	5,117	5,128
Depreciation of buildings for operational use	108	108
Change in employee leaving indemnity	23	23
B. With contra-entry to equity	**119**	**69**
Financial assets measured at fair value through OCI	119	69

Percentages used in the calculation of deferred taxes:

for IRES: 27.50%;
for IRAP: 5.57% for 2020, 2021 and 2022, if there is reasonable certainty of use in these periods
4.65% for the years 2023 and onwards

10.3 Change in deferred tax assets (with contra-entry to income statement)

	2019	2018
1. Opening balance	**16,208**	**12,408**
2. Increases	**71**	**5,609**
2.1 Deferred tax assets recognised during the period	66	5,479
a) related to previous periods	-	-
b) due to change in accounting policies [1]	-	5,172
c) write-backs	-	-
d) other	66	307
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases [2]	5	130
3. Decreases	**491**	**1,810**
3.1 Deferred tax assets derecognised during the period	476	1,810
a) reversals	476	1,810
b) written down as now considered unrecoverable	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	15	-
3.3 Other decreases	-	-
a) transformation of tax credits pursuant to Law no. 214/2011	-	-
b) other	-	-
4. Final balance	**15,788**	**16,208**

1 In 2018, the amounts indicated in the item "deferred tax assets recognised in the period due to change in accounting policies" refer to the taxes recognised on FTA following the recalculation of the balances in the financial statements in compliance with the new accounting standard IFRS 9.

2 In 2018, the amount refers to deferred tax assets on financial assets that were reclassified on FTA from financial assets measured at fair value through other comprehensive income to financial assets measured at fair value through profit or loss.

The residual deferred tax assets (€347 thousand) relating to IRES on the 2015 tax loss were fully discharged in 2019 for use.

10.3bis Change in deferred tax assets pursuant to Law no. 241/2011

	2019	2018
1. Opening balance	**10,519**	**10,519**
2. Increases	**5**	**-**
3. Decreases	**-**	**-**
3.1 Reversals	-	-
3.2 Transformation to tax credits	-	-
a) deriving from losses for the year	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. Final balance	**10,524**	**10,519**

10.4 Change in deferred tax liabilities (with contra-entry to income statement)

	2019	2018
1. Opening balance	**5,259**	**5,421**
2. Increases	**-**	**278**
2.1 Deferred tax liabilities recognised during the period	-	-
a) related to previous periods	-	-
b) due to change in accounting policies	-	-
c) others	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	278[1]
3. Decreases	**11**	**440**
3.1 Deferred tax liabilities derecognised during the period	11	440
a) reversals	11	440
b) due to change in accounting policies	-	-
c) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Final balance	**5,248**	**5,259**

1 In 2018, the amount refers to deferred tax assets on financial assets that were reclassified on FTA from financial assets measured at fair value through other comprehensive income to financial assets measured at fair value through profit or loss.

10.5 Change in deferred tax assets (with contra-entry to equity)

	2019	2018
1. Opening balance	**890**	**367**
2. Increases	**17**	**779**
2.1 Deferred tax assets recognised during the period	-	779
a) related to previous periods	-	-
b) due to change in accounting policies [1]	-	19
c) others	17	760
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**492**	**255**
3.1 Deferred tax assets derecognised during the period	492	121
a) reversals	492	121
b) written down as now considered unrecoverable	-	-
c) due to change in accounting policies	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases [2]	-	134
4. Final balance	**415**	**890**

1 In 2018, the amounts indicated in the item "deferred tax assets recognised in the period due to change in accounting policies" refer to the taxes recognised on FTA following the recalculation of the balances in the financial statements in compliance with the new accounting standard IFRS 9.
2 In 2018, the amount refers for €130 thousand to deferred tax assets on financial assets that were reclassified on FTA from financial assets measured at fair value through other comprehensive income to financial assets measured at fair value through profit or loss.

10.6 Change in deferred tax liabilities (with contra-entry to equity)

	2019	2018
1. Opening balance	**69**	**535**
2. Increases	**50**	**19**
2.1 Deferred tax liabilities recognised during the period	-	16
a) related to previous periods	-	-
b) due to change in accounting policies [1]	-	11
c) others [2]	50	5
2.2 New taxes or increases in tax rates [1]	-	3
2.3 Other increases	-	-
3. Decreases	**0**	**486**
3.1 Deferred tax liabilities derecognised during the period	0	209
a) reversals	0	209
b) due to change in accounting policies	-	-
c) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases [3]	-	278
4. Final balance	**119**	**69**

1 In 2018, the amounts indicated in the items "deferred tax assets recognised in the period due to change in accounting policies" and "New taxes or increases in tax rates" refer to the taxes recognised on FTA following the recalculation of the balances in the financial statements in compliance with the new accounting standard IFRS 9.
2 In 2019, the amount refers to deferred tax liabilities on changes in fair value of financial assets measured at fair value through other comprehensive income.
3 In 2018, the amount refers to deferred tax assets on financial assets that were reclassified on FTA from financial assets measured at fair value through other comprehensive income to financial assets measured at fair value through profit or loss.

10.7 Other information

The item "current tax assets" amounted to €6m and referred to receivables due from the Tax Authorities for withholding taxes on bank interest; in 2018, this receivable totalled €1.124m. The item "current tax liabilities" amounted to €582m and referred to payables due to the Tax Authorities for IRES and IRAP.
In relation to the deferred tax assets pursuant to Law no. 214/2014 of €10.5m, relating entirely to adjustments to receivables deductible in future years, by contrast it should be noted that, in compliance with the contents of the joint Bank of Italy/Ivass/Consob document of 15 May 2012, the *"probability test"* is considered automatically satisfied given there is substantial certainty as to their full recovery.

SECTION 12 – OTHER ASSETS – ITEMS 120

12.1 Other assets: breakdown

	2019	2018
Tax assets (indirect taxes and substitute tax)	1,798	2,598
Items in processing [1]	1,745	1,748
Illiquid assets	599	411
Accrued income and prepayments	287	251
Various prepayments and advances	249	215
Amounts due in relation to invoices – issued or not	80	88
Amounts due for unpaid commissions	74	9
Other liabilities	13	14
Total	**4,845**	**5,334**

1 The amount mainly refers to the payment of an amount subject to revocation, for which an appeal to the Supreme Court is pending.

LIABILITIES

SECTION 1 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST – ITEM 10

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

Type of transaction/Amount	2019				2018			
	BV	FAIR VALUE			BV	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**275,538**				**276,667**			
2. Due to banks	**398,091**				**624,430**			
2.1 Current accounts and demand deposits	9,975				7			
2.2 Time deposits	20,107				99,700			
2.3 Loans	368,009				524,723			
2.3.1 Repurchase agreements	-				-			
2.3.2 Others	368,009				524,723			
2.4 Liabilities in respect of commitments to repurchase treasury shares	-				-			
2.5 Lease payables	-				-			
2.6 Other amounts due	-				-			
Total	**673,629**	**-**	**636,233**	**30,083**	**901,097**	**-**	**794,122**	**99,708**

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

Type of transaction/Amount	2019				2018			
	BV	FAIR VALUE			BV	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1 Current accounts and demand deposits	143,220				65,819			
2 Time deposits	65,233				37,528			
3 Loans	42,277				42,328			
3.1 Repurchase agreements	-				-			
3.2 Others	42,277				42,328			
4 Liabilities in respect of commitments to repurchase treasury shares	-				-			
5 Lease payables	221				-			
6 Other amounts due	33,116				39,321			
Total	**284,067**	**-**	**42,017**	**241,790**	**184,996**	**-**	**42,201**	**142,668**

1 Item "Other amounts due" includes funds managed on behalf of third parties to the amount of €33,115 thousand in 2019 and €39,321 thousand in 2018, according to supervisory regulations.

1.3 Financial liabilities measured at amortised cost: breakdown by type of debt securities in issue

Type of transaction/ Amounts	2019				2018			
	BV	FAIR VALUE			BV	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	295,792	-	296,767	-	192,138	-	192,332	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	295,792	-	296,767	-	192,138	-	192,332	-
2. Other securities	-	-	-	-	30	-	30	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	30	-	30	-
Total	**295,792**	**-**	**296,767**	**-**	**192,168**	**-**	**192,362**	**-**

The Fair Value of debt securities in issue is classified under level 2 because it is determined using measurement models based on market parameters (yield curve) other than quotations of the financial instrument. This also refers to bonds that had been issued in the context of the EMTN programme and that are listed on the Luxembourg stock exchange which, according to the rules adopted by the Bank in relation to fair value hierarchy, does not make at least two recent executable prices continuously available with a bid-ask spread under an interval deemed to be consistent.

1.6 Lease payables

Items/amounts	31/12/2019		
	Minimum future payments	Present value of minimum future payments	Deferred financial income
Within 1 year	69	67	2
1 - 5 years	152	150	2
Over 5 years	-	-	-
Total	**221**	**216**	**4**

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 20

2.1 Financial liabilities held for trading: breakdown by type

Type of transaction/Amount	2019					2018				
	NV	FV			FV *	NV	FV			FV *
		Liv.1	Liv.2	Liv.3			Liv.1	Liv.2	Liv.3	
A. Cash 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										
3.1.1 Structured										
3.1.2 Others										
Total A										
B. Derivative instruments										
1. Financial derivatives	**43,768**		**198**		**206**	**29,745**		**202**		**211**
1.1 Trading			198					202		
1.2 Related to fair value option										
1.3 Others										
2. Credit derivatives										
2.1 Held for trading										
2.2 Related to fair value option										
2.3 Others										
Total B			**198**		**206**			**202**		**211**
Total (A+B)			**198**		**206**			**202**		**211**

Legend

FV* = fair value calculated without including value changes due to change in creditworthiness of issuer since the date of issue.

The Bank has no derivative contracts in its portfolio with its own underlying liabilities.
During the year, there were no changes in the fair value of derivatives attributable to the change in the Bank's creditworthiness.

Financial cash liabilities held for trading (excluding "uncovered short positions"): annual changes

	Financial trading derivatives
A. Opening balance	**202**
B. Increases	**147**
B1. Issues	-
B2. Sales	-
B3. Positive changes in fair value	147
B4. Other changes	-
C. Decreases	**151**
C1. Purchases	-
C2. Redemptions	-
C3. Negative changes in fair value	151
C4. Other changes	-
D. Closing balance	**198**

SECTION 6 – TAX LIABILITIES – ITEM 60

See section 10 of Assets

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 Other liabilities: breakdown

	2019	2018
Items in processing [1]	948	1,005
Withholdings made as tax collection agent	733	496
Amounts due to suppliers	627	644
Amounts due to third parties [2]	517	480
Commission fees to be paid	490	312
Withholdings on employee compensation	241	239
Accrued liabilities and deferred income	104	95
Other liabilities	15	15
Total	**3,675**	**3,286**

1 They relate for €500 thousand (€700 thousand in 2018) to the payable to the subsidiary Paradisidue Srl to cover losses.
2 They relate mostly to the payable for the monetisation of holidays and leave time not used of €210 thousand, to the amount due for the recognition of the extra time of managerial staff of €53 thousand and to the payable for 2019 company bonuses of €229 thousand.

SECTION 9 – PROVISION FOR SEVERANCE INDEMNITIES – ITEM 90

9.1 Provision for severance indemnities: annual changes

	2019	2018
A. Opening balance	**1,361**	**1,398**
B. Increases	**84**	**23**
B.1 Provisions for the period [1]	14	23
B.2 Other changes [2]	70	-
C. Decreases	**13**	**60**
C.1 Indemnities paid	9	24
C.2 Other changes [3]	4	36
D. Closing balance	**1,432**	**1,361**

1 the amount corresponds to the provisions shown in table 9.1 "Payroll: breakdown" of Part C "Information on the income statement".
2 In 2019, this item includes the amount of the actuarial losses recognised as a contra-entry in the specific equity reserve.
3 This item includes the use to cover the substitute tax (€4 thousand in 2019, €5 thousand in 2018) and, in 2018 alone, the amount relating to actuarial gains recognised as a contra entry to the specific equity reserve (€31 thousand).

9.2 Other information

Pursuant to IAS 19 paragraphs 64 and 65, the Provision for severance indemnities is calculated utilising the "Projected Unit Credit Cost Method" (also known as accrued benefits valuation method or as benefit method/working years). According to this method, the liability is calculated in proportion to the services already rendered at the Statement of Financial Position date with respect to those which could presumably be rendered in total.
To be more precise, the work of the actuary is structured into the following phases:

- projection on the basis of a series of economic and financial hypotheses of the future amounts that could be disbursed to each employee in the case of retirement, death, disability, resignation, request for early payment, etc. The estimate also includes future revaluations as for art. 2120 of the Italian Civil Code;
- calculation of the average present value of the flows regarding the future payment on the basis of the discount rate adopted and of the probability that each amount has of being disbursed;
- assessment of the pension liabilities by relating the average present value of the flows regarding the future payment to the service already rendered by the employee at the date of valuation;
- identification of the provision valid under IAS – on the basis of the determined liabilities and amounts set aside in the reserve.

According to IAS 19 paragraph 78 the discount rate must be selected so that, at the maturity dates of the amounts that are being calculated, it coincides with the guaranteed rate of return of bonds issued by leading companies and institutions.

SECTION 10 – PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 Provisions for risks and charges: breakdown

Items/Amounts	2019	2018
1. Provisions for credit risk related to commitments and financial guarantees issued	19	13
2. Provisions on other commitments and other guarantees issued	-	-
3. Post-retirement benefit obligations	-	-
4. Other provisions for risks and charges	2,237	2,433
4.1 legal disputes	1,564	1,814
4.2 personnel expenses	180	150
4.3 others	493	469
Total	**2,256**	**2,446**

10.2 Provisions for risks and charges: annual changes

The table shows the annual changes in provisions for risks and charges with the exception of those in the item "provisions for credit risk related to commitments and financial guarantees issued", which must be recognised in table A.1.4 of part E, to which reference is made.

	Provisions on other commitments and other guarantees issued	Post-retirement benefit obligations	Other provisions for risks and charges	Total
A. Opening balance	**-**	**-**	**2,433**	**2,433**
B. Increases	**-**	**-**	**330**	**330**
B.1 Provisions for the period [1]	-	-	180	180
B.2 Changes over time	-	-	-	-
B.3 Changes due to discount rate adjustments	-	-	-	-
B.4 Other changes [2]	-	-	150	150
C. Decreases	**-**	**-**	**525**	**525**
C.1 Use during the period [3]	-	-	478	478
C.2 Changes due to discount rate adjustments	-	-	-	-
C.3 Other changes [4]	-	-	48	48
D. Closing balance	**-**	**-**	**2,237**	**2,237**

1 This amount is made up entirely of provisions for the personnel incentive scheme.
2 This amount relates to the portion of the net income for 2018 allocated to the provision as per Article 21 of the By-laws.
3 This amount is made up of €125 thousand for donations as for article 21 of the By-laws, of €102 thousand for payment of the performance bonus to personnel and of €250 thousand for the use of the provision for legal risks in relation to a dispute settled in favour of the counterparty with a transaction.
4 The amount refers to the write-back due to the non-payment of a portion of personnel incentive scheme.

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

	Provisions for credit risk related to commitments and financial guarantees issued			
	Stage 1	Stage 2	Stage 3	Total
Commitments to disburse funds	3	0	-	3
Financial guarantees issued	13	-	3	15
Total	**16**	**0**	**3**	**19**

10.6 Provisions for risks and charges – other provisions

Item "legal disputes" is made up of sums set-aside for uncertain expenses in connection with revocatory actions and other ongoing disputes.
The item "other provisions" covers the total amount of the provision under Article 21 of the By-laws which is at the disposal of the Board of Directors "for supporting initiatives in social-economic, research, study, charitable and promotional fields".
The provision for "personnel expenses" is made up, if present, of amounts set aside to cover the cost of the personnel incentive schemes.

SECTION 12 – EQUITY OF THE COMPANY – ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 "Share capital" and "Treasury shares": breakdown

The fully paid up share capital is €58,484,608.00 represented by 112,470,400 ordinary shares of a nominal €0.52 each.

12.2 Share capital – Number of shares: annual changes

Item/Types	Ordinary	Other
A. Shares in issue at the beginning of the year	112,470,400	-
- fully paid up	112,470,400	-
- not fully paid up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares in issue: opening balance	**112,470,400**	**-**
B. Increases	-	-
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants		
- others	-	-
- on a free basis:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- others	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	-	-
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Sale of companies	-	-
C.4 Other changes	-	-
D. Shares in issue: closing balance	**112,470,400**	**-**
D.1 Treasury shares (+)	-	-
D.2 Shares in issue at the end of the year	112,470,400	-
- fully paid up	112,470,400	-
- not fully paid up	-	-

12.4 PROFIT RESERVES: OTHER INFORMATION

Relating to this section, please see the "Statement of changes in equity"

The following table shows the nature and purpose of each reserve included in the equity, as per paragraph 79 of IAS 1 letter b) and Article 2427, paragraph 7-bis of the Civil Code.

Nature/Description	Amount	Possible use	Available amount	of which distributable portion
Capital reserves:	**29,841**		**29,841**	**29,841**
- Additional paid-in capital [1]	29,841	A-B-C	29,841	29,841
Profit reserves:	**81,301**		**79,350**	**76,695**
- Legal reserve undistributable [2]	11,697	B	-	-
- Available legal reserve	7,708	A-B-C	7,708	7,708
- Statutory reserves	50,051	A-B-C	50,051	50,051
- Reserve under Legislative Decree no. 38/2005	2,655	A-B	2,655	-
- Reserve pursuant to IFRS 9 FTA	(9,746)		-	-
- Undistributable reserve under article 6 Legislative Decree no. 38/2005	-		-	-
- Other reserves	18,936	A-B-C	18,936	18,936
Valuation reserves:	**1,511**		**4,318**	**-**
- Valuation reserve under Laws no. 413/91 and 342/2000	4,318	A-B	4,318	-
- Reserve under Legislative Decree no. 38/2005: revaluation of OCI securities	(2,362)		-	-
- Reserve under Legislative Decree no. 38/2005: pension plans	(445)		-	-
Total	**112,653**		**113,509**	**106,536**

Legend:
A: for share capital increases
B: to cover losses
C: for distribution to the shareholders

1 According to Article 2431 of the Civil Code, the whole amount of this reserve can be distributed only on condition that the legal reserve has reached the limit set forth by Article 2430 of the Civil Code.

2 The use of the legal reserve must comply with the limits set forth by Article 2430 of the Civil Code. The undistributable portion is equal to 20% of share capital.

Proposal for the allocation of the net profit

The net profit for 2019 amounted to €4,028,083.93, entirely distributable.
That said, the Board of Directors proposes the following allocation of net profit:

Profit for the year	€	4,028,083.93
- undistributable reserves under article 6, paragraph 2 Legislative Decree no. 38/2005 freed during the year	€	-
- allocation to undistributable reserves under article 6, paragraph 2 of Legislative Decree no. 38/2005	€	-
- 5% to the legal reserve	€	201,000.00
Distributable amount	**€**	**3,827,083.93**
- at the disposal of the Board of Directors for initiatives as per Article 21 of the By-laws	€	200,000.00
- dividend to distribute to shareholders	€	-
- further allocation to the extraordinary reserve	€	3,627,083.93

OTHER INFORMATION

1. Commitments and financial guarantees issued other than those designated at fair value

Transactions	Notional value on commitments and financial guarantees issued			2019	2018
	Stage 1	Stage 2	Stage 3		
Commitments to disburse funds	**21,234**	**4**	**8**	**21,246**	**10,160**
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial corporations	4,769	4	-	4,773	4,056
e) Non-financial corporations	16,114	-	8	16,123	5,654
f) Families	351	-	-	351	450
Financial guarantees issued	**6,100**	**-**	**5**	**6,105**	**5,364**
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	1,034	-	-	1,034	1,034
d) Other financial corporations	-	-	-	-	-
e) Non-financial corporations	5,066	-	5	5,071	4,330
f) Families	-	-	-	-	-

3. Assets used to guarantee own liabilities and commitments

Portfolios	2019	2018
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	30,125	41,259
3. Financial assets measured at amortised cost	572,732	637,429
4. Property, plant and equipment	-	-
of which: Property, plant and equipment that constitute stocks	-	-

Eurosystem credit operations

Securities not reported in assets in the statement of financial position to guarantee borrowings

Loans and advances to customers to guarantee mortgage borrowings

Full information on the activities recorded and not registered in the accounts pledged as collateral for liabilities and loans (including credit operations with the Eurosystem), is given in the sections "Disclosure on on-balance sheet assets pledged as a guarantee" and "Disclosure on off-balance sheet own assets pledged as a guarantee" (Part E, Sec. 4).

5. Management and intermediation on behalf of third parties

Type of services	2019	2018
1. Execution of orders on behalf of customers	**-**	**-**
a) Purchases	-	-
1. settled	-	-
2. not settled	-	-
b) Sales	-	-
1. settled	-	-
2. not settled	-	-
2. Asset management	-	-
a) individual	-	-
b) collective	-	-
3. Safekeeping and administration of securities	**390,723**	**398,681**
a) third party securities on deposit: connected with performance as custodian bank (excluding asset management)	-	-
1. securities issued by the Bank that prepares the financial statements	-	-
2. other securities	-	-
b) other third-party securities on deposit (excluding portfolio management): other	40,015	40,017
1. securities issued by the Bank that prepares the financial statements	27,800	27,800
2. other securities	12,215	12,217
c) third-party securities on deposit with third parties	10,015	10,017
d) own securities on deposit with third parties [1]	350,708	358,664
4. Other transactions	**428**	**639**
of which: Transactions on behalf of the Autonomous Provinces	*167*	*264*
Risk provisions set up by various entities	*260*	*260*
Management of state contributions under Law no. 488/92	*1*	*115*

1 This item includes Senior and Junior securities originating from the securitisation operation and lodged with Montetitoli S.p.A. for the total amount of €56,869 thousand in 2019 and €74,293 thousand in 2018.

Financial cash assets: annual changes

The following table shows the annual changes in the debt securities, equity securities and investments in UCITS in the Bank's portfolio.

	FVTPL	OCI Option	HTCS	HTC	Total
	Investments in UCITS	Equity securities	Debt securities	Debt securities	
A. Opening balance	**11,856**	**17,386**	**87,615**	**197,026**	**313,883**
B. Increases	**2,123**	**1,257**	**82,043**	**65,788**	**151,211**
B1. Purchases	2,112	534	78,106	65,063	145,815
B2. Positive changes in fair value	11	620	1,423	-	2,054
B3. Write-backs due to impairment [1]	-	-	196	193	389
B4. Gains on sale:	-	103	1,167	298	1,568
- income statement [2]	-		1,167	298	1,465
- equity [3]		103			103
B5. Transfers from other portfolios	-	-	-	-	-
B6. Other changes [4]	-	-	1,151	234	1,385
C. Decreases	**1,580**	**2,059**	**71,823**	**63,112**	**138,574**
C1. Sales	-	1,535	57,707	26,183	85,425
C2. Redemptions	38	-	12,500	36,391	48,929
C3. Negative changes in fair value	1,542	483	616	-	2,641
C4. Adjustments due to impairment[1]	-	-	23	122	145
C5. Capital loss on sale:	-	*41*	-		*41*
- income statement	-		-	-	-
- equity [5]		*41*			*41*
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other changes [6]	-	-	977	416	1,393
D. Closing balance	**12,399**	**16,584**	**97,835**	**199,702**	**326,520**

1 The items B3. and C4. include adjustments/write-backs due to impairment; this amount was recognised as a contra entry to the valuation reserve and is therefore included, with a reverse sign, in items B6. and C6.

2 This item includes the capital gains on government securities realised during the year.

3 This item includes the capital gain on the sale of the subsidiary Capitalfor progress 2 S.p.A. (€103 thousand) compared to the fair value measurement in the 2018 financial statements (-€98 thousand) and the lower loss on the sale of the investee company Koelliker S.p.A. (€129 thousand) compared to the fair value measurement in the 2018 financial statements (-€105 thousand).

4 This item includes:

- with regard to HTCS debt securities, in addition to the aforementioned effect of adjustments due to impairment (€23 thousand), the change in amortised cost (€131 thousand) and the reversal of the negative reserve following the sale of government securities (€997 thousand);
- with regard to HTC debt securities, the change in amortised cost.

5 The item includes the higher loss arising from the disposal of the investee Assietta Private Equity SGR SpA (€41 thousand) compared to the fair value measurement from the 2018 financial statements.

6 This item includes:

- with regard to HTCS debt securities, in addition to the aforementioned effect of write-backs due to impairment (€196 thousand), the change in amortised cost (€781 thousand);
- with regard to HTC debt securities, the change in amortised cost.

PART C
INFORMATION ON THE INCOME STATEMENT

SECTION 1 - INTEREST – ITEMS 10 AND 20

1.1 Interest income and similar revenues: breakdown

Items/Technical Forms	Debt securities [1]	Loans	Other transactions	Total 2019	Total 2018
1. Financial assets measured at fair value through profit or loss:	-	-	-	-	-
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	658	-		658	872
3. Financial assets measured at amortised cost:	1,531	24,661	-	26,192	29,936
3.1 Loans and advances to banks	106	-		109	51
3.2 Loans and advances to customers	1,425	24,661		26,087	26,885
4. Hedging derivatives			-	-	-
5. Other assets			-	0	-
6. Financial liabilities [2]				1,281	1,294
Total	**2,189**	**24,661**	**-**	**28,132**	**29,101**
of which: interest income on impaired assets	22	2,247	-	2,270	2,768
of which: interest income on finance leases	-	1,956	-	1,913	1,595

Changes in connection with interest income – with respect to the results of the period of comparison (2018) – are shown in the Report on Operations in the section "Income statement dynamics", to which reference should be made.
We also state that:
1 Interest income on debt securities consist of:
- paid coupons of bonds issued by non-banking concerns (see item "loans and advances to customers") that the Bank purchased for the purpose of financing the issuers and hence classified as credits;
- paid coupons of government bonds and bonds issued by banks (see item "financial assets measured at fair value through other comprehensive income", item "loans and advances to banks" and item "loans and advances to customers") purchased by the Bank with the intention of using them as collateral for loans by the European Central Bank or other counterparties as well as for the purpose of financing the issuers.

Their balances are shown on tables 3.1 and 4.2 of Part B – Sections 3 and 4, respectively.

2 Interest on financial liabilities represent amounts accrued on current accounts and demand deposits: their balances are shown on table 1.1 of Part B – Section 1 of liabilities. These also include the accrual on T-LTRO II operations with the ECB.

The line "of which: interest income on impaired assets" includes only interest calculated on the basis of the effective interest rate, including interest due to the passage of time, determined with reference to the interest accrued over the entire year on positions held by customers classified as at 31 December 2019 as impaired loans (doubtful, unlikely to pay, past due loans). For information purposes, note that interest on arrears received during the year on the same transactions amounted to €911 thousand (€652 thousand in 2018).

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets denominated in currency

	2019	2018
Interest income from financial assets denominated in currency	3	12

1.3 Interest expense and similar charges: breakdown

Items/Technical Forms	Amounts due	Securities[1]	Other Transactions	Total 2019	Total 2018
1. Financial liabilities measured at amortised cost	5,846	3,093	-	8,940	7,736
1.1 Due to central banks	-			-	-
1.2 Due to banks	4,600			4,600	4,656
1.3 Due to customers	1,246			1,246	598
1.4 Debt securities in issue		3,093		3,093	2,482
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions			36	36	80
5. Hedging derivatives			-	-	-
6. Financial assets [2]				72	2
Total	**5,846**	**3,093**	**36**	**9,047**	**7,818**
of which: interest expense related to lease payables	-	-	3	3	-

Changes in connection with interest expense – with respect to the results of the period of comparison (2018) are shown in the Report on Operations in the section "Income statement dynamics", to which reference should be made.
We also state that:
1 Interest expense accrued on securities relates to bonds issued by the Bank and classified under item 10.c of liabilities in the Statement of Financial Position. Interest expense has been calculated – in relation to items recognised at amortised cost – using the effective interest rate method.
2 Interests on financial assets include amounts accrued on government securities and current accounts: their balances are shown on table 3.1 and 4.1 of Part B – Section 3 and 4, respectively.

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in currency

	2019	2018
Interest expense on liabilities denominated in currency	1	1

Section 2 - Fees & commissions – Items 40 & 50

2.1 Commission income: breakdown

Type of service/Amounts	2019	2018
a) guarantees issued	42	36
b) credit derivatives		
c) management, brokerage and consultancy services:	2	22
1. trading of financial instruments		
2. dealing in currency		
3. individual portfolio management		
4. safekeeping and administration of securities		
5. custodian bank		
6. placement of securities		
7. orders collection and transmission		
8. consultancy	2	22
8.1 investments		
8.2 structured finance	2	22
9. distribution of third party services		
9.1 portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2 insurance products		
9.3 other products		
d) collection and payment services	0	1
e) securitisation servicing		
f) services for factoring transactions		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts	0	0
j) other services [1]	2,340	1,859
Total	**2,384**	**1,918**

Changes of single items against the data for the accounting period 2018 are illustrated and motivated in the Report on Operations in the section "Income statement dynamics", to which reference should be made.
1 This item is mainly made up of various commissions on loans granted for €1.586m and of commissions for corporate finance activities for €751 thousands.

2.3 Commission expense: breakdown

Services/Amounts	2019	2018
a) guarantees received	96	110
b) credit derivatives		
c) management and brokerage services:	20	20
1. trading of financial instruments		
2. dealing in currency		
3. portfolio management:		
3.1 own portfolio		
3.2 delegated to third parties		
4. safekeeping and administration of securities	20	20
5. placement of financial instruments		
6. door-to-door distribution of financial instruments, products and services		
d) collection and payment services	1	0
e) other services[1]	311	318
Total	**428**	**448**

Changes of single items with respect to the data for the period of comparison (2018) are adequately illustrated and explained in the Report on Operations in the section "Income statement dynamics", to which reference should be made.

1 Of which €76 thousand is for the processing of funding applications and €235 thousand for commissions to guarantee funds.

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income	2019		2018	
	Dividends	Similar	Dividends	Similar
A. Financial assets held for trading	-	-	-	-
B. Financial assets mandatorily measured at fair value [1]	-	-	-	250
C. Financial assets measured at fair value through other comprehensive income [2]	382	-	334	-
D. Equity investments	-		-	
Total	**382**	**-**	**334**	**250**

1 In 2018, the amount is related to the distribution of income by the Assietta Private Equity III fund.

2 The amount of €382 thousand consists mainly of dividends received from Enercoop S.r.l. (€96 thousand), Green Hunter Group S.p.A. (€121 thousand), GPI S.p.A. (€43 thousand), La Finanziaria Trentina S.p.A. (€27 thousand), Iniziative Bresciane S.p.A (€37 thousand), Aquafil S.p.A. (€29 thousand), ISA S.p.A. (€19 thousand) and Fine Food & Pharmaceuticals NTM S.p.A. (€10 thousand).

All dividends and similar income shown in the table refer to investments held at the end of the reporting period.

SECTION 4 – NET TRADING INCOME – ITEM 80

4.1 Net trading income: breakdown

Transactions/Income components	Capital gains (A) [1]	Trading Profits (B) [2]	Capital losses (C) [3]	Trading losses (D) [4]	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities					-
1.2 Equity securities					-
1.3 Investments in UCITS					-
1.4 Loans					-
1.5 Others					-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities					-
2.2 Amounts due					-
2.3 Others					
3. Other financial assets and liabilities: exchange differences					**(6)**
4. Derivative instruments	**344**	**241**	**320**	**177**	**88**
4.1 Financial derivatives:	344	241	320	177	88
- On debt securities and interest rates	304	241	304	174	67
- On equity securities and share indices	41	-	17	3	21
- On currencies and gold					
- Other					
4.2 Credit derivatives					
of which: natural hedges related to the fair value option					
Total	**344**	**241**	**320**	**177**	**82**

1 The item "Capital gains" includes negative fair value changes on Cap options sold to customers for €151 thousand, positive fair value changes on Cap options purchased by banks for €153 thousand and the positive fair value change on the Fine Food Pharmaceuticals warrant of €41 thousand.
2 The item "trading profits" includes premiums received in relation to Cap options sold to customers for €240 thousand, in addition to the premium received for the closing of a Cap sold to customers for €500.
3 The item "Capital losses" includes negative fair value changes on Cap options purchased from banks for €157 thousand, positive fair value changes on Cap options sold to customers for €147 thousand and the negative fair value changes on Aquafil warrants for €14 thousand and Guala Closures warrants for €3 thousand.
4 The item "Trading losses" includes premiums paid in relation to options purchased from banks for €174 thousand and capital loss generated by the sale of the Capital for progress 2 S.p.A. warrant for €3 thousand.

SECTION 6 – GAINS (LOSSES) ON DISPOSAL/REPURCHASE – ITEM 100

6.1 Gains (losses) on disposal or repurchase: breakdown

Items/Income components	2019		
	Gains	Losses	Net result
A. Financial assets	2,600	41	2,560
1. Financial assets measured at amortised cost:	1,433	41	1,392
1.1 Loans and advances to banks	-	-	-
1.2 Loans and advances to customers [1]	1,433	41	1,392
2. Financial assets measured at fair value through other comprehensive income	1,167	-	1,167
2.1 Debt securities [2]	1,167	-	1,167
2.2 Loans	-	-	-
Total assets	**2,600**	**41**	**2,560**
B. Financial liabilities measured at amortised cost	-	-	-
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Debt securities in issue	-	-	-
Total liabilities	**-**	**-**	**-**

1 The amounts relate to the capital gain resulting from the sale of doubtful loans of €1.095m and to the capital gain resulting from the sale of government securities of €298 thousand.
2 The amounts relate to the capital gains realised on the sale of Government securities.

Items/Income components	2018		
	Gains	Losses	Net result
A. Financial assets	1,888	587	1,301
1. Financial assets measured at amortised cost:	627	587	40
1.1 Loans and advances to banks	-	-	-
1.2 Loans and advances to customers [1]	627	587	40
2. Financial assets measured at fair value through other comprehensive income	1,261	-	1,261
2.1 Debt securities [2]	1,261	-	1,261
2.2 Loans	-	-	-
Total assets	**1,888**	**587**	**1,301**
B. Financial liabilities measured at amortised cost	0	-	0
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Debt securities in issue	0	-	0
Total liabilities	**0**	**-**	**0**

1 The amounts relate to the capital gain resulting from the sale of doubtful loans.
2 The amounts relate to the capital gains realised on the sale of Government securities.

SECTION 7 - NET CHANGE IN FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

7.2 Net change in 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) [1]	Trading profits (B)	Capital losses (C) [2]	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**11**	**-**	**1,542**	**-**	**(1,531)**
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 Investments in UCITS	11	-	1,542	-	(1,531)
1.4 Loans	-	-	-	-	-
2. Other financial assets and liabilities: exchange differences					**-**
Total	**11**	**-**	**1,542**	**-**	**(1,531)**

1 The amount refers to the positive change in fair value of the units of the PMI Italy II Fund.
2 The amounts refer to the negative change in fair value of the units of the Finint Fenice Fund (€556 thousand), the Assietta Private Equity III Fund (€712 thousand), the Assietta Private Equity IV Fund (€41 thousand), the Hat Technology & innovation Fund of €156 thousand and the Industry 4.0 SICAV Fund of €76 thousand.

No write-downs or losses from disposal were recognised during the year due to loan impairment of the debtor/issuer.

SECTION 8 – NET ADJUSTMENTS DUE TO CREDIT RISK – ITEM 130

8.1 Net adjustments due to credit risk relating to financial assets measured at amortised cost: breakdown

Transactions/Income components	Value adjustments (1)			Write-backs (2)		Total 2019	Total 2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Loans and advances to banks	(9)			43		34	23
- loans				43		43	23
- debt securities	(9)					(9)	
of which: acquired or originated impaired loans							
B. Loans and advances to customers	(58)	(1,291)	(8,409)	1,058	3,444	(5,255)	(7,033)
- loans		(1,291)	(8,354)	866	3,444	(5,335)	(6,501)
- debt securities	(58)		(55)	193		80	(532)
of which: acquired or originated impaired loans							
Total [1]	**(67)**	**(1,291)**	**(8,409)**	**1,101**	**3,444**	**(5,221)**	**(7,010)**

1 The total of €5.221m of adjustments coincides with the item "Value adjustments on HTC loans and advances" (€3.682m of adjustments) in the table summarising the valuation of assets in the financial statements shown in the report on operations, net of write-backs due to time-reversal (€1.539m) which are included in item "10. Interest income".

8.2 Net adjustments due to credit risk to financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Value adjustments (1)			Write-backs (2)		Total 2019	Total 2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities	(23)			196		173	(104)
B. Loans							
- to customers							
- to banks							
of which: acquired or originated impaired loans							
Total [1]	**(23)**			**196**		**173**	**(104)**

1 The total of €173 thousand in write-backs coincides with the item "Value adjustments on HTCS loans and advances" in the table summarising the measurement of assets in the financial statements shown in the report on operations.

Section 10 – Administrative costs – Items 160

10.1 Payroll: breakdown

Type of expenses/Amounts	Total 2019	Total 2018
1) Employees	6,603	6,455
a) wages and salaries	4,600	4,489
b) social insurance	1,230	1,212
c) severance indemnities [1]	258	257
d) social security contributions	-	-
e) provision for severance indemnities	14	23
f) provision for post-retirement benefits and other obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	158	155
- defined contribution [2]	158	155
- defined benefit	-	-
h) costs deriving from payment agreements based on own capital instruments	-	-
i) other employee benefits	343	319
2) Other personnel currently employed	-	-
3) Directors and Auditors	483	475
4) Retired personnel	-	-
5) Cost recovery in relation to employees seconded to other companies	-	-
6) Cost recovery in relation to third party employees seconded to the company	-	-
Total	**7,086**	**6,930**

1 In accordance with implementing rules issued by the Bank of Italy, this item is made up of amounts of severance indemnities paid out directly to INPS (National Social Security Institute) and to other externally defined contribution funds.
2 This amount includes contributions to the supplementary pension schemes.

10.2 Average number of employees by category[1]

	2019	2018
Employees:	**73**	**74**
a) executives	6	5
b) managerial staff	37	37
c) remaining employees	30	32
Other personnel	-	-

1 The annual average is calculated as the weighted average of employees where the weight is given by the number of months worked in the year.

In order to give a better representation of the Bank's workforce, the table below shows the average number of employees calculated taking into account the actual number of hours for each part-time contract.

	2019	2018
Employees:	**76.7**	**78.3**
a) executives	5.6	5.0
b) managerial staff	38.3	38.0
c) remaining employees	32.8	35.3
Other personnel	-	-

10.4 Other employee benefits

	2019	2018
Insurance policies	147	142
Training	46	38
Lunch vouchers	80	68
Costs for early termination of employment	3	-
Benefits in kind	18	18
Other short-term benefits	49	53
Total	**343**	**319**

10.5 Other administrative costs: breakdown

	2019	2018
1. IT costs	**896**	**772**
- outsourcing costs	591	473
- other EDP (Electronic Data Processing) costs	305	299
2. Property related expenses	**349**	**454**
a) rental expenses	43	112
- property rental expenses	*43*	*112*
b) other expenses	306	342
- office cleaning	*70*	*79*
- building service charges	*43*	*39*
- maintenance and repair costs	*45*	*59*
- electricity, heating, water	*69*	*65*
- motor vehicles maintenance	*79*	*100*
3. Purchase of non-professional goods and services	**285**	**301**
- books, magazines, subscriptions	21	35
- information and cadastral services	51	80
- stationery, printing supplies, storage media	7	9
- surveillance	112	59
- databases and value-added networks	73	99
- post and telephones	21	19
4. Purchase of professional services	**698**	**892**
- legal and procedural costs	313	570
- professional fees	385	322
5. Insurance premiums	**19**	**19**
- other insurance policies	19	19
6. Advertising expenses	**162**	**139**
- advertising and sponsorships	143	119
- entertainment and gifts	19	20
7. Indirect taxes and duties	**228**	**176**
- substitute tax	74	59
- registration tax and dues	35	39
- tax on real estate	53	45
- other taxes and duties (advertising, tosap - tax on occupation of public property - stamp duty)	66	33
8. Other	**1,018**	**1,067**
- contributions to the banking crisis resolution fund	757	746
- membership fees [1]	126	199
- other expenses	135	122
Total	**3,655**	**3,820**

1 It is mainly due to the subscription to ABI (Italian Bank Association), Consob and to the Federazione Trentina delle Cooperative.

Disclosure under IFRS 16 about costs related to short-term leases (see paragraph 53, letter c)), costs related to low-value leases (see paragraph 53, letter d)) and costs for variable lease payments not included in the measurement of lease liabilities (see paragraph 53, letter e)).

	2019
Costs related to short-term leases	**28**
- buildings	28
- vehicles	-
Costs related to low-value leases	-
Variable lease payments not included in the measurement of lease liabilities	**30**
- buildings	-
- vehicles	30

SECTION 11 - NET PROVISIONS FOR RISKS AND CHARGES – ITEM 170

11.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees issued: breakdown

	Total 2019	Total 2018
Provision for guarantees issued	(8)	(4)
Provision for commitments	(3)	279
Total	**(11)**	**275**

11.3 Net provisions for risks and charges: breakdown

	Total 2019	Total 2018
Provision for personnel incentive schemes	(132)	(150)
Net provisions for legal disputes underway	1	(838)
Total	**(131)**	**(988)**

SECTION 12 – NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT – ITEM 180

12.1 Net adjustments to property, plant and equipment: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Property, plant and equipment	(554)			(554)
1 For operational use	(554)			(554)
- Owned	(484)			(484)
- Rights-of-use acquired under leases	(70)			(70)
2 Held for investment purposes	-			-
- Owned	-			-
- Rights-of-use acquired under leases	-			-
3 Inventory				-
Total	**(554)**			**(554)**

SECTION 13 – NET ADJUSTMENTS TO INTANGIBLE ASSETS – ITEM 190

12.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Amortisation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets	(32)			(32)
A.1 Owned	(32)			(32)
- Generated internally by the company				
- Others	(32)			(32)
A.2 Rights-of-use acquired under leases				
Total	**(32)**			**(32)**

SECTION 14 – OTHER OPERATING CHARGES/INCOME – ITEM 200

14.1 Other operating charges: breakdown

	Total 2019	Total 2018
Self-securitisation costs refunded to the SPV	(113)	(151)
SPV ongoing operating expenses	(102)	(120)
Sundry operating expenses	(3)	(36)
Total	**(218)**	**(307)**

14.2 Other operating income: breakdown

	Total 2019	Total 2018
Recovery of procedural expenses	390	663
Servicer commission income in relation to self-securitisation	113	151
Tax refund/recovery	173	127
Sundry operating income	61	128
Total	**737**	**1,069**

SECTION 15 – PROFIT (LOSS) FROM EQUITY INVESTMENTS – ITEM 220

15.1 Profit (loss) from equity investments: breakdown

Income items/Amounts	2019	2018
A. Income	**-**	**-**
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	**(370)**	**(550)**
1. Write-downs[1]	(370)	(550)
2. Adjustments due to impairment	-	-
3. Losses on disposal	-	-
4. Other charges	-	-
Net result	**(370)**	**(550)**

1 Charges deriving from the application of the equity method to the valuation of equity investments refer to the subsidiary Paradisidue S.r.l.

SECTION 18 – GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 250

18.1 Gains (losses) on disposal of investments: breakdown

Income items/Amounts	2019	2018
A. Buildings	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets	3	8
- Gains on disposal[1]	3	8
- Losses on disposal	-	(0)
Net result	**3**	**8**

1 This item relates to gains on the sale of fully depreciated property, plant and equipment of €3 thousand in 2019 and €8 thousand in 2018.

SECTION 19 – INCOME TAXES ON CURRENT OPERATIONS – ITEM 270

19.1 Income taxes on current operations: breakdown

	Items/Amounts	Total 2019	Total 2018
1.	Current taxes (-)	(1,730)	(440)
2.	Change in current taxes of previous periods (+/-)		
3.	Decrease in current taxes of the period (+)		
3.bis	Decrease in current taxes in the year for tax credits pursuant to Law no. 214/2011 (+)	-	-
4.	Change in deferred tax assets (+/-) 1	-420	-1,503
5.	Change in deferred tax liabilities (+/-) 2	+11	+440
6.	**Income taxes for the period (-) (-1+/-2+3+3*bis*+/-4+/-5)**	**(2,140)**	**(1,503)**

[1] The amount shown under the item "change in deferred tax assets" (-€420 thousand) corresponds to what was shown in table 10.3 "Change in deferred tax assets (with contra-entry to the income statement)" as the balance of items "2. Increases" (€71 thousand) and "3. Decreases" (€491 thousand).

[2] The amount shown under the item "change in deferred tax assets" (+€11 thousand) corresponds to what was shown in table 10.4 "Change in deferred tax assets (with contra-entry to the income statement)" in item "3. Decreases" (€11 thousand).

19.2 Reconciliation between theoretical tax charge and actual tax charge

Items/Amounts	Taxable	Tax	Rates
Profit on current operations before taxes (item 250 IS)	**6,168**		
Corporate income tax (IRES) – theoretical values:		**(1,696)**	**27.5**
IRES variation due to decreases in the taxable income	(429)	118	27.5
IRES variation due to increases in the taxable income	526	(145)	27.5
Tax profit - 2019	**6,265**		
Use of 2015 residual loss	(1,145)		27.5
IRES taxable income for the year 2019	**5,120**	**(1,407)**	**27.5**
Other components		48	27.5
Decrease in current taxes in the year for tax credits pursuant to Law no. 214/2011		-	
A. Actual tax charge – current corporate income tax (IRES)		**(1,359)**	
Increases in deferred tax assets		53	27.5
Decreases in deferred tax assets		(457)	27.5
Increases in deferred tax liabilities		-	27.5
Decreases in deferred tax liabilities		11	27.5
B. Total effect of deferred corporate income tax (IRES)		**(393)**	**27.5**
C. Total actual IRES charge (A+B)		**(1,752)**	**28.4**
Regional tax on industrial activities IRAP – application of nominal tax rate **(difference between net interest and other banking income and deductible expenses)**	**13,270**	**(739)**	**5.57**
IRAP variation due to a decrease in production value	(6,724)	375	5.57
IRAP variation due to an increase in production value	575	(32)	5.57
Net value of production - 2019	**7,121**	**(396)**	**5.57**
Other components		24	
Decrease in current taxes in the year for tax credits pursuant to Law no. 214/2011		-	
D. Actual tax charge – Current regional tax on industrial activities (IRAP)		**(372)**	
Increases in deferred tax assets		18	5.57
Decreases in deferred tax assets		(34)	5.57
Increases in deferred tax liabilities		-	5.57
Decreases in deferred tax liabilities		-	5.57
E. Total effect of deferred regional tax on industrial activities (IRAP)		**(16)**	**5.57**
F. Total actual IRAP charge (D+E)		**(388)**	**6.30**
Total current taxes IRES/IRAP (item 260 IS) (A+D)		**(1,731)**	
Total actual tax charges IRES/IRAP (item 260 IS) (C+F)		**(2,140)**	**34.7**

SECTION 21 – OTHER INFORMATION

Parent company: exemption from the requirement of drawing up the consolidated financial statements

The Bank, in compliance with the legislation in force (Legislative Decree no. 356/1990) and with the regulations of the Supervisory Authority, is the parent company of "Gruppo Bancario Mediocredito Trentino–Alto Adige S.p.A.", duly registered with the Banking Group Register. The real estate company Paradisidue S.r.l., 100% controlled, is also part of the Group.
The Bank does not prepare consolidated financial statements as the consolidation of the subsidiary Paradisidue S.r.l. (assets as at 31 December 2019 of €7.6m) is not deemed significant to the improvement of the disclosures provided (IAS 8 and paragraphs 26, 29, 30 and 44 of the "Systematic Framework for the Preparation and Presentation of Financial Statements", known as Framework). The subsidiary owns a building whose value, appropriately estimated, corresponds to market values and the equity investment is booked in the financial statements of the Bank at equity.
Additionally, since the volume of business of its subsidiary is below the set threshold Mediocredito is not required to submit to the Bank of Italy consolidated statistical reports under the existing supervisory regulations.

SECTION 22 – EARNINGS PER SHARE

22.1 Average number of ordinary shares on the dilution of share capital

During the year 2019, there was no dilution of Mediocredito's share capital as neither the number of its shares nor their nominal value changed. The average number of shares is therefore 112,470,400, equal to the exact value.

22.2 Other information

Taking into consideration the profit for the year of €4.028m, the profit per share is €0.0358.

	2019	2018
Earnings (loss) per share	0.0358	0.0282
Diluted earnings (loss) per share	0.0358	0.0282

PART D COMPREHENSIVE INCOME

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

	Items	2019	2018
10.	**Net income (loss) for the year**	**4,028**	**3,172**
	Other income components without reversal to income statement	**+138**	**(1,724)**
20.	Equity securities designated at fair value through other comprehensive income:	+198	(1,834)
	a) Fair value change	+198	(1,834)
	b) Transfers to other shareholders' equity components	-	-
30.	Financial liabilities designated at fair value through profit or loss (change in the Bank's creditworthiness):	-	-
	a) fair value change	-	-
	b) transfers to other shareholders' equity components	-	-
40.	Coverage of equity securities designated at fair value through other comprehensive income:	-	-
	a) fair value change (hedged instrument)	-	-
	b) fair value change (hedging instrument)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(70)	+31
80.	Non-current assets and groups of assets held for sale	-	-
90.	Portion of valuation reserves from equity investments measured at equity	-	-
100.	Income taxes relating to other income components without reversal to income statement	+10	+79
	Other income components with reversal to income statement	**+1,106**	**(1,592)**
110.	Hedges of foreign investments:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
120.	Exchange differences:	-	-
	a) changes in value	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
140.	Hedging instruments (elements not designated):	-	-
	a) changes in value	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equity securities) measured at fair value through other comprehensive income:	+1,631	(2,353)
	a) fair value changes	+461	(2,889)
	b) reversal to income statement	+1,170	+536
	- net adjustments to credit risk	+173	+104
	- capital gains/losses	+997	+432
	c) other changes	-	-
160.	Non-current assets and groups of assets held for sale:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
170.	Portion of valuation reserves from equity investments measured at equity:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	- adjustments due to impairment	-	-
	- capital gains/losses	-	-
	c) other changes	-	-
180.	Income taxes relating to other income components with reversal to income statement	**(525)**	**+761**
190.	**Total other income components**	**+1,244**	**(3,315)**
200.	**Comprehensive income (10+190)**	**5,272**	**(144)**

PART E
INFORMATION ON RISKS AND RELATED HEDGING POLICIES

INTRODUCTION

As mentioned earlier, given its size and its business model that is primarily focused on medium to long-term credit, the Bank's risks are generally related to credit risk and liquidity risk. Market risk - concentrated in the banking portfolio - is largely attributable to the portfolio of Italian government securities, most of which were deposited with the Bank of Italy and other financial intermediaries to guarantee refinancing operations. Operational risks are less impactful. For a more thorough examination of the system of controls and risk management, please refer to the following sections as well as the sections of the report on operations dedicated to these issues.
In 2019, the Bank maintained its system of controls, planning and management of risks to comply with the innovations included in Bank of Italy Circular no. 285/2013. The management is committed to include objectives linked to the promulgation of risk culture, as part of the company policies and staff training and evaluation.

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

1. GENERAL ASPECTS

The credit risk to which the Bank is exposed derives mainly from the typical activity of granting medium to long term loans to businesses, in different technical forms and largely secured by the necessary suitable guarantees.
However, we point out that at the date of this annual report the Bank was not exposed either directly or indirectly to the credit products of the ABS (Asset Backed Securities) and CDO (Collateralised Debt Obligation) type linked to sub-prime and Alt-A loans or to financial products that the market perceives as risky.

2. CREDIT RISK MANAGEMENT POLICY

2.1 Organisational aspects

Credit risk is defined as the risk of facing an unexpected loss/impairment of value/earnings because of the failure of the debtor, in other words the "Risk arising out of a credit exposure as a result of an unforeseen change in the creditworthiness of the borrower that involves a change in the value of the exposure itself". At Mediocredito, it also includes the counterparty risk, i.e. the risk that the counterparty could default before the final settlement of all the cash flows linked to the operation.

In the light of the provisions contained in Part One, Title IV, Chapter 3 of the Bank of Italy Circular no. 285/2013 regarding internal controls and the significance attached to the efficiency and effectiveness of the credit process and associated control system, the Bank has set up a dedicated organisational structure to achieve the objectives of credit risk management and control, indicated by the above prudential regulations.

The whole process of credit management and control is governed by internal regulations that:
- identify the proxies and the signing powers concerning credit disbursement;
- define the criteria for the assessment of creditworthiness;
- define the methods for the renewal of credit;
- define the methods of performance monitoring and credit risk measurement and the types of actions to be taken in case of detection of anomalies.

These rules define internal control activities, management and mitigation for credit risk by developing a structured system that involves different organisational functions whose activities are within the complex global risk control and management system adopted by the Bank.
The credit risk organisational process management is based on the principle of separation between its own investigation process activities and those of credit management. This principle has been implemented through the establishment of separate organisational structures.

With regard to the operating methods that characterise the lending activities of the Bank, credit management is split into the following macro areas:
- credit planning: carried out in accordance with the development and risk/reward policies as defined by the Board of Directors as part of the Risk Appetite Statement;
- granting and review: this phase covers the whole credit granting process from the request for funding (or the review of existing credit lines granted) to the application assessment and the decision by the competent body. The rules governing such stages are contained in the company procedures (mapped into the filing system) and in the internal regulations;
- monitoring: includes all activities necessary for the timely detection and subsequent management of risky phenomena that may occur during the credit process. The monitoring is managed by the Credit Services - Monitoring and Restructuring Office. The body, dedicated to constantly checking credit quality, reports every two months to the Credit Risk Management Committee and manages the restructuring of impaired loans;

- dispute management: refers to all the activities carried out following the classification of a position under doubtful loans and other impaired loans as identified by the Credit Risk Management Committee to safeguard the interests of the Bank. The various phases of the process are entrusted to the Legal Department, which directly and proactively manages the recovery initiatives.

The process of assumption and control of credit risk, incorporated in an internal policy, is monitored by the Credit Service which supervises the processes of credit granting, disbursement, management and monitoring and defines rules, instruments and criteria for assessing creditworthiness, besides assisting the Market Service units in preliminary risk evaluation.
The Bank grants credit on the basis of a detailed monographic analysis of the company seeking financing which takes into account not only its economic-financial situation but also its position on the market, productive structure, management, forecast business plan and guarantees; with a special reference to industrial and commercial companies, the preliminary analysis is supplemented by the assignment of an internal scoring/rating that allows customers to be classified according to risk categories and the pricing policy to be applied in a more calibrated manner.
The loan portfolio is monitored by the Monitoring and Restructuring Department and the most impaired loans in the portfolio by the Legal Department. The Risk Management Office cooperates with the Management, also as part of the Credit Risk Management Committee, to define and monitor risk policies and for the assessment of lending.

2.2 Management, measurement and control systems

Policies aimed at maintaining portfolio integrity are implemented through an intense and systematic monitoring action, above all with regards to exposures most at risk (performed by the Monitoring and Restructuring Department) through direct relations with customers and/or the acquisition and assessment of financial statements, accounts or other documents, sometimes also jointly with Regional Units. These policies are summarised at the frequent meetings of the Credit Risk Management Committee, a body responsible for defining the relevant guidelines and examining the outcome of specific operations carried out by the Offices in charge.
Operational methods, already introduced to the monitoring process a few years ago, designed to increase the speed of identification and efficiency of managing loans characterised by a deteriorated risk profile, allow the advance submission of positions that are believed could deteriorate in the future (despite regular repayments) to the attention of the Credit Risk Management Committee.
reporting to the Credit Risk Management Committee is structured into:
- loan control and monitoring activities;
- verification of risk concentrations;
- analysis of past due loans and/or characterised by forbearance measures (forborne);
- analysis and control of possibly problematic performing loans;
- collection of adjusted doubtful loans.

Within the context of loan control and monitoring activities, the following are also shown:
- the yearly outcome of the appraisal by the Monitoring and Restructuring Department (generated with the help of an automated process) with regards to compliance with financial covenants that had accompanied the granting of the loan;
- the yearly outcome of the appraisal by the Monitoring and Restructuring Department, targeted at examining signs that could indicate a possible worsening of the risk profile of the debtor, aimed at performing loans, focused primarily on the analysis of data of the Centrale Rischi (central credit register) and the main company accounting data from the latest approved financial statements and/or consolidated financial statements.
  With regard to this action, note that the Bank adopted an experimental model for monitoring the performing portfolio in which performance variables were adopted on indicators of customer financial statements and on the level of risk reported within the IFRS 9 classification and impairment model.

In addition to the functions mentioned above, the activities of the Planning and Control Department and Risk Management Department fall within the scope of credit risk monitoring. In particular, the aforementioned functions conduct quarterly and half-yearly analyses on the evolution and trend in credit risk, periodically reporting to the top management and the Board of Directors.
For the purpose of determining the internal capital against the credit risk, the Bank uses the standardised approach adopted for the determination of capital requirements in respect of credit risk. During the interim review of the Internal Capital Adequacy Assessment Process (ICAAP) and of the monitoring of the actual risk profile as part of the Risk Appetite Statement (RAS), the internal capital absorbed to cover the credit risk is determined on a quarterly basis, also by carrying out *stress testing.*

Use of internal scoring/rating systems in the disbursement activity

The Bank uses an internal scoring/rating system to support the lending activity of corporate customers.
Scoring is used in the pre-analysis business phases to evaluate the companies associated with the requesting company or any consolidated financial statements, while Rating - which completes the scoring with quantitative elements - is used for all the companies for which a request for funding is proposed in the resolution.
The expected rating level is related to the duration of the transaction and the respective LTV level.
The rating is assigned to all companies applying for funding, with the exception of:
- holding companies;
- finance companies;
- real estate companies;
- start-ups;
- Land – Building transactions;
- Project Finance transactions;
- the hotel industry;
- the cableway industry;
- sole proprietorships;
- companies with an annual turnover of less than €1m.

The score resulting from the application of the model is made on a scale from "AAA - Excellent" to "D - Not solvent" similar to the scales adopted by the main rating agencies.
To date, these scoring/ratings are not used to monitor credit risk.

2.3 Methods for measuring expected losses

Collective valuation

The calculation of collective impairment pursuant to IFRS 9 is carried out using the CSD/CRIF calculation model adopted in accordance with the management software provider of the Cassa Centrale Banca Credito Cooperativo Italiano banking group.
The model assigns to each relation the values of PD, LGD and EAD by analysing the counterparty rating, the guarantees securing the relation and the amortisation plan of the relation, respectively. The values of each parameter are calculated on the basis of statistical analyses carried out on a sample of all banks participating in the CSD system and on the basis of expected macroeconomic scenarios (forward looking approach).
During 2019, the CSD/CRIF model for calculating collective impairment under IFRS 9 was customised to correct anomalies of overestimation of the Bank's portfolio risk and of the model's lack of discriminating capacity, which is not very suitable for application to single-product banks.
The action involved the development of ad hoc integration functions estimated on the total CSD development sample but by replicating the distinctive characteristics of the business of Mediocredito. In particular, a re-estimation, on the entire CSD sample - thus guaranteeing the statistical robustness of the model - of the integration function was envisaged, replacing the internal performance module, the mortgage module alone, supplemented by a recalibration at a target rate given by the ratio between the risk of Mediocredito and that of the total sample. Moreover, CSD carried out rating scale optimisation works for all banks in order to resolve the anomalies encountered by customer banks.
The Bank estimated the quantitative impact of this customisation that - on the figures as at 30 September 2019 - was equal to a lower total collective write-down of €20 thousand (equal to 0.4% of the total write-downs as at that date). Based on these results and in compliance with the principle of irrelevance, the balances as at 31 December 2018 were not restated, as required by IFRS, in that there would be no improvement in terms of disclosure.

Staging assessment

The model performs, as a first step, the staging assessment phase of each transaction, i.e. the allocation of financial instruments in the stages provided for by the accounting principle through the calculation of the rating (on a scale from 1 - best rating - to 13 - worst rating) and the analysis of its variation with respect to the initial rating. This stage is particularly important because it guides the way in which the provision for credit risk is determined.
Originally, each transaction is classified in stage 1; at the next assessment stage, it is classified in stage 1 or 2 according to the transition matrices differentiated by segment (Companies, Private individuals, POE and Small Businesses).

The objective assumptions for classifying a stage-2 transaction are as follows:
- presence of arrears for more than 30 days;
- forborne performing classification.

Moreover, for the purposes of staging assessment, the model adopted the Low Credit Risk Exemption, envisaged by the accounting standard, which requires that on FTA or subsequent measurement, a transaction can be classified as stage 1 if it meets the following requirements:
- absence of lifetime PD at the disbursement date;
- no "30 days past due" event in the 36 months prior to the measurement date;
- rating class less than or equal to 4 for Small Businesses and Companies, less than or equal to 3 for POE and less than or equal to 5 for Private individuals.

Rating assignment

In order to determine the rating, which is useful both for the staging and for the assignment of the PD, the CSD model uses a modular approach that, for each risk segment (counterparty type), envisages a rating model based on different sources (internal performance, central risk, financial statements, social and demographic analysis).

PD calculation

Following the assignment of the rating and the stage classification, each transaction is assigned a PD representing the probability that a counterparty goes into default in the period of time considered (12 months for stage 1; life-time for stage 2). The PD is estimated on the basis of the sample by including the effect of forward-looking scenarios in the calculation.

LGD calculation

The LGD represents the loss incurred in the event of default and is estimated by adding up for all the transactions belonging to the sample all the recovery flows discounted at the time of default, net of the direct costs incurred for recovery; in particular, the estimate of the LGD component under IFRS 9 is divided into two components:
1. LGS (or "LGD - Doubtful loan"), i.e. the percentage of the exposure recognised as a loss as a result of the classification as doubtful loans;
2. Danger Rate, i.e. the probability of classification as doubtful loans for the counterparties belonging to the default stages (past due, impaired or unlikely to pay exposures), on which the LGS is calibrated.

EAD Calculation

The EAD represents the expected credit exposure at the time of insolvency and is estimated on the basis of the contractually envisaged repayment flows, including the application of prepayment parameters.

Analytical valuation

Financial assets classified as impaired in accordance with supervisory regulations are classified as stage 3 and therefore subject to analytical valuation:

- doubtful;
- unlikely to pay;
- impaired past due.

For each position, the Bank considers by default the scenario of direct recovery from the debtor/guarantor or from bankruptcy proceedings; moreover, it takes into account a transfer scenario if it considers that it is more efficient to manage certain positions from this point of view and that at least one interested counterparty is identified for them and that it has provided a preliminary estimate of the possible transfer values. The Bank will assign to the transfer scenario a probability of occurrence proportionate to the actual will/possibility of completing the transaction.

2.4 Credit risk mitigation techniques

In accordance with the Bank's specific fields of operation, Credit Risk Mitigation techniques consist mainly of "Exposures secured by real estate".
The relative process of the policies for the eligibility of guarantees and the mapping of business processes related to the management of real estate as collateral for loans has been defined, and approved by the Board of Directors.
Regarding the size of guarantees securing the loan portfolio – which is classified on the basis of the incidence of guarantee coverage in terms of Loan to Value - most of the risk portfolio is secured by guarantees so that the risk is either reduced (e.g. delegations of payment for operations in favour of public bodies in the Region, full bank guarantees, guarantees of institutional funds on first demand with LTV below certain thresholds) or normal (higher LTV and within certain thresholds); these guarantees are often supplemented by other endorsement guarantees.
In the period under examination, disbursements in relation to less guaranteed operations (defined, on the basis of an internal classification, as "full risk", but often secured by guarantees, at least partial, or by covenants) amounted to €137.8m (€109.4m in 2018). As at 31 December 2018, this type of transaction accounted for 24.54% of loans due to expire, within the tolerance limits set for the year (25.5%), showing a migration to customers with higher rating classes.
In addition to this portfolio, there are operations in the energy sector: disbursements amounted to €18.4m, with the stock as a percentage of total loans (excluding non-performing loans) amounting to 13.67% below the RAF limit of 14.5%.
As a whole, transactions at full risk account for 38.22% of total loans compared with a RAF limit of 40.0%.
The composition of the energy portfolio in terms of type and location of the financed production infrastructures shows that 66% of loans are located in northern Italy (in particular, in Trentino-South Tyrol, Emilia Romagna and Lombardy) and only 12% in the south; that the main types are hydroelectric (37%) and photovoltaic (37%) plants, followed by 18% biomass, while wind (5%) and cogeneration farms (3%) are still marginal. The total by debtor's residence shows that almost all of the loans are to customers located in the areas chosen by the Bank, in particular in Trentino-South Tyrol (54%) and Lombardy (11%).
Operations within the construction sector remained very low. In the whole of 2019, disbursements came to just €0.4m (€0.2m in 2018) equal to 2.3% of total loans as at 31 December (down compared to 2.9% in December 2018 - excluding doubtful loans) and below the limits envisaged in RAF 2019 (3%).

Looking again at the overall portfolio of outstanding loans, a breakdown by geographical area of the initiatives shows that the concentration profile of the activities in the target areas remains substantially unchanged: the loan portfolio is concentrated for 43.5% in Trentino-South Tyrol, 22.9% in Veneto, 12.8% in Emilia Romagna, 13.3% in Lombardy and 7.5% in other regions.
In relation to "significant risks", three loans are reported as at 31 December 2019: one of which with central governments, Italian government securities and one with a supervised credit intermediary.

3. IMPAIRED CREDIT EXPOSURES

3.1 Management strategies and policies

Objectives and strategies

In 2018, the Bank had approved the "Multi-annual plan for the management of NPLs" for the 2018-2021 time horizon.
The following table summarises the main objectives of the plan for 2019 compared with the final results:

Operational objectives	2019 Target	Situation as at 31/12/2019	Gap
Impaired credit exposures (gross values)	116,699	113,269	3,430
Impaired credit exposures (net values)	63,750	57,771	5,979
Gross NPL ratio	10.3%	9.9%	0.4%
Net NPL ratio	5.9%	5.3%	0.6%
Total coverage ratio of impaired loans	45.4%	49.0%	3.6%
Coverage ratio of doubtful loans	56.1%	55.8%	0.3%
Coverage ratio of unlikely to pay loans	25.0%	32.1%	7.1%
Coverage ratio of past due loans	10.0%	7.0%	3.0%

Technical and organisational procedures and methods used

The situations that present some level of anomaly are initially monitored by the Credit Service – aided by the local commercial units - which implements all timely management actions with the aim of achieving a return to normality.
In the event of a particular deterioration in the relationship, the position is transferred to the Legal Department, which manages the re-entry phase, if necessary through the launch of enforcement proceedings. Therefore, the Legal Department presides over a part of unlikely to pay loans and all doubtful loans.
The detailed analysis of significant positions is bought to the attention of the Credit Risk Management Committee, which meets at least every two months, evaluates the actions to be taken and decides whether to alter the status of the impaired loans.
Reporting to the Credit Risk Management Committee relating to the analysis of the situation of past due loans is broken down by risk severity and duration into:

- Past due Status "Past due by less than 90 days";
- Past due Status "Past due 90";
- Past due Status "Past due 180";
- Past due Status "Unlikely to pay".

Every three months, the organisational units of the Credit Risk Management Committee, in coordination with the General Management, carry out an evaluation on the positions in question, to verify the existence of objective evidence of possible impairment losses (impairment test). The evaluation process makes provision for an analytical examination of impaired positions by applying the methodologies and criteria set out in Part A – Accounting Policies. In compliance with the amendments introduced by the "Guidance on the management of non performing loans for Italy's Less significant institutions" (issued by Bank of Italy in January 2018) and in order to comply with the entry into force of the IFRS 9 accounting standard for the calculation of impairment, the Bank has an appropriate policy for the classification, measurement and management of impaired loans; it requires, in particular, the determination of recovery forecasts to be formalised in detail for each position analysed to allow the evaluation and calculation process to be traced and reconstructed.
Verification of the correct monitoring of the individual exposures and the assessment of the consistency of the classifications, the congruence of the provisions and the adequacy of the recovery process is carried out by the risk control function which, verifies, among the other tasks, the work of the operating and credit recovery units, ensuring the correct classification of the impaired exposures and the adequacy of the related degree of non-recoverability.
As regards the risk indicator of the portfolio developed by the Bank of Italy it is reported that when analysing the historical performance of the most significant aggregate for our operations (non-financial corporations in North-eastern Italy), the Bank's average value is below the result of the System. The virtuous downward trend in the loan portfolio risk continued and, in fact, it was below the pre-crisis average levels, reaching 0.5% at the end of the year compared to 1.3% of the system.

3.2 Write-off

Write-off policies

The Bank writes off exposures only when it no longer has reasonable expectations of recovering the financial asset and for the amount deemed irrecoverable; it is assumed that this situation occurs (unless there is a reason to the contrary) for positions that have been classified as doubtful loans for at least 10 years or doubtful loans with a drawdown of less than €50 thousand. Write-offs are adopted by the Credit Risk Management Committee and reported to the Board of Directors on a quarterly basis.

Financial assets which, although written off during the year, are still subject to execution

During the year, the Bank wrote off financial assets still subject to execution for a total of €7.1m.

Financial assets which, although entirely written down during the year, are still subject to execution

As at 31 December 2019, the Bank held €1.515m of doubtful loans, written down entirely, broken down by seniority as follows:

Year of classification as doubtful loan	No. of customers	Amount (millions of Euro)
2010	1	0.300
2012	1	0.070
2014	3	0.908
2019	1	0.237

3.3 Acquired or originated impaired financial assets

The Bank does not hold impaired or acquired financial assets in its portfolio.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND EXPOSURES SUBJECT TO FORBEARANCE MEASURES

Policies for commercial renegotiation and forbearance of financial assets

The forbearance measures are granted by the Bank on the basis of a procedure that:
- assesses the financial situation of the debtor with a special reference to total debt and its ability to service the debt. An analysis/evaluation of historical data must be carried out to reconstruct the timing and reasons for the debtor's financial difficulty and to obtain an indication of the economic sustainability of the business model and an analysis of the sustainability of the business plan and cash flows;
- applies, as far as possible, standardised conditions within a predefined range of possibilities;
- monitors the effectiveness of the applied measures.

The identification of the customers receiving forbearance measures is based on a series of indicators, considered as a whole, aimed at verifying the existence of the minimum conditions of continuity, the presence of a positive historical financial relationship and the cooperative attitude of the debtor.

Indicators are also tested, using the management system, to verify the "financial difficulty" of the applicant, which take into account both internal performance data and system data extrapolated from the Centrale Rischi (central credit register).

The absence of "financial difficulty" does not bar the forbearance measures but leads to the position not being classified as "forborne" (commercial renegotiation).

Short-term forbearance measures are defined as temporary restructured repayment conditions designed to deal with short-term financial difficulties but which do not tackle the settlement of existing payment delays unless combined with appropriate long-term measures. They should generally not exceed 2 years, which drop to 1 in the case of project finance and the construction of commercial real estate. These forbearance measures must be taken into account:
- when the debtor has been affected by an identifiable event that has led to temporary liquidity risks, which will be overcome in the short term due to improved profit margins;
- in the bank's opinion, a long-term forbearance measure is not applicable due to a general or specific temporary financial uncertainty of the debtor.

In most cases, these measures combine with medium/long-term measures.
The standardised forbearance measures normally adopted are summarised in the table below.

Time horizon	Forbearance measure
Short term	Suspension of payments for a limited period of time
	Partial payments (interest rate and reduced principal; interest rate only)
	Capitalisation of arrears/interest
Medium/Long term	Permanent decrease in interest rates
	Extending maturities
	Restructuring of payments (balloon or bullet payments; payments increasing over time)
	New Borrowings
	Amendments/Waiver of contractual covenants
	Debt rescheduling
	Partial or total debt cancellation

As already seen, the presence of forbearance measures is an objective presumption for the classification of a relation in stage 2 for the purpose of assessing the expected losses.

Information on credit quality of exposures subject to forbearance measures and on the effectiveness of the granted forbearance measures

Gross forborne loans existing by year of forbearance (in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Tot.
Forborne performing	-	-	-	-	-	1,057	5,493	3,429	4,522	5,897	5,400	**25,798**
Forborne non performing	57	-	-	128	13,846	2,843	6,859	11,666	3,995	3,144	10,089	**52,627**
Total	**57**	**-**	**-**	**128**	**13,846**	**3,900**	**12,352**	**15,095**	**8,517**	**9,042**	**15,485**	**78,425**

Gross forborne loans by number of forbearance (in thousands)

	1 forbearance measure	more than one forbearance measure
Forborne performing	19,268	6,530
Forborne non performing	27,892	24,735
Total	**47,160**	**31,266**

Effectiveness of the forbearance measures (in thousands)

	2018	2019
Flow analysis		
Forborne performing classified as forborne non performing	1,812	-
Forborne performing classified as performing non forborne	5,592	4,830
Forborne non performing classified as forborne performing	-	54
Stock analysis		
Forborne performing without arrears / total forborne performing	94%	88%
Forborne non performing without arrears / total forborne non performing	32%	39%

For further qualitative and statistical information on the loans subject to forbearance measures (geographical distribution, by business area of the counterparty, by type of forbearance measure), refer to the Report on Operations in the paragraphs "Performing loans subject to forbearance measures - Forborne" and "Impaired loans subject to forbearance measures - Forborne".

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information on credit quality, equity securities and investments in UCITS are excluded.

A.1 Impaired and performing credit exposures: amounts, value adjustments, trend and economic distribution

A.1.1 Distribution of credit exposures by relevant portfolio and credit quality (book values)

Portfolio/quality	Doubtful loans	Unlikely to pay	Impaired past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	36,270	20,515	986	10,553	1,205,097	**1,273,421**
2. Financial assets measured at fair value through other comprehensive income					97,835	**97,835**
3. Financial assets designated at fair value						
4. Other financial assets mandatorily measured at fair value					11,440	**11,440**
5. Financial assets to be sold						
Total 2019	**36,270**	**20,515**	**986**	**10,553**	**1,314,372**	**1,382,696**
Total 2018	**41,503**	**28,299**	**975**	**13,377**	**1,316,928**	**1,401,082**

Details of financial assets measured at amortised cost subject to forbearance measures (forborne)

Portfolio/quality	Doubtful loans	Unlikely to pay	Impaired past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost (forborne)	14,906	16,154	-	3,597	20,689	**55,346**

A.1.2 Distribution of credit exposures by relevant portfolio and credit quality (gross and net values)

	Impaired				Performing			
	Gross exposure	Specific adjustments	Net exposure	Total partial write-offs	Gross exposure	Portfolio adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortised cost	113,269	55,498	57,771	26	1,220,785	5,135	1,215,650	**1,273,421**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	97,835	-	97,835	**97,835**
3. Financial assets designated at fair value	-	-	-	-			-	**-**
4. Other financial assets mandatorily measured at fair value	-	-	-	-			11,440	**11,440**
5. Financial assets to be sold	-	-	-	-	-	-	-	**-**
Total 2019	**113,269**	**55,498**	**57,771**	**26**	**1,318,620**	**5,135**	**1,313,485**	**1,382,696**
Total 2018	**136,875**	**66,098**	**70,777**	**-**	**1,325,034**	**6,169**	**1,318,865**	**1,401,082**

	Assets of clearly low credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	291
2. Hedging derivatives	-	-	-
Total 2019	**-**	**-**	**291**
Total 2018	**-**	**-**	**274**

A.1.3 Breakdown of financial assets by past due brackets (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	From 1 to 30 days	From over 30 to 90 days	Over 90 days	Up to 30 days	From over 30 to 90 days	Over 90 days	Up to 30 days	From over 30 to 90 days	Over 90 days
1. Financial assets measured at amortised cost	671	1,172	-	3,138	5,572	-	-	2,453	39,119
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets to be sold	-	-	-	-	-	-	-	-	-
TOTAL 2019	**671**	**1,172**	**-**	**3,138**	**5,572**	**-**	**-**	**2,453**	**39,119**
TOTAL 2018	**3,529**	**-**	**-**	**350**	**5,443**	**4,054**	**148**	**4,218**	**46,640**

of which past due:

TOTAL 2019	61	19	-	1,598	204	-
TOTAL 2018	431	-	-	0	169	14

A.1.4 Financial Assets, commitments to disburse funds and financial guarantees issued: trend in total value adjustments and in total provisions

Reasons/risk stages	Total value adjustments													Total provisions on commitments to disburse funds and financial guarantees issued			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 comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs		Stage 1	Stage 2	Stage 3	
Opening balance	2,310	209	-	2,519	3,859	23	-	3,881	66,098	-	66,098	0	-	9	-	4	72,511
Increases from acquired or originated financial assets				-				-									
Derecognitions other than write-offs				-				-	(2,555)		(2,555)						(2,555)
Net adjustments to credit risk (+/-)	(369)	(150)		(519)	(665)	(23)		(688)	2,582		2,582	(0)		7		(1)	1,381
Amendments to contracts without derecognitions				-				-									-
Changes in the estimation method																	
Write-offs recognised directly in the income statement				-				-	(10,627)		(10,627)						(10,627)
Other changes				-				-									-
Closing balance	1,941	59	-	2,000	3,193	-	-	3,193	55,498	-	55,498	0	-	16	-	3	60,710
Recoveries from collections on financial assets subject to write-off				-				-	293								293
Write-offs recognised directly in the income statement				-				-	1,331								1,331

For assets at amortised cost other than stage 1 and 2 securities, value adjustments are determined collectively using software provided by the company CSD, which uses a calculation model developed together with CRIF, also adopted by the newly formed national banking Group Cassa Centrale Banca. The model assigns to each relation the values of PD, LGD and EAD by analysing the counterparty rating, the guarantees securing the relation and the amortisation plan of the relation, respectively. The values of each parameter are calculated on the basis of statistical analyses carried out on a sample of all banks participating in the CSD system and on the basis of expected macroeconomic scenarios (forward looking approach). The same model is also adopted for determining value adjustments on commitments to disburse funds and financial guarantees issued under stage 1, 2 and 3.
For securities, both those classified under financial assets measured at amortised cost and those classified under financial assets measured at fair value through other comprehensive income, the PD and LGD data is provided by the info-provider Cassa Centrale Banca SpA that, in turn, uses an *ad hoc* instrument managed by Prometeia.

For assets at amortised cost under stage 3, the value adjustment is determined analytically by discounting the expected recovery at the end of the reporting period. The valuation process considers the recovery scenario through discharging events (the "management" scenario) and through the assignment of loan to third parties (the "assignment" scenario), assigning to each scenario a probability of occurrence between 0% and 100%.

Disclosure pursuant to IFRS 7, paragraph 35H, letter b), (iii)

The Bank has not adopted the possibility, envisaged by paragraph 5.5.15 letter b) of IFRS 9, of assessing the provision to cover losses on receivables implicit in lease contracts deriving from operations falling within the scope of application of IAS 17 at an amount equal to the expected losses over the entire lifetime of the loan.

Disclosure pursuant to IFRS 7, paragraph B8D

With regard to the write-backs recorded on assets measured at amortised cost falling within the first stage (€0.369m), note that €125 thousand of the write-backs are attributable to the HTC securities portfolio - as the balance of €40 thousand of adjustments on minibonds and €165 thousand of write-backs on treasury securities - and €244 thousand to the loan portfolio (due for approximately €200 thousand to the decrease in rates).
As regards the write-backs recorded on the assets at amortised cost falling under stage 2 (€0.665m), note that these are due mainly to a rate effect (which decreased on average from 5.3% to 4.2%) only partially offset by the increase in volumes that, as illustrated in table A.1.5 below, involved net transfers from stage 1 to stage 2 of €18.4m and from stage 2 to stage 3 of -€1.1m.
With regard to assets at amortised cost falling under stage 3, the adjustment provisions decreased following the substantial collections and disposals made in the year, only partially offset by adjustments to new impaired loans and higher adjustments to impaired loans already in the portfolio.

A.1.5 Financial Assets, commitments to disburse funds and financial guarantees issued: 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	38,908	20,545	1,191	89	2,539	-
2. Financial assets measured at fair value through other comprehensive income	-	410	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-
TOTAL	**38,908**	**20,955**	**1,191**	**89**	**2,539**	**-**

Transfers "*to stage 3*" and "*from stage 3*", amounting to €3.780m and €0.089m, respectively, do not coincide with the "transfers from performing exposures" and "transfers to performing exposures" shown in table A.1.9 of this section, amounting to €3.983m and €0.094m, respectively, in that this table is valued at gross value recorded at the end of the reporting period, while table A.1.9 is valued at the gross value recorded at the date of transition to the non-performing status.

A.1.6 Balance sheet and off-balance sheet credit exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs
	Impaired assets	Performing assets			
A. BALANCE SHEET EXPOSURES					
a) Doubtful loans	-		-	-	-
- of which exposures subject to forbearance measures	-		-	-	-
b) Unlikely to pay	-		-	-	-
- of which exposures subject to forbearance measures	-		-	-	-
c) Impaired past due exposures	-		-	-	-
- of which exposures subject to forbearance measures	-		-	-	-
d) Performing past due exposures		-	-	-	-
- of which exposures subject to forbearance measures		-	-	-	-
e) Other performing exposures [1]		70,141	17	70,124	-
- of which exposures subject to forbearance measures		-	-	-	-
TOTAL A	**-**	**70,141**	**17**	**70,124**	**-**
B. OFF-BALANCE SHEET EXPOSURES					
a) Impaired	-		-	-	-
b) Performing		1,241	2	1,239	-
of which Derivatives		*206*	-	*206*	-
Commitments		-	-	-	-
Guarantees issued		*1,034*	*2*	*1,033*	-
TOTAL B	**-**	**1,241**	**2**	**1,239**	**-**
TOTAL A+B	**-**	**71,382**	**19**	**71,363**	**-**

1 Other performing exposures include €47.9m in bank bonds that satisfy the requirements for eligibility for ECB refinancing and €406 thousand in bank bonds purchased to finance the counterparty, classified for €35.3m under "Financial assets measured at fair value through other comprehensive income" and for €13.1m under "Financial assets measured at amortised cost". For more information, please refer to the report on operations chapter "The securities portfolio".

A.1.7 Balance sheet and off-balance sheet credit exposures to customers: gross and net values

Type of exposure/Amounts	Gross exposure		Total value adjustments and total provisions	Net exposure	Total partial write-offs
	Impaired assets	Performing assets			
A. BALANCE SHEET EXPOSURES					
a) Doubtful loans	82,000		45,731	36,270	26
- of which exposures subject to forbearance measures	29,118		14,212	14,906	-
b) Unlikely to pay	30,208		9,692	20,515	-
- of which exposures subject to forbearance measures	23,509		7,355	16,154	-
c) Impaired past due exposures	1,061		75	986	-
- of which exposures subject to forbearance measures	-		-	-	-
d) Performing past due exposures		11,296	743	10,553	-
- of which exposures subject to forbearance measures		4,080	483	3,597	-
e) Other performing exposures [1]		1,248,623	4,375	1,244,248	-
- of which exposures subject to forbearance measures		21,718	1,029	20,689	-
TOTAL A	**113,269**	**1,259,919**	**60,616**	**1,312,572**	**26**
B. OFF-BALANCE SHEET EXPOSURES					
a) Impaired	13		3	11	-
of which Guarantees	5		3	2	-
Commitments	8		-	8	-
b) Performing		21,619	15	21,605	-
of which Derivatives		*84*	-	*84*	-
Commitments		*16,469*	*3*	*16,466*	-
Guarantees issued		*5,066*	*11*	*5,055*	-
TOTAL B	**13**	**21,619**	**17**	**21,615**	**-**
TOTAL A+B	**113,282**	**1,281,538**	**60,633**	**1,334,187**	**26**

1 The amount includes €62.6m of securities issued by the Italian government eligible for ECB refinancing, classified under "Financial assets measured at fair value through other comprehensive income" (for details see the report on operations in the chapter "The securities portfolio") and €11.4m of receivables for cash reserves relating to self-securitisations that did not pass the SPPI test.

A.1.9 Balance sheet credit exposures to customers: trend in gross impaired exposures

Reasons/Categories		Doubtful loans	Unlikely to pay	Impaired past due exposures
A.	**Opening balance**	**94,747**	**41,094**	**1,034**
	- of which: exposures sold and not derecognised	-	-	-
B. Increases		**9,180**	**4,454**	**838**
B.1	transfers from performing exposures	-	3,183	800
B.2	transfers from acquired or originated impaired financial assets	-	-	-
B.3	transfers from other categories of impaired exposures	7,594	590	-
B.4	amendments to contracts without derecognitions	-	-	-
B.5	other increases [1]	1,586	681	38
C.	**Decreases**	**21,927**	**15,340**	**811**
C.1	transfers to performing exposures	-	-	94
C.2	write-off	11,474	444	-
C.3	collections [1]	6,363	5,874	105
C.4	sale proceeds	2,034	810	-
C.5	losses on disposal	2,013	582	-
C.6	transfers to other categories of impaired exposures	-	7,575	609
C.7	amendments to contracts without derecognitions	-	-	-
C.8	other decreases	43	55	3
D.	**Closing balance**	**82,000**	**30,208**	**1,061**
	- of which: exposures sold and not derecognised	-	-	-

1 The column doubtful loans also includes €293 thousand related to collections of doubtful loans completed in the previous years as per the instructions of the Bank of Italy (Circular no. 262/2005).

A.1.9*bis* Balance sheet credit exposures to customers: trend in gross exposures subject to forbearance measures broken down by credit quality

Reasons/Categories		Exposures subject to forbearance measures: impaired	Other exposures subject to forbearance measures
A.	**Opening balance**	**48,858**	**29,906**
	- of which: exposures sold and not derecognised		
B. Increases		**11,182**	**6,082**
B.1	transfers from performing exposures not subject to forbearance measures	212	5,348
B.2	transfers from performing exposures subject to forbearance measures	-	
B.3	transfers from impaired loans subject to forbearance measures		54
B.4	transfers from non-performing loans not subject to forbearance measures	10,067	
B.3	other increases	903	680
C.	**Decreases**	**7,413**	**10,190**
C.1	transfers to performing exposures not subject to forbearance measures		4,830
C.2.	transfers to performing exposures subject to forbearance measures	54	
C.3	transfers to impaired loans subject to forbearance measures		-
C.4	write-off	90	-
C.5	collections	5,659	5,360
C.6	sale proceeds	980	-
C.7	losses on disposal	582	-
C.8	other decreases	48	-
D.	**Closing balance**	**52,627**	**25,798**
	- of which: exposures sold and not derecognised	-	-

A.1.11 Balance sheet impaired credit exposures to customers: trend in total value adjustments

Reasons/Categories	Doubtful loans		Unlikely to pay		Past due exposures		Performing credit exposures	
	Total	Of which: exposures subject to forbearance measures	Total	Of which: exposures subject to forbearance measures	Total	Of which: exposures subject to forbearance measures		
A. Total opening adjustments	**53,244**	**12,905**	**12,795**	**6,945**	**59**	**0**	**6,118**	
- of which: exposures sold and not derecognised	-	-	-	-	-	-	-	
B. Increases	**10,755**	**3,140**	**2,615**	**3,109**	**68**	**0**	**-**	
B.1 value adjustments from acquired or originated impaired financial assets	-		-		-		-	
B.2 other value adjustments	7,045	2,160	2,586	1,849	68	0	-	
B.3 losses on disposal	40	-	-	-	-	-	-	
B.4 transfers from other categories of impaired exposures	3,377	979	29	-	-	-	-	
B.5 amendments to contracts without derecognitions	-		-		-		-	
B.6 other increases [1]	293	1[1]	-	1,260[1]	-	-	-	
C. Decreases	**18,268**	**1,833**	**5,718**	**2,699**	**52**	**0**	**1,000**	
C.1 write-backs from valuation	3,544	1,833	851	716	11	-	1,000	
C.2 write-backs from collection [1]	381	-	188	52	9	0	-	
C.3 gains on disposal	856	-	279	279	-	-	-	
C.4 write-off	11,474	-	444	90	-	-	-	
C.5 transfers to other categories of impaired exposures	-	-	3,374	980	32	-	-	
C.6 amendments to contracts without derecognitions	-		-		-		-	
C.7 other decreases	2,013[1]	-	582[1]	582	-	-	-	
D. Total closing adjustments	**45,731**	**14,212**	**9,692**	**7,355**	**75**	**-**	**5,118**	
Losses due to below market rates	-	-	-		-		-	
Total net credit adjustments	**3,121**		**1,548**		**47**		**(1,000)**	**3,716**[1]
Net loss on disposal	**(816)**		**(279)**		**-**		**-**	**(1,095)**[6]

1 The column doubtful loans also includes €293 thousand related to collections of doubtful loans completed in the previous years as per the instructions of the Bank of Italy (Circular no. 262/2005).
2 The column doubtful loans includes the amount of €2.013m relating to losses on the disposal, of which €1.973m are covered by the allowance for doubtful accounts and €0.040m are not covered by allowance for doubtful accounts (see item B.3), accordingly with indication by the Bank of Italy Circular no. 262/2005.
3 The column Unlikely to pay includes the amount of €0.582m relating to losses on the disposal, entirely covered by the Allowance for Doubtful Accounts, accordingly with indication by the Bank of Italy Circular no. 262/2005.
4 The amount refers to value adjustments as at 31 December 2018 relating to unlikely to pay that benefited from forbearance measures during 2019.
5 The amount corresponds to that shown in table 8.1 part C item "Total B – Loans and advances to customers" (€5.255m) net of write-backs due to time-reversal allocated in item 10. Interest income (€1.539m).
6 The amount resulting from the sum of B.2 and C.3 corresponds to the value in table 6.1 Part C item "Loans and advances to customers – Net result" (€1.392m) net of the capital gain on the sale of HTC government securities (€0.298m).

A.2 Classification of financial assets, commitments to disburse funds and financial guarantees issued based on internal and external ratings

A.2.1 Breakdown of financial assets, commitments to disburse funds and financial guarantees issued: by external rating class (gross values)

Exposures	External rating class						No rating	Total
	AAA /AA-	A+/ A-	BBB+/ BBB-	BB+ / BB-	B+/B-	Lower than B-		
A. Financial assets measured at amortised cost	-	-	**182,110**	-	-	-	**1,151,944**	**1,334,054**
Stage 1			182,110				962,365	1,144,475
Stage 2							76,310	76,310
Stage 3							113,269	113,269
B. Financial assets measured at fair value through other comprehensive income	-	-	**97,430**	-	-	-	**406**	**97,835**
Stage 1			97,430				406	97,835
Stage 2							-	-
Stage 3								
C. Financial assets to be sold	-	-	-	-	-	-	-	-
Stage 1								
Stage 2								
Stage 3								
TOTAL (A+B+C)	-	-	**279,539**	-	-	-	**1,152,350**	**1,431,889**
of which: acquired or originated impaired financial assets								
D. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-	**22,582**	**22,582**
Stage 1							22,566	22,566
Stage 2							4	4
Stage 3							13	13
TOTAL D	-	-	-	-	-	-	**22,583**	**22,583**
TOTAL (A+B+C+D)	-	-	**279,539**	-	-	-	**1,174,932**	**1,454,472**

Reconciliation between the "External rating classes" and the ratings of the main agencies

Rating class	Standard & Poor's	Moody's	Fitch
AAA/AA-	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
A+/A-	A+	A1	A+
	A	A2	A
	A-	A3	A-
BBB+/BBB-	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
BB+/BB-	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
B+/B-	B+	B1	B+
	B	B2	B
	B-	B3	B-
Lower than B-	from CCC+ to D	form Caa1 to C	from CC+ to D

The balance sheet exposures with counterparties with a rating relate entirely to Government or Bank bonds classified in the HTC or HTCS portfolios. With regard to the loan portfolio of the Bank, mainly made up of loans to small and medium sized enterprises, the amount of exposures attributed an external rating are rather negligible, for which the entire exposure is presented under the column "no rating". With regard to financial derivatives the total notional amount is €43.8m and is distributed as follows: €43.5m with counterparties rated Baa1 and €0.3m with counterparties rated Ba1.

A.2.2 Breakdown of financial assets, commitments to disburse funds and financial guarantees issued: by internal rating class (gross values)

The Bank has only recently begun to use an internal customer rating model, but to date it only marginally covers its loan portfolio, which is only assigned at the initial stage of the credit line and to new industrial and commercial customers; therefore, it is not yet sufficiently representative of the overall portfolio. However, it should be noted that following the introduction of the models functional to the application of the new accounting standard IFRS 9, the Bank has additional elements to assign a rating class to the entire loan portfolio together with the traditional in-depth monographic analysis of the economic, financial and sector situation of each customer to whom it grants credit; however, this data is not yet used in credit risk management.

A.3 Breakdown of secured credit exposures by type of guarantee

A.3.2 Secured balance sheet and off-balance sheet credit exposures to customers

			Collaterals (1)				Personal guarantees (2)									
							Credit derivatives					Endorsement loans				
								Other derivatives								
	Gross exposure	Net exposure	Properties - mortgages	Properties - lease financing	Securities	Other collaterals	Credit linked notes	Clearing House	Banks	Other financial corporations	Others	Public administrations	Banks	Other financial corporations	Others	Total (1)+(2)
1. Secured balance sheet credit exposures	*795,627*	*744,086*	*322,198*	*78,145*	*5,558*	*5,002*						*4,568*	*129,240*	*857*	*74,044*	619,611
1.1 fully secured	508,196	473,695	297,144	78,145	5,132	1,425						3,130	19,479	367	68,873	473,695
- of which impaired	74,401	43,108	39,850	2,214	127	-						-	-	-	917	43,108
1.2 partially secured	287,431	270,391	25,054	-	425	3,577						1,438	109,761	490	5,171	145,916
- of which impaired	26,064	9,963	7,425	-	-	-						150	1,272	-	-	8,847
2. Secured off-balance sheet credit exposures	*11,650*	*11,647*	*2,059*		*104*	*0*						*-*	*364*	*-*	*333*	2,860
2.1 fully secured	390	387	50	-	4	-						-	364	-	332	387
- of which impaired																
2.2 partially secured	11,260	11,260	2,009	-	100	0						-	364	-	-	2,473
- of which impaired																

B. Distribution and concentration of credit exposures

B.1 Breakdown of balance-sheet and off-balance-sheet credit exposures to customers by main business sector

Exposures/Counterparties	Public administrations		Financial corporations		Financial corporations (of which: insurance companies)		Non-financial corporations		Families	
	Net exposures	Net exposures	Total value adjustments	Total value adjustments	Total value adjustments	Total value adjustments	Total value adjustments	Total value adjustments	Total value adjustments	Total value adjustments
A. Balance sheet exposures										
A.1 Doubtful loans							32,405	44,372	3,864	1,358
of which exposures subject to forbearance measures							13,130	13,578	1,776	635
A.2 Unlikely to pay			7,571	2,893			11,293	6,590	1,650	209
of which exposures subject to forbearance measures			7,571	2,893			7,388	4,377	1,195	85
A.3 Impaired past due exposures							810	63	176	12
of which exposures subject to forbearance measures										
A.4 Performing exposures	299,352	254	61,227	115			850,656	4,545	43,566	238
of which exposures subject to forbearance measures			4,442	0			19,028	1,478	816	34
Total A	**299,352**	**254**	**68,798**	**3,008**			**895,164**	**55,570**	**49,257**	**1,817**
B. Off-balance sheet exposures										
B.1 Impaired loans							11	3		
B.2 Performing exposures			4	0			21,250	15	351	
Total B			**4**	**0**			**21,261**	**17**	**351**	
Total (A+B) (2019)	**299,352**	**254**	**68,802**	**3,008**			**916,425**	**55,587**	**49,608**	**1,817**
Total (A+B) (2018)	**307,280**	**409**	**71,151**	**3,652**			**891,503**	**65,780**	**52,913**	**2,387**

B.2 Breakdown of balance-sheet and off-balance-sheet credit exposures to customers by area[27]

Exposures/Geographic areas	Italy		*of which North-East*		*of which other areas*		Other European Countries	
	Net exposures	Total value adjustments	*Net exposures*	*Total value adjustments*	*Net exposures*	*Total value adjustments*	Net exposures	Total value adjustments
A. Balance sheet exposures								
A.1 Doubtful loans	36,270	45,731	*26,357*	*35,202*	*9,913*	*10,529*		
A.2 Unlikely to pay	20,515	9,692	*11,679*	*6,396*	*8,836*	*3,296*		
A.3 Impaired past due exposures	986	75	*986*	*75*	*0*	*0*		
A.4 Performing exposures	1,254,801	5,118	*831,435*	*3,626*	*423,366*	*1,492*		
Total A	**1,312,572**	**60,616**	***870,456***	***45,298***	***442,116***	***15,317***	**-**	**-**
B. Off-balance sheet exposures								
B.1 Impaired loans	11	3	*11*	*3*				
B.2 Performing exposures	21,605	15	*17,455*	*15*	*4,149*	*-*		
Total B	**21,615**	**17**	***17,466***	***17***	***4,149***			
Total (A+B) 2019	**1,334,188**	**60,633**	***887,923***	***45,315***	***446,265***	***15,317***		
Total (A+B) 2018	**1,322,880**	**72,227**	***881,450***	***54,072***	***441,430***	***18,155***		

B.3 Breakdown of balance-sheet and off-balance-sheet credit exposures to banks by area

	Italy		Other European Countries		America		Asia		Rest of the world	
	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments	Net exposures	Total value adjustments
A. Balance sheet exposures										
A.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	70,124	17	-	-	-	-	-	-	-	-
Total A	**70,124**	**17**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Impaired loans										
B.2 Performing exposures	1,239	2								
Total B	**1,239**	**2**							**-**	**-**
Total (A+B) 2019	**71,363**	**18**							**-**	**-**
Total (A+B) 2018	**90,145**	**52**							**-**	**-**

B.4 Significant Exposures

	2019	2018
a) Amount (book value)	268,451	283,563
b) Amount (weighted value)	36,923	55,657
c) Number	2	3

27 The data represented here is slightly different from the data in the breakdown by geographical area in the Report on Operations. This is due to the fact that the Bank of Italy's criteria used in the notes to the financial statements requires the geographical breakdown to be based on the counterparty's area of residence, while the method used in the Report on Operations uses the destination of the investment as its area.

C. SECURITISATION TRANSACTIONS

QUALITATIVE INFORMATION

In order to increase the liquidity of its assets, the Bank took part in the multi-originator securitisation transaction that was arranged and managed by Cassa Centrale Banca S.p.A. pursuant to Law no. 130/99 called "Cassa Centrale Finance 3" as well as "BCC SME Finance 1" started in 2009 and 2012, respectively. The sole purpose of the transaction is to enable financial assets to be eligible for refinancing operations with the European Central Bank.
Both transactions involved the repurchase by the Bank of all the Senior and Junior securities issued by the SPV. As a result, they are considered "self-securitisations" and, in compliance with the Bank of Italy's regulations, such transactions cannot be recorded in the tables of the Notes to the financial statements of part E, section C "securitisation transactions and sales of assets".
A description of this transaction is provided in the section dealing with liquidity risk.

During 2019, the Bank took part, as an investor, in a securitisation transaction of minibonds issued by joint stock companies participating in the Elite Basket Bond programme of Borsa Italiana, with a strong focus on export, with the aim of supporting growth plans abroad and in general increasing the international presence of the issuer.
The transaction benefits from the SACE guarantee issued in favour of the SPV for 100% of the issues (principal and interest).
The securitised bonds are related to 10 issuers with individual amounts between €2.0m and €9.0m and a total of €50.0m.
Mediocredito took part in the transaction, as part of the minibond activity (see Report on Operations, Business Review, Lending activities) by subscribing a portion of €2.0m of the only class of ABS securities issued (senior).

E. SALE TRANSACTIONS

C. FINANCIAL ASSETS SOLD AND FULLY DERECOGNISED

Qualitative information

As part of the management of impaired loans, the Bank carries out sales if:
- the price of the individual transaction or of the package of transactions to be sold is considered reasonable also considering the charges to be incurred for the future management of the positions;
- there is a clear operational burden related to the management of the credit to be sold;
- the transferee is positively assessed and provides adequate guarantees of performance;
- the possible territorial impacts with reference to the transferred debtor have been favourably assessed.

The sale must in any case be carried out in compliance with the provisions of the Guidelines and must be approved by the Board of Directors after a positive assessment by the Credit Risk Management Committee.

Quantitative information

During the year, four sales were made of individual non-performing loans with a gross book value of €5.4m at the time of the sale, already impaired as at 31 December 2018 by €3.7m. Given these values, the transferees paid to the Bank an amount of €2.8m that led the Bank to a gross loss of €2.6m. Net of existing allowance for doubtful accounts, these operations led to the recording in the income statement of the Bank of a gain on disposal of €1.1m, the result of losses on disposal of €40 thousand and gains on disposal of €1.1 thousand.

Among these, a sale is included in a securitisation transaction in which the Bank acted only as originator; this allowed for the total derecognition of the credit being sold, which at the date of the sale was outstanding for a gross book value of €0.5m already written down by €0.7m as at 31 December 2018. Given these values, the transferee paid to the Bank an amount of €0.1m that led the Bank to a gross loss of €0.4m. Net of existing allowance for doubtful accounts, these operations led to the recording in the income statement of the Bank of a gain on disposal of €0.3m.

The effects described above are shown in the tables "A.1.9 Balance sheet credit exposures to customers: trend in gross impaired exposures", under items "C.4 Sale proceeds" and "C.5 Losses on disposal", and "A.1.11 Balance sheet impaired credit exposures to customers: trend in total value adjustments", under items "B.3 Losses on disposal", "C.3 Gains on disposal" and "C.7 Other decreases".

Disclosure on the sale of loans to a mutual investment fund with allocation of the relevant units to the selling intermediaries [28]

In 2016, the Bank took part as "transferor" in a sale without recourse, under Law no. 130/99, of the doubtful loans portfolios promoted and managed by Finanziaria Internazionale S.p.A. and having as its counterparty, as "transferee", the company Sole SPV S.r.l.
The transaction did not involve the Bank as servicer nor as an underwriter of the securities issued by the transferee to finance the purchase; moreover, as the Bank does not provide guarantee of any kind, the requirements for the derecognition of the loans transferred from the Bank's assets were met .

The sale involved a doubtful loans portfolio with a gross value of €8.150m, at the time of the sale, already impaired as at 31 December 2015 to a value of €4.488m. Given these values, the transferee paid to the Bank an amount of €3.440m that led the Bank to a gross loss

28 This disclosure is made pursuant to the Bank of Italy's communication of 23 December 2019 "Closed or current financial statements of banking and financial intermediaries as at 31 December 2019".

of €4.710m. Net of existing allowance for doubtful accounts, the operation has weighed on the income statement of the Bank for net €0.222 thousand, the result of losses on disposal for €0.295m and gains on disposal of €0.073m.
The amount received from the transferee was reinvested in units of the Finint Fenice closed-end real estate fund, managed by Finanziaria Internazionale SGR S.p.A., which includes the properties used to guarantee doubtful loans sold.

During 2017, the Bank took part in a similar sale transaction with the same pattern and the same counterparties in relation to a portfolio of non-performing positions with a gross book value of €10.1m at the time of sale already impaired by €4.4m as at 31 December 2016. Given these values, the transferee paid to the Bank an amount of €5.6m that led the Bank to a gross loss of €4.5m. Net of existing allowance for doubtful accounts, the operation has weighed on the income statement of the Bank for net €96 thousand, the result of losses on disposal of €369 thousand and gains on disposal of €272 thousand.
Also in this case, the amount received from the transferee was reinvested in units of the Finint Fenice closed-end real estate fund, managed by Finanziaria Internazionale SGR S.p.A., which includes the properties used to guarantee doubtful loans sold through Sole SPV S.r.l.

At the end of the reporting period, the Bank holds 18.548 (out of a total of 211.225, or 8.78%) units in the Finint Fenice Fund, valued on the basis of the NAV estimated as at 31 December 2019 at €420,000.000 each compared to an initial book value of €500,297.473 (see Report on Operations, Business Review, Equity investment activities).

SECTION 2 – MARKET RISK

2.1 INTEREST RATE RISK AND PRICE RISK

– REGULATORY TRADING PORTFOLIO

The Bank owns a limited number of financial instruments classified in the regulatory trading portfolio, with regard to both numbers and amount: these relate, in particular, to 48 cap options on interest rates, of which 24 contracts with ordinary customers and 24 corresponding contracts with banking counterparties and three listed warrants acquired on a free basis as part of transactions that led to the purchase of shares (classified as financial assets measured at fair value through other comprehensive income). The measurement of the interest rate risk of these operations is carried out in the context of the Asset & Liability Management process of the overall portfolio.
It is highlighted that in keeping with its risk profile the Bank was not exposed either directly or indirectly to the credit products of the ABS (Asset Backed Securities) and CDO (Collateralised Debt Obligation) type linked to sub-prime and Alt-A loans or to financial products that the market perceives as risky. Price risk is not measured because the Bank does not own any financial instrument sensitive to price risk (equity securities or UCITS) that are classified in the regulatory trading portfolio.

2.2 INTEREST RATE RISK AND PRICE RISK

– BANKING PORTFOLIO

Qualitative information

A. General aspects, management processes and methods of measuring interest rate risk

The interest risk incurred by the Bank in relation to its banking portfolio largely ensues from the main service (loans and securities) it performs as an intermediary, active in the process of maturity transformation and is mainly due to the imbalance between asset and liability items in terms of the amortisation plan with regard to amount and maturity, financial duration and type of interest rate.
In accordance with the instructions of the Board of Directors, set out in the risk profiles adopted parallel to the annual operational budget, the "Planning and control" function is the organisational structure charged with monitoring and controlling the interest rate risk to which the banking portfolio is exposed. The interest rate risk is measured and controlled using the processes and methods set forth by the Asset & Liability Management procedure: we refer in particular to Duration Gap Analysis (which measures the sensitivity of the market value of shareholders' equity to changes in interest rate i.e. it examines the sensitivity of future economic results), to Maturity Gap Analysis (which measures the sensitivity of the maturing net interest income and in particular highlights "base risk" exposure) and to Simulation Analysis (which measures changes to cash flows and to the economic results for the period in scenarios characterised by diversified forward interest rates). The management of this financial risk in question is carried out monthly or quarterly and at least every quarter meetings of the ALCO Committee (Asset/Liability Committee) are convened; a periodic report is submitted to the Board of Directors.

Quantitative information

Banking portfolio: internal models and other sensitivity analysis methods

As we have already mentioned, the Bank uses asset liability management techniques to measure the impact ("sensitivity") that changes in the interest rates structure could have on the expected financial margin and on the market value of equity in relation to the overall portfolio of the Bank.
The Asset/Liability Management System estimates the change over a year (within the context of the maturity gap model) that a shift in the interest rate yield curve would have on the financial margin. The model groups all the assets and liabilities into a series of time

intervals (initially shorter and then increasingly longer intervals) according to the repricing timescales. The algebraic sum of the items of each "time bucket" of one year is the basis for simulating the effect on the interest margin of a rate shock (specifically given an instantaneous, unique and parallel shift in general market rates of plus/minus 100 basis points). With regard to the market value of the assets, the duration gap methodology measures the sensitivity of the present value of the portfolio net of all sensitive asset and liability transactions.

The following table shows the effects (calculated with the maturity gap model) on the interest margin and on the net income.

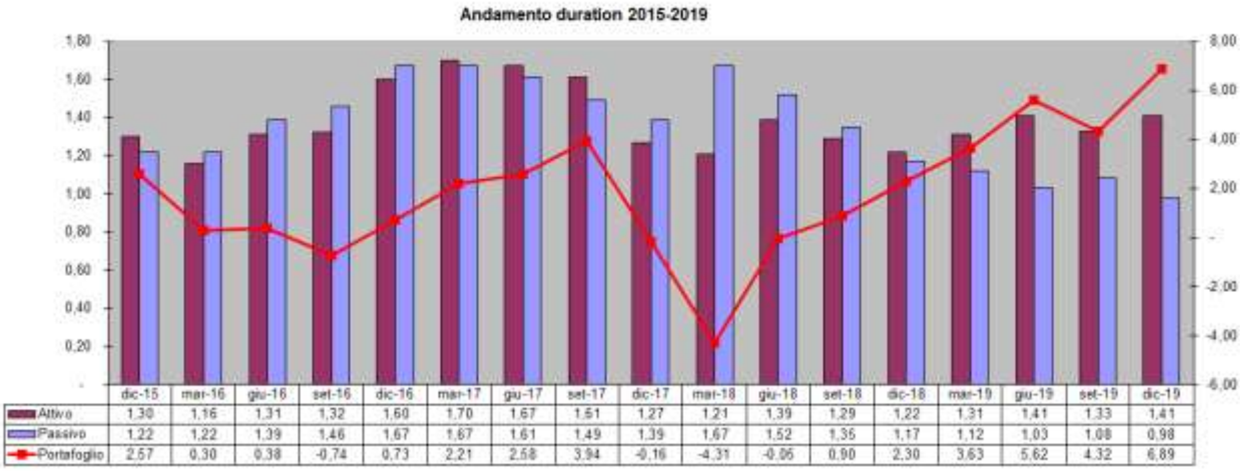
Volatility of the net interest income and of net income calculated using the Gap model (thousands of Euro)

Instantaneous and parallel shift in the interest rate yield curve	+100 bp	-100 bp
Net interest income change	+2,217	-2,217
Net income change	+1,448	-1,448

The analysis of the effect on the margin shows a situation of volatility defined as "asset sensitive" due to volumes of assets subject to repricing higher than the volumes of liabilities over the reference time horizon. The main cause of this mismatching is the use of largely fixed-rate forms of funding, not accompanied by as many fixed-rate loans. Compared to the previous year (+3,227 in 2017), volatility was reduced due to the significant maturing funding tranches falling within the reference period, which contribute to balancing the assets subject to repricing. It should also be remembered that the maturities of liabilities are quite concentrated and characterised by maturities rarely exceeding 24 months. Therefore the turnover, and the relevant repricing, is close when compared with that of fixed rate mortgages. Considering that about 60% of the new lending operations are at variable rates (repricing within 6 months) and 40% at fixed rates on average durations of around 4 years, the current imbalance situation can only be reduced in perspective following the significant tranches of EIB funding in the draw-down phase and the renewal of the TLTRO refinancing operations during 2020.

With regard to the market value of the assets, the duration gap methodology measures the sensitivity of the present value of the portfolio net of all sensitive asset and liability transactions.

The main sensitivity data relative to the financial years from 2014 to 2018 are shown below:



	dic-15	mar-16	giu-16	set-16	dic-16	mar-17	giu-17	set-17	dic-17	mar-18	giu-18	set-18	dic-18	mar-19	giu-19	set-19	dic-19
Attivo	1,30	1,16	1,31	1,32	1,60	1,70	1,67	1,61	1,27	1,21	1,39	1,29	1,22	1,31	1,41	1,33	1,41
Passivo	1,22	1,22	1,39	1,46	1,67	1,67	1,61	1,49	1,39	1,67	1,52	1,36	1,17	1,12	1,03	1,08	0,98
Portafoglio	2,57	0,30	0,38	-0,74	0,73	2,21	2,58	3,94	-0,16	-4,31	-0,06	0,90	2,30	3,63	5,62	4,32	6,89

The processing of the Duration Gap model as at 31 December 2019 recorded an increase in the synthetic volatility indicator, which stood at a level of 6.89 significantly higher than the five-year average (1.83) and the data of 31 December 2018 (2.30).
During the year, the total duration of the liabilities segment gradually shortened from 1.17 years in December 2018 to 0.98 in December 2019. The shortening of the duration of liabilities, in the presence of transactions mainly at a fixed rate with an average duration similar to that of the duration, is essentially due to the passage of time (known as "duration drift") and was only partly offset by new tranches of funding. On the other hand, the duration of the assets went from 1.22 in December 2018 to 1.41 in December 2019 due to an increase in the duration of loans (from 1.35 to 1.44) due mainly to an increase in fixed-rate transactions and a sharp rise in the duration of the securities segment (from 0.64 to 1.29) due to a recomposition of the owned portfolio that increased the portion of longer-term fixed-rate government securities. Therefore, the combined effect of a contraction in liabilities and an expansion in assets led to an increase in the overall indicator. As said, the new funding envisaged during 2020 will favour the return of the indicator to levels closer to the average of previous years.

The stress test of +/-100 b.p shows a clear increase in the effect on equity, which fell from -/+ €1.2m in December 2018 to -/+ €6.4m in December 2019, therefore representing a higher sensitivity of equity to a change in interest rates.

Volatility of the market value of equity (thousands of Euro)

Instantaneous and parallel shift in the interest rate yield curve	+100 bp	-100 bp
Change in the value of equity	-6,431	+6,431

Price risk – Banking portfolio

In keeping with its risk profile the Bank did not engage in purely speculative transactions and therefore exposure of its securities portfolio to price risk is deemed to be still limited for the evaluation of the Bank's situation.
With regard to Merchant Banking, the Bank is engaged in Equity Investment activities in relation to the purchase of minority shareholdings, mostly in industrial companies. The role of the Bank in these investee companies is that of strategic shareholder and the selection and assessment of initiatives is carried out, based on internal procedures, by specialised organisational units created on an ad-hoc basis and subject to review by the Investment Committee. Lastly, investment transactions are resolved by the Board of Directors after ascertaining that they comply with the prudential limitations set forth by the Supervisory Authority.
Every six months, just like for other financial statement items, an in-depth valuation process is conducted, subject to validation by the Investment Committee and adequately documented, aimed at verifying the existence of objective evidence of impairment (impairment test). This portfolio does not exceed 2% of total financial statement assets.
Specific procedures are implemented for managing the price risk of debt securities classified mainly in the *HTC&S* portfolio of assets available for sale. The Bank purchased Government and bank bonds that are eligible for refinancing with the European Central Bank. For the evaluation of such assets, the Bank has internal policies that define the criteria and methodologies for determining the current fair value and the operational and size limits of the portfolio in question.

The 10-day parametric VaR analysis carried out on the debt securities portfolio revealed the following amounts:

	Value at risk (millions of Euro)
Actual data as at 31/12/2019	2.738
Minimum (03/05/2019)	2.292
Maximum (15/08/2019)	7.276
Average	3.972
10-day VaR 99% (in percentage)	0.9%

The figures in the table show that the risk in the securities portfolio tends to remain constant at around €3m, peaking over the summer to coincide with the uncertainty related to the Italian political situation; in the fourth quarter, the risk level fell back to the levels of the first half of the year to below the annual average at the end of the year (€2.7m compared to €4.0m).
The VaR expressed as a percentage of the total portfolio stood at 0.9%, returning to 2017 levels (0.6%) after the sharp increase in the previous year (1.9%).

2.3 EXCHANGE RISK

Qualitative information

During the year, following the counterparty's default, foreign currency lending transactions (Swiss francs) relating to the main non-trading activity, which, among other things, were largely marginal with respect to the overall portfolio, were converted into Euro; as a result, there was no need for foreign currency funding to cover the exchange rate risk.
Therefore, the Bank does not present any exchange rate risk as at 31 December 2019.

SECTION 3 - DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

3.1 TRADING DERIVATIVE INSTRUMENTS

A. Financial derivatives

A.1 Financial trading derivatives: notional values at the end of period

Underlying assets/Types of derivative	2019				2018			
	Over the counter				Over the counter			
		Without Clearing House				Without Clearing House		
	Clearing House	With offset agreements	Without offset agreements	Organised markets	Clearing House	With offset agreements	Without offset agreements	Organised markets
1. Debt securities and interest rates			**87,537**				**59,489**	
a) Options[1]			87,537				59,489	
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
2. Equity securities and share indices								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
3. Currencies and gold								
a) Options								
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
4. Commodities								
5. Other								
Total			**87,537**				**59,489**	

1 These relate to cap options sold to ordinary customers and the associated counter-hedges purchased from bank counterparties.

A.2 Financial trading derivatives: gross positive and negative fair value – breakdown by product

Underlying assets/Types of derivative	2019				2018			
	Over the counter				Over the counter			
		Without Clearing House				Without Clearing House		
	Clearing House	With offset agreements	Without offset agreements	Organised markets	Clearing House	With offset agreements	Without offset agreements	Organised markets
1. Positive Fair value			206	84			211	63
a) Options[1]			206	84			211	63
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards								
f) Futures								
g) Others								
Total			**206**	**84**			**211**	**63**
1. Negative fair value			198				202	
a) Options[2]			198				202	
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards								
f) Futures								
g) Others								
Total			**198**				**202**	

1 These relate for €206 thousand to OTC cap options purchased from bank counterparties to counter-hedge corresponding options sold to ordinary customers and for €84 thousand to listed warrants.
2 These are cap options sold to ordinary customers.

A.3 OTC financial derivatives: notional values, gross positive and negative fair value by counterparty

Underlying assets	Government & Central Banks	Banks	Other financial corporations	Others
Contracts not included in offset agreements				
1) Debt securities and interest rates				
- notional values		43,768		43,768
- positive fair value		206		
- negative fair value				198
2) Equity securities and share indices				
- notional values				
- positive fair value				
- negative fair value				
3) Currencies and gold				
- notional values				
- positive fair value				
- negative fair value				
4) Commodities				
- notional values				
- positive fair value				
- negative fair value				
5) Others				
- notional values				
- positive fair value				
- negative fair value				
Contracts not included in offset agreements				
1) Debt securities and interest rates				
- notional values				
- positive fair value				
- negative fair value				
2) Equity securities and share indices				
- notional values				
- positive fair value				
- negative fair value				
3) Currencies and gold				
- notional values				
- positive fair value				
- negative fair value				
4) Commodities				
- notional values				
- positive fair value				
- negative fair value				
5) Others				
- notional values				
- positive fair value				
- negative fair value				

A.4 OTC financial derivatives – residual life: notional values

Underlying/Residual maturity	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivative contracts on debt securities and interest rates	7,129	44,841	35,557	87,537
A.2 Financial derivative contracts on equity securities and share indices				
A.3 Financial derivative contracts on exchange rates and gold				
A.4 Financial derivative contracts on commodities				
A.5 Financial derivative contracts on other values				
Total 2019	**7,129**	**44,841**	**35,557**	**87,537**
Total 2018	**5,451**	**32,124**	**21,914**	**59,489**

SECTION 4 – LIQUIDITY RISK

Qualitative information

A. General aspects, management processes and methods of measuring liquidity risk

The liquidity risk originates from the time mismatch between positive and negative cash flows in relation to both the short and a medium-long period. This could cause the Bank to fail to meet its payment obligations due to the inability to raise new funds and/or sell its assets on the market or to be forced to incur very high costs to meet these commitments. The sources of liquidity risk to which the Bank is exposed are represented mainly by the processes of Financing/Funding and Loans.
The measurement and management of the liquidity risk is carried out by means of financial planning tools (in particular Liquidity Gap Analysis in the context of the ALM system that through simulations generates a maturity ladder of all the cash flow generated, with or without the effect of the new volumes) which choose the most suitable funding policies in the medium-long term.
The Bank continues to pay special attention in order to keep a substantial equilibrium between the duration of borrowing and lending, and to diversify the sources and types of funds it raises to mitigate non-systemic liquidity risks.

The liquidity risk management policy includes, essentially:
- tasks for governing bodies with particular focus on the role of the ALCO Committee (Assets & Liabilities Committee);
- a liquidity risk tolerance threshold in the short term and for structural liquidity, obtained by identifying measurement indicators, attention indicators and operating limits (maturity ladder, cover ratio LCR, NSFR (Net Stable Funding Ratio));
- risk mitigation tools;
- stress testing and contingency plan to deal with adverse situations in raising funds (contingency funding plans);
- formalisation of the existing management system of internal funds transfer pricing;
- reporting between the corporate structures and bodies.

The rules for managing liquidity risk are based on two principles:
- **short-term liquidity management**, aiming to ensure the ability to meet its foreseen and unforeseen payment obligations by maintaining a sustainable balance between incoming and outgoing cash flows in the short-term (1 year). Short-term liquidity management is an essential condition for the normal operational continuity of the bank. Typical actions taken for this purpose are:
    - to manage access to the collection on demand or short-term constraint collection (also collateralised), to the European Central Bank;
    - to manage cash disbursements to be made and to monitor the consistency and degree of utilisation of cash reserves.
- **management of structural liquidity**, aiming to maintain an appropriate balance between passivity and activity in the medium/long term (over 1 year) in order to avoid pressures on sources, current and future in the short-term. Typical actions taken for this purpose are related to:
    - management of maturity transformations;
    - increase of stable funding sources;
    - diversification of liquidity sources and optimisation of funding costs.

In particular the monitoring of the Bank's liquidity position is achieved by checking both the interval mismatches (interval Gap) and the cumulative mismatches (cumulative gap) on different time frames of the maturity ladder (7 days, 1 month and 3 months for the short-term and beyond 1 year for the structural liquidity) by reports produced by the Planning and Control function.

The liquidity report is dynamic i.e. it summarises the liquidity needs and the associated ability to cover them in monthly periods, quantified using stress scenarios based on liquidity profiles. The Bank is aware that the validity of the stress tests should be considered within the (particularly adverse) working context (by testing the resistance); therefore, the Bank has decided to emphasise stress tests, in light of current market scenarios.
The preliminary analysis activities for the definition of the scenarios were carried out by evaluating the following factors:
- objectives for the 2019 budget;
- the current economic climate and possible changes in the time frame of reference;
- difficult access to stable forms of financing in the medium/long term;
- level of rating with related costs of funding;
- changes in the shareholding structure and/or shareholders' agreements;
- situation of unpaid amounts and default positions.

We also evaluated other factors not exclusively related to liquidity risk, in particular those considered as a trigger for liquidity risk in the short-term and also the possible impact of organisational/operational malfunctions that do not allow the use of short-term forms of funding.
Operationally speaking, we therefore prepared a Maturity Ladder with a highly stressed scenario in which all flows of liabilities falling due are considered non-renewable and simultaneously we assume a freeze on new volumes of assets (with the exception of commitments). We also conservatively consider 10% of expected cash flows on loans are unpaid. Regarding the transformation of maturities, the Bank follows a careful policy of mismatching monitoring with the primary objective of keeping cash inflows and outflows under control and the transformation of maturities within sustainable areas. This objective is achieved by correlating the average duration of funding with that of loans. The results of the analyses are periodically examined in the ALCO Committee that submits, within the RAF, the tolerance thresholds and risk indicators to adopt and the amount of cash reserves to maintain to the Board of Directors on an annual basis.
The covering of the 2019 requirement was guaranteed by bank deposits with maturities of between 18 months and 2 years for €161m (of which €152m by Cooperative Credit Banks), bond issues for €124m over 3 years (of which €100m under the EMTN programme), funding from Cassa Depositi e Prestiti of €16m, loans from the European Investment Bank of €10m and time deposits from corporate and retail customers of €51m as well as deposits from customers on demand for €60m.
The total exposure to the ECB as at 31 December 2019 amounted to €279m and consisted entirely of TLTRO II.
To cover liquidity risk, throughout 2019, the Bank maintained sufficient margins of residual available liquidity, averaging around €200m, a marked increase compared to the average figure for 2018 (€150m or +33%). As at 31 December 2019, the total eligible collateral amounted to €529m, up (+8%) compared to 31 December 2018 (€490m) mostly thanks to the increase in collateralised assets (ABACO),

which rose from €222m at the end of 2018 to €260m (+17%, +49% compared to 2017). At the end of 2019, the residual available liquidity from the ECB amounted to approximately €249m. The availability of collaterals envisaged for 2020, assuming the reinvestment of bank securities maturing during the year, is expected to be substantially stable.
With respect to the liquidity requirement (LCR) pursuant to EU Delegated Regulation 2015/61, as at 31 December 2019, the Bank recorded a ratio of 225%, well above the minimum requirement (100%).
In the 2020/2022 Business Plan, the sources of funding envisaged over the three-year period have been outlined, aiming at an ever greater diversification of borrowing, progressively reducing the concentration in the shareholders. In particular, the covering of the 2020 requirement will be ensured by the drawdown of the existing EIB line with the intention of activating a second one by the end of 2020, the renewal of the ECB's long-term refinancing transactions maturing through the new TLTRO III, the partial renewal of deposits with Credito Cooperativo maturing during the year, the increased use of corporate and retail deposits through the "Conto rifugio" online account.
The use of the Collateral account of CCB and short-term deposits with banking counterparties will make it possible to optimise the management of treasury balances (at negative rates) while the ECB refinancing, in the presence of a large margin of available liquid assets, will act as a buffer to easily absorb sudden liquidity needs. The collaboration with a Fintech for the activation of retail funding on the European market is also expected to be finalised.
In 2020 as well, the report of the internal liquidity adequacy assessment process (ILAAP) will be prepared: it is particularly important as part of the broader supervisory review and evaluation process (SREP) that CRD IV requires supervisory authorities to carry out and represents the bank's self-assessment of liquidity risks and the capacity to cover these risks in terms of processes and adequate resources. In fact, article 86 of the CRD IV requires "competent authorities to ensure that entities have robust strategies, policies, processes and systems in place to identify, measure, manage and monitor the liquidity risk over an appropriate set of time horizons, including on a daily basis, so as to ensure that entities maintain adequate levels of liquidity reserves".
Taking these factors into account and considering the business model, the level of complexity of the financial-statement structure and liquidity profile as well as the actual strategic link with the industrial partner Credito Cooperativo, the Bank has deemed the liquidity process, its controls and the ability of static and dynamic indicators to provide informed guidance on decisions concerning the preparation of operating and economic budgets and funding plans to be adequate.
Indicators related to liquidity risk are also included in the Recovery Plan, which envisages appropriate tolerance levels and triggers for the activation of early intervention and adjustment measures.

Securitisation transactions

In order to increase the liquidity of its assets, the Bank has taken part in the multi-originator securitisation transactions that were arranged and managed by Cassa Centrale Banca S.p.A., pursuant to Law no. 130/99 and were called "Cassa Centrale Finance 3" and "BCC SME Finance 1". The sole purpose of the transactions is to create financial assets eligible for refinancing with the European Central Bank for Mediocredito and for Casse Rurali – Co-operative credit banks.

Cassa Centrale Finance 3

The transaction was finalised in the last quarter of 2009 and entailed the transfer by the Bank of a portfolio of performing loans, characterised by a historically low level of risk, to a Special Purpose Vehicle: the loan portfolio mainly consisted of agricultural loans secured by first mortgages and subsidies from the Autonomous Province of Trento plus a portion of some commercial loans to primary resident counterparties and secured just the same.
The Special Purpose Vehicle in turn issued listed and rated Senior notes and Junior notes. Both types of notes were purchased pro rata by the Bank that will use the class Senior notes to guarantee its funding at the ECB through refinancing operations.
The Bank acts as a servicer in this operation in the collection of securitised loans.
According to IAS 39 paragraphs 15-23 and AG 34-52, this operation is not of a "non-recourse" nature for accounting purposes (*no derecognition*), with the Bank maintaining all risks and rewards of the securitised portfolio. The securitised loans therefore remain in the Bank's financial statements and until this condition is met, all corresponding capital and income relations of the operation are netted off from an accounting point of view, including derivative contracts stipulated between the Bank and the SPV.
The operation in question involved, as mentioned, the repurchase by the Bank of all the Senior and Junior notes issued by the SPV, the operation takes the form of "self-securitisation".
The total gross nominal value of the assigned loans is equal to €425.3m out of which €116.6m refer to the Bank; in correspondence with such loans, Senior notes in the amount of €368.5m and Junior notes in the amount of €56.8m were issued (€93.3m and €23.3m respectively in relation to the Bank). The table below sums up the main features of the notes.

Notes	Classes	Rating	ISIN Code	Dates of issue	Payment Dates	Maturity Dates	Interest date
Class A	Senior	Aa2/AA+	IT0004561632	22/12/2009	29/04 – 29/10	31/10/2049	6ME+14
Class B	Junior	No rating	IT0004561665	22/12/2009	29/04 – 29/10	31/10/2049	Chg.

The Class A notes were issued in a dematerialised form and were wholly and exclusively deposited with Monte Titoli S.p.A., listed on the Irish Stock Exchange. The Class B notes were divided into tranches, each tranche for an amount proportional to the amount of the loans that were respectively transferred by each individual bank. The transferring banks have fully underwritten the Class A and Class B notes thus nullifying any flow of cash between the Bank and the SPV.
The two different types of notes have a different degree of subordination in relation to priority of payments, both with regard to principal and interest.
Repayment of the notes will occur in a pass through form i.e. in relation to each collection period for each flow of funds to the SPV, and will be used to keep up with disbursements (both with regard to principal and interest) that will have to be made on the date of the following payment.
Class B notes (known as Junior issue) are not rated and are subordinated to Class A notes in relation to repayments. These types of notes do not feature a fixed coupon and are remunerated only if there are residual funds after covering all period costs (cost and interest for Class A Senior).
The repayment of the principal of Class B notes is last in the hierarchy of payments both in the case of prepayment and of payment on the regular redemption dates of the notes.

This transaction is also secured by liquidity line of €25.7m, of which €10.4m relating to the Bank. To cover interest rate risk the SPV signed a Basis Swap contract with J.P. Morgan Securities LTD to hedge the portfolio with indexed rate and signed an Interest Rate Swap with Mediocredito Trentino Alto Adige S.p.A. to hedge the fixed rate portfolio.

In relation to the internal systems for measuring and controlling securitisation risk, the following applies:
- the Bank acts as servicer with regard to the loan portfolio it transferred according to the criteria specified in the servicing contract; specifically, it handles the management, administration and collection of advances and also credit recovery ; the Bank performs this role (for which it receives a commission) following a procedure that allows the coordinating all related activities and availing itself of its competent company structures;
- according to the Servicing Contract, each securitisation portfolio is constantly monitored based on the monthly, quarterly and half-yearly reports prepared for the SPV company and the counterparties of the transaction, showing the status of the loans and the trend in collections;
- in relation to its disclosures to the SPV company, the Bank has published an assignment notice on the Insertion Sheet of the Official Gazette no. 144 of 15 December 2009;
- in relation to the privacy law, the Bank has informed the individual assigned debtors with a specific notification.

The following subjects were involved in their respective roles:
- *Arranger*: Cassa Centrale Banca - Credito Cooperativo del Nord Est Spa.
- Vehicle company: Cassa Centrale Finance 3 S.r.l., a company incorporated under Law no. 130/99, with its registered office in Rome - Largo Chigi 5; the company is registered with the Business Register of Rome (registration number 05652970962) and enrolled in the general register pursuant to art. 106 of the Consolidated Law on Finance at no. 39334, ABI code 33370. We confirm that the Bank does not hold any interest nor do its employees hold any corporate positions in the SPV Cassa Centrale Finance 3 S.r.l. whose shares are entirely held by the Dutch foundation "Stichting Babele" – Amsterdam (Netherlands) Claude Debussylaan 24.
- *Back up Servicer*: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- *Account Bank*: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- *Agent Bank*: Deutsche Bank Milan
- *Corporate Servicer Provider*: FIS Spa, Rome
- *Rating Agencies*: Moody's Investors Service and DBRS Rating
- Law Firm: Orrick, Herrington & Sutcliffe – Rome
- Portfolio Auditors: Reconta - Ernst & Young Spa.
- SPV's Auditors: Deloitte and Touche Spa

BCC SME Finance 1

The transaction was finalised in August 2012 and required the Bank to transfer to a Special Purpose Vehicle a portfolio of performing loans secured by a first mortgage.
The Special Purpose Vehicle in turn issued listed and rated Senior notes and Junior notes. Both types of notes were purchased pro rata by the Bank that will use the class Senior notes to guarantee its funding at the ECB through refinancing operations.
The Bank acts as a servicer in this operation in the collection of securitised loans.
According to IAS 39 paragraphs 15-23 and AG 34-52, this operation is not of a "non-recourse" nature for accounting purposes (*no derecognition*), with the Bank maintaining all risks and rewards of the securitised portfolio. The securitised loans therefore remain in the Bank's financial statements and until this condition is met, all corresponding capital and income relations of the operation are netted off from an accounting point of view.
The operation in question involved, as mentioned, the repurchase by the Bank of all the Senior and Junior notes issued by the SPV, the operation takes the form of "self-securitisation".
The total gross nominal value of the assigned loans is equal to €2,189.7m out of which €150.3m refer to the Bank; in correspondence with such loans, Senior notes in the amount of €1,533.0m and Junior notes in the amount of €656.7m were issued (€105.2m and €45.1m respectively in relation to the Bank).
In December 2017, the SPV carried out a retranching of the junior security (class B), which was reduced to €205.8m (of which €10.6m relating to the Bank) against the issue of a class A2 security for a total of €449.9m (of which €24.8m relating to the Bank).

The table below sums up the main features of the notes.

Notes	Classes	Rating	ISIN Code	Dates of issue	Payment Dates	Maturity Dates	Interest date
Class A1	Senior	Aa2/AA	IT0004846116	10/08/2012	29/05 – 29/11	29/05/2060	6ME+20
Class A2	Senior	Aa2	IT0005315004	06/12/2017	29/05 – 29/11	29/05/2060	6ME+00
Class B	Junior	No rating	IT0004846058	10/08/2012	29/09 – 29/11	29/05/2060	Chg.

The Class A notes were issued in a dematerialised form and were wholly and exclusively deposited with Monte Titoli S.p.A., listed on the Irish Stock Exchange. The Class B notes were divided into tranches, each tranche for an amount proportional to the amount of the loans that were respectively transferred by each individual bank. The transferring banks have fully underwritten the Class A and Class B notes thus nullifying any flow of cash between the Bank and the SPV.
The two different types of notes have a different degree of subordination in relation to priority of payments, both with regard to principal and interest.
Repayment of the notes will occur in a pass through form i.e. in relation to each collection period for each flow of funds to the SPV, and will be used to keep up with disbursements (both with regard to principal and interest) that will have to be made on the date of the following payment.
Class B notes (known as Junior issue) are not rated and are subordinated to Class A notes in relation to repayments. These types of notes do not feature a fixed coupon and are remunerated only if there are residual funds after covering all period costs (cost and interest for Class A Senior).

The repayment of the principal of Class B notes is last in the hierarchy of payments both in the case of prepayment and of payment on the regular redemption dates of the notes.
This transaction is also secured by liquidity line of €20.7m, of which €1.1m relating to the Bank (€65.9m before retranching, €4.5m of which related to the Bank). To cover interest rate risk, the SPV signed a Basis Swap contract with J.P. Morgan Securities LTD to hedge the portfolio with indexed rate.

In relation to the internal systems for measuring and controlling securitisation risk, the following applies:
- the Bank acts as servicer with regard to the loan portfolio it transferred according to the criteria specified in the servicing contract; specifically, it handles the management, administration and collection of advances and also credit recovery ; the Bank performs this role (for which it receives a commission) following a procedure that allows the coordinating all related activities and availing itself of its competent company structures;
- according to the Servicing Contract, each securitisation portfolio is constantly monitored based on the monthly, quarterly and half-yearly reports prepared for the SPV company and the counterparties of the transaction, showing the status of the loans and the trend in collections;
- in relation to its disclosures to the SPV company, the Bank has published an assignment notice on the Insertion Sheet of the Official Gazette no. 93 of 09 August 2012;
- in relation to the privacy law, the Bank has informed the individual assigned debtors with a specific notification.

The following subjects were involved in their respective roles:
- *Arranger*: Cassa Centrale Banca - Credito Cooperativo del Nord Est Spa.
- Vehicle company: BCC SME Finance 1 S.r.l., a limited liability company incorporated under Law no. 130/99 on Securitisation, with its registered office in Rome at Largo Chigi 5; the company is registered with the Business register of Rome's Chamber of Commerce with no. 06646750965 and it is enrolled in the register of special purpose vehicle for securitisations ABI code 35037; we confirm that the Bank does not hold any interest nor do its employees hold any corporate position in SPV BCC SME Finance 1 S.r.l. whose quotas are entirely held by the foundation under Dutch law "Stichting Babele" – Amsterdam (Netherlands) Claude Debussylaan 24.
- *Back up Servicer*: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- *Account Bank*: Cassa Centrale Banca, Credito Cooperativo del Nord Est Spa
- *Agent Bank*: Deutsche Bank AG, London Branch
- *Corporate Servicer Provider*: FIS Spa, Rome
- *Rating Agencies*: Moody's Investors Service and DBRS Rating
- Law Firm: Orrick, Herrington & Sutcliffe – Rome
- Portfolio Auditors: Reconta - Ernst & Young Spa.
- SPV's Auditors: Crowe Horwath AS S.r.l.

Quantitative information

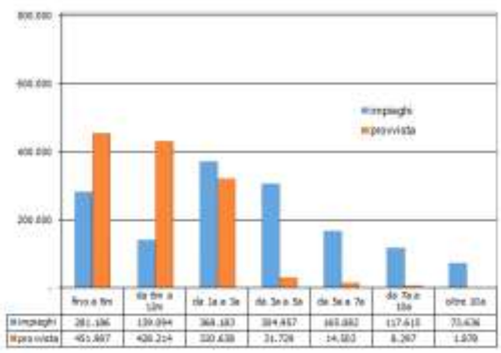
1. Time distribution by residual contractual duration of financial assets and liabilities

Items/Maturities	on demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Beyond 5 years	Undetermined duration
Cash assets	**109,438**	**12,857**	**19,981**	**3,918**	**30,435**	**104,557**	**139,094**	**673,140**	**354,706**	**1,626**
A.1 Government securities	-	-	149	-	293	556	997	120,000	102,500	-
A.2 Other debt securities	-	-	8,246	15	108	13,158	5,744	33,464	6,151	-
A.3 Investments in UCITS	12,399	-	-	-	-	-	-	-	-	-
A.4 Loans	97,039	12,857	11,586	3,903	30,034	90,843	132,353	519,676	246,055	1,626
- banks	20,189	-	-	-	-	-	-	-	-	1,626
- customers	76,851	12,857	11,586	3,903	30,034	90,843	132,353	519,676	246,055	-
Cash liabilities	**153,387**	**24,651**	**-**	**26,301**	**79,279**	**168,370**	**428,215**	**352,367**	**24,678**	**-**
B.1 Deposits and current accounts	153,303	24,651	-	5,012	10,032	16,005	20,112	9,427	-	-
- banks	10,083	20,000	-	-	-	-	-	-	-	-
- customers	143,220	4,651	-	5,012	10,032	16,005	20,112	9,427	-	-
B.2 Debt securities	-	-	-	937	-	126	173,738	124,000	-	-
B.3 Other liabilities	84	-	-	20,342	69,247	152,239	234,365	218,940	24,678	-
Off-balance sheet transactions	**20,171**	**-**	**-**	**-**	**-**	**-**	**607**	**2,304**	**11,087**	**-**
C.1 Financial derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	22	184	-
- long positions	-	-	-	-	-	-	-	11	92	-
- short positions	-	-	-	-	-	-	-	11	92	-
C.3 Deposit and loans to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	19,137	-	-	-	-	-	607	2,283	10,903	-
- long positions	2,672	-	-	-	-	-	607	2,283	10,903	-
- short positions	16,465	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	1,034	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

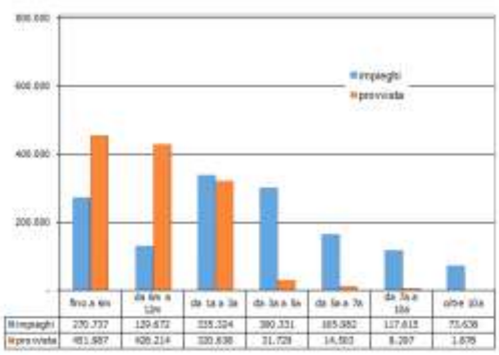
For a better representation of flows generated by the Bank's operations, prevalently medium/long-term ones and with an amortisation plan, and of the related maturity transformation, we show in a graphical form the time distribution of cash assets and liabilities, adopting the number and scope of the most significant bands.

In particular, we highlight the following points in the graph below:

- a negative gap of €171m in the short-term band (up to 6 months), due to a higher concentration of maturing funding (including a first tranche of €50m of TLTRO funding to be renewed);
- a negative gap of approximately €289m in the "within 1 year" band, due to the maturity of bonds issued for €170m in addition to TLTRO loans - also in this case subject to renewal - for a total of €180m;



- a positive gap in the "1 to 3 year" band of about €48m (€15m net of estimated flows of NPLs) characterised by the maturity of bonds issued for €124m and the presence of expiring TLTRO-II operations of €49m (subject to renewal);
- a positive gap in the "3 to 5 year" band of €273m (€2699m net of estimate flows of NPLs);
- the other bands show positive gaps also net of flows of doubtful loans, due to the scarcity of maturities for long-term funding.



Disclosure on balance sheet assets pledged as a guarantee[29]

Technical forms	Pledged		Not Pledged		Total 2019	Total 2018
	Book value	Fair value	Book value	Fair value		
1. Cash and cash equivalents	-		2		2	4
2. Debt securities	58,641	58,281	225,841	224,988	284,482	284,640
3. Equity securities	-	-	16,584	16,584	16,584	17,386
4. Loans [1]	556,833		529,941		1,086,774	1,105,002
5. Other financial assets	-		24,129		24,129	23,569
6. Non-financial assets	-		9,052		9,052	8,442
Total 2019	**615,475**	**58,281**	**805,549**	**241,573**	**1,421,024**	
Total 2018	**694,193**	**156,654**	**744,852**	**135,518**		**1,439,044**

1 In addition to the loans pledged as guarantees for liabilities, loans also include assets sold to the SPV and not derecognised of €12.6m (€15.5m in 2018).

Disclosure on off-balance sheet own assets pledged as a guarantee

Technical forms	Pledged	Not Pledged	Total 2019	Total 2018
1. Financial assets	22,941	33,928	56,869	67,541
- Securities	22,941	33,928	56,869	67,451
- Others	-	-	-	-
2. Non-financial assets	-	-	-	-
Total 2019	**22,941**	**33,928**	**56,869**	
Total 2018	**33,613**	**33,928**		**67,451**

Eurosystem credit operations

The Bank has entered into four liability-funding operations with ECB for a face value of €279m, guaranteed by securities classified as financial assets available for sale (Table 1[30]. Item 2.), in addition to other securities not reported under assets as specified below, of which:

- €50.0m for a transaction concluded on 29/06/2016 (expiry 24/06/2020);
- €60.0m for a transaction concluded on 28/09/2015 (expiry 30/09/2020);
- €120.0m for a transaction concluded on 21/12/2016 (expiry 16/12/2020);
- €49.1m for a transaction concluded on 29/03/2017 (expiry 24/03/2021).

According to the requirements of IFRS 7 paragraph 14, we state that:

a) with the above-mentioned contracts, the Bank has transferred the securities used as a guarantee to the ownership of the counterparty, to guarantee the full right, with their full value and related appurtenances, their exposure, and any other credit or other right due to the counterparty arising from the financing operation, although not liquid or payable, including arising before or after disbursement of the financing;

b) the value of the guarantee deposit is determined by deducting from the market value, the haircut defined by the European Central Bank for the specific activities, as well as an additional haircut defined by Cassa Centrale Banca for the loan brokered.

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29 Assets are split into "pledged" and "not pledged" based on the provisions of the legislation in force for the reporting of "Restricted assets on an individual basis" (known as Asset Encumbrance – AEI information base)

30 These transactions are those of the targeted refinancing operations (TLTRO-II).

Securities not reported in assets in the statement of financial position to guarantee borrowings

At year-end, the Bank deposited a nominal €20.8m in securities at the Bank of Italy that are not reported in the statement of financial position assets. Such securities serve in part as a guarantee for the €279.1m financing (see paragraph "Eurosystem credit operations" for details).

Loans and advances to customers to guarantee borrowings

At year-end, the Bank tied with the Bank of Italy, through the ABACO procedure, a loan portfolio with a book value of €445.4m, as part guarantee for the €279.1m financing (see paragraph "Eurosystem credit operations" for details).

Loans and advances to customers to guarantee mortgage borrowings

The Bank has, as assets pledged to guarantee its own liabilities and commitments, entered into loan assignment contracts relating to public works financing in favour of the EIB with two loans signed on 28 November 2005 and 9 December 2008, respectively.
According to the requirements of IFRS 7 paragraph 14, we state that:

a. the book value of the financial assets pledged as collateral amounts to €10.9m in relation to the contract signed on 28 November 2005 and to €29.0m in relation to the contract signed on 9 December 2008;
b. by signing the above-mentioned contracts the Bank irrevocably assigned with recourse to the EIB amounts it is owed by the municipalities as a guarantee of the full and punctual fulfilment of all the pecuniary obligations assumed by the Bank based on the loan agreement with the EIB. The credit assignments amount to at least 110% of the loan liabilities to the EIB, from time to time remaining as the result of principal payments made by the Bank under the loan contract itself;
    - according to the contract signed on 28 November 2005, the assignment of loans would take effect only in the case of the Bank's non-fulfilment of its obligations to the EIB arising from the said loan contract (which is recorded under the Bank's liabilities); the loan assignment contracts are therefore "subject to conditions precedent";
    - according to the contract signed on 9 December 2008 the assignment of the loans, for the sole purpose of guarantee, takes effect immediately and remains valid until the guaranteed obligations are completely fulfilled. The EIB has also granted the Bank a mandate for the management of the assigned receivables. The credit risk remains with the Bank and, unless the Bank defaults, the credits will be automatically transferred back to the Bank ownership at the time of their collection.

In November 2012, the Bank obtained a new credit facility of €50m by the EIB, against which a first contract for €16m has been signed and fully utilised. Such a contract will be guaranteed by the recourse transfer of receivables due to Mediocredito from the final beneficiaries.
According to the requirements of IFRS 7 paragraph 14, we state that:

a. the book value of the financial assets pledged as collateral amounted to €16.3m;
b. with the contract referred to above, the Bank transferred irrevocably with recourse to the European Investment Bank, the receivables of any nature due from the final beneficiaries, to guarantee the full and punctual fulfilment of all the obligations of a pecuniary nature assumed by the Bank under the loan agreement with the EIB. The credit assignments amount to at least 100% of the loan liabilities to the EIB, from time to time remaining as the result of principal payments made by the Bank under the loan contract itself;
   The contract provides that (for the exclusive purpose of guarantee) the effectiveness of the supply of credit is immediate and remains valid until the full and complete fulfilment of the obligations guaranteed. The EIB has also granted the Bank a mandate for the management of the assigned receivables. The credit risk remains with the Bank and, unless the Bank defaults, the credits will be automatically transferred back to the Bank ownership at the time of their collection.

In July 2013, a second contract for the remaining €34m was signed, secured by a surety from the Autonomous Region of Trentino-South-Tyrol. The contract has been utilised entirely. The surety from the Autonomous Region of Trentino-South Tyrol is counter-secured by the sale with recourse of the receivables due to Mediocredito from the final beneficiaries.
According to the requirements of IFRS 7 paragraph 14, we state that:

a. the book value of the financial assets pledged as guarantee amounted to €24.8m;
b. through the aforesaid guarantee contract the Bank transferred with recourse to the Autonomous Region of Trentino-South Tyrol the receivables of any nature, including reimbursement or repayment, due from the final beneficiaries on the basis of the loan agreement that benefits from the EIB resources and of the related guarantee by the Region.
   In accordance with the agreement, the effectiveness of the assignment of the loan is dependent on the actual disbursement by the Region of a payment in favour of EIB.

During October 2019, the Bank obtained from the EIB a new loan of €50m drawn down for €10.3m.
According to the requirements of IFRS 7 paragraph 14, we state that:

a. the book value of the financial assets pledged as guarantee totalled €58.9m;
b. by signing the above-mentioned contracts, the Bank irrevocably assigned with recourse to the EIB financial receivables it is owed by joint-stock companies relating to financing of plants for the production of energy from renewable sources and/or from public entities, as a guarantee of the full and punctual fulfilment of all the pecuniary obligations assumed by the Bank based on the loan agreement with the EIB. The credit assignments amount to at least 100% of the loan liabilities to the EIB, from time to time remaining as the result of principal payments made by the Bank under the loan contract itself; the contract provides that (for the exclusive purpose of guarantee) the effectiveness of the supply of credit is immediate and remains valid until the full and complete fulfilment of the obligations guaranteed. The EIB has also granted the Bank a mandate for the management of the assigned receivables. The credit risk remains with the Bank and, unless the Bank defaults, the credits will be automatically transferred back to the Bank ownership at the time of their collection.

In March 2013, the Bank signed an agreement with Cassa Depositi e Prestiti for the granting of one or more loans on a ceiling amount to be used for granting loans to SMEs. Loans for a residual amount of €42.3m had been granted as at 31 December 2019.

These loans will be guaranteed by the transfer with recourse of receivables due to Mediocredito from the final beneficiaries.
According to the requirements of IFRS 7 paragraph 14, we state that:

a. the book value of the financial assets pledged as guarantee amounted to €40.9m;
b. by signing the above-mentioned contract, the Bank transferred with recourse to Cassa Depositi e Prestiti its future credit rights, of any nature, and any other advantageous legal position in relation to these credit rights towards Assigned Debtors and Guarantors in relation to all receivables.
   The contract provides that (for the exclusive purpose of guarantee) the effectiveness of the supply of credit is immediate and remains valid until the full and complete fulfilment of the obligations guaranteed. The CDP has also granted the Bank a revocable mandate for the management of the assigned receivables. The credit risk remains with the Bank and, unless the Bank defaults, the credits will be automatically transferred back to the Bank ownership at the time of their collection.

Section 5 – Operational risks

Qualitative information

A. General aspects, management processes and methods of measuring operational risk

The current capital accord (Basel III) adds operational risks amongst the Pillar I risks – risks for which one is under the obligation to set aside a part of own funds. The operational risk is defined as the risk of loss resulting from inadequate or dysfunctional internal processes, human resources and systems or from external events. This definition includes legal risk (in terms of exposure to fines, or penalties stemming from measures taken by the bank Supervisory Authority) but excludes strategic and reputation risk.
The Basel Committee acknowledges that "operational risk" is a term that may have different meanings to different banks. Still, a clear appreciation and understanding by banks of what is meant by operational risk is critical to the effective management and control of this risk category.
The Basel Committee has identified the following types of operational risk events as having the potential to result in substantial losses: fraud (internal and external), violation of employee health and safety rules, violation of rules regulating the client-bank relationship, damage to property, plant and equipment, business disruption and system failure and finally operational and/or procedural non-compliance).
After evaluating the opportunities and systems for managing operational risk - paying attention to the impact of installation and maintenance costs and to organisational costs and considering the limited exposure to this type of risk - the Bank chose to adopt the basic model. In the future, it might adopt an advanced internal model only after the business model has significantly evolved and diversified.
The Bank, within the scope of internal control systems, developed and continues to develop activities and initiatives on the theme of monitoring and management of operational risk. In particular, the following is worth noting:

- the adoption of the non-compliance risk management model focusing on periodic reports by the responsible department (reports, audit reports, opinions, etc.) to the governing bodies, the General Management and the control structures or functions of the Bank and targeted not only at risk monitoring but at spreading a corporate ethos based on the principles of honesty, fairness and compliance with the rules;
- the composition and activity of the Control Committee: in addition to the corporate control functions, the General Manager and the manager responsible for preparing the financial documents of the Bank also take part in the Committee; The Committee constantly monitors sensitive phenomena with respect to the system of internal control assessing their overall effectiveness in relation to the objectives and limits included in the RAF, coordinates the programmes of activity of the risk control functions and reviews the annual ICAAP and ILAAP reports;
- the focus on the administrative responsibility of the company (Legislative Decree no. 231/2001), whose monitoring is entrusted to the Board of Statutory Auditors in cooperation with the internal structures;
- the creation of the anti-money laundering function dedicated to overseeing regulations under Legislative Decree no. 231/07;
- the continuation of the traditional assessment of the risk profiles, also on the themes of organisation and IT technologies, as part of the preparation and revision of the Risk Appetite Framework;
- the internal management, as part of the internal auditing structure, of IT audit activities, with the collaboration of the IT audit structure of the Cassa Centrale Banca Group in order to guarantee constant and specialised regulatory and technical supervision;
- the ongoing updating, in accordance with the "New regulations for the prudential supervision of banks" (Bank of Italy Circular no. 285 of 17 December 2013 and subsequent amendments), of a Regulation for the Flow of Information, in order to promote structured forms of communication and exchange of complete, timely and accurate information inside the corporate bodies, between different organs and the governing bodies;
- agreement between the compliance and internal audit functions to enhance the interaction between the two structures and make the functioning of internal controls more efficient, providing forms of cooperation for the conduct of audits; in particular, in this context, it should be noted that the interventions are shared during the drafting of the relative annual plans of the activities and that some audit activities are carried out jointly - each for its own areas of competence;
- the separation of the internal control (compliance, risk management and internal audit) from the operational structures of the Bank, reporting directly to the Board of Directors (the body with strategic supervision and management functions) in order to ensure maximum autonomy of action, hierarchical independence and freedom of access to all information sources of the Bank;
- the continuous process of updating and upgrading of the Internal Control System, with particular reference to maintaining the mapping of business-critical activities and the definition / expansion of the internal second level controls, both for compliance and risk-management;
- the constant updating of the operational processes of the Bank (also through the introduction of automated systems for operational support and control), with particular reference to the related regulations on anti-money laundering, transparency, usury and privacy;
- the introduction of an internal system for reporting violations - Whistle-blowing (computer system for reporting violations that guarantees the confidentiality of the reporter) and the adoption of a specific regulation.

The above-mentioned organisational and operational activities are functional to the constant adjustment of the compliance process with the supervisory regulations, which will see gradual improvement with the support of operational and coordination initiatives to make it possible to gradually apply the best practices on the subject of operational risk management more effectively.

Legal risks

The risks associated with litigation that involves the Bank are constantly monitored by the Legal Department.
Where a legal and accounting analysis shows the possibility of a negative outcome with a probable outflow of financial resources, the Bank shall put aside sufficient allocations to the provisions for risks and charges as a precaution, based on an estimate as reliable as possible, as well as implement settlement policies, if possible.
In particular it is noted that:

- in 2017, the Bank had adjusted the allocation to cover the revocatory action brought by the extraordinary administration of Giacomelli Sport, following the recent judgement of the Court of Appeal, which declared further payments totalling €11.6m to the company to be ineffective, bringing it to 75% of the amount at risk. During 2018, Mediocredito, enforcing the judgement, returned €1.359 million.

Considering that the proceedings are still pending before the Court of Cassation and that in any case the objection that may be raised against the loan syndicate leader in the negative case remains active, the loan from the extraordinary administration continues to be recognised as a contra-entry to the provision for legal risks for 100% of the amount reimbursed;

- in 2014, the existence of a contingent liability related to the claim for damages by the plaintiff on the Carolina Srl position for a total of €3.6m was the subject of evaluation; to date, there is no concrete evidence that would support the acceptance of the claims of bankruptcy. For this reason, the Bank does not consider the creation of a special provision dedicated to litigation risks justifiable at the current state of play;
- in 2018, the Bank carried out a bulk sale of a portfolio of impaired loans for a gross amount of €10.298m, adjusted by €8.778m, at a total net price of €1.631m; following the completion of the deeds of sale, the transferee Futura SPV Srl (Guber Banca SpA) raised some exceptions regarding the completeness of the information communicated during due diligence with a consequent request for compensation of €554 thousand. Since the dispute is underway and in view of a possible settlement agreement, the Bank has set aside an amount of €250 thousand. On 21 October 2019, the dispute ended with a settlement agreement that led to the payment by Mediocredito of €249,033.24.

PART F
INFORMATION ON EQUITY

SECTION 1 - EQUITY

A. QUALITATIVE INFORMATION

The equity is composed of share capital (ordinary shares) and additional paid-in capital and reserves. The reserves are the aggregate of the legal reserve, the extraordinary reserve, and the reserves created in application of IAS/IFRS. The valuation reserves are the aggregate of fair value reserves related to financial assets at fair value through other comprehensive income, reserves from actuarial gains/losses related to defined benefit plans (severance indemnities) and those reserves that originate from the monetary revaluation of real estate. The adequacy of the equity is also monitored in relation to the minimum capital requirements specified by the supervisory regulations.

B. QUANTITATIVE INFORMATION

B.1 Equity: breakdown

Items/amounts	2019	2018
1. Share capital	58,485	58,485
2. Additional paid-in capital	29,841	29,841
3. Reserves	81,301	79,934
- profit	81,301	79,934
a) legal	19,405	19,251
b) statutory	50,051	48,839
c) treasury shares	-	-
d) others	11,845	11,845
- others	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	1,512	187
- Equity securities designated at fair value through other comprehensive income	(2,062)	(2,331)
- Coverage 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	(300)	(1,406)
- Property, plant and equipment		-
- Intangible assets		-
- Hedges of foreign investments		-
- Cash flow hedges		-
- Hedging instruments (elements not designated)		-
- Exchange differences		-
- Non-current assets and groups of assets held for sale		-
- Financial liabilities designated at fair value through profit or loss (change in the Bank's creditworthiness)		-
- Actuarial gains (losses) on defined benefit plans	(445)	(394)
- Valuation reserves from investments accounted for using the equity method		-
- Special revaluation laws	4,318	4,318
7. Net income (loss) for the year	4,028	3,172
Total	**175,166**	**171,619**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amount	2019		2018	
	Positive reserve	Positive reserve	Negative reserve	Negative reserve
1. Debt securities	161	461	70	1,476
2. Equity securities	432	2,493	311	2,642
3. Loans	-	-	-	-
Total	**592**	**2,954**	**381**	**4,118**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balance	**(1,406)**	**(2,330)**	**-**
2. Positive changes	**1,656**	**768**	**-**
2.1 Fair value increases	1,640	687	-
2.2 Net adjustments to credit risk	16		-
2.3 Reclassification through profit or loss of negative reserves following disposal	-		-
2.4 Transfers to other shareholders' equity components (equity securities)	-	81	-
2.5 Other increases	-	-	-
3. Negative changes	**(550)**	**(499)**	**-**
3.1 Fair value decreases	(418)	(499)	-
3.2 Write-backs for credit risk	(132)		-
3.3 Reclassification through profit or loss of positive reserves following disposal	-		-
3.4 Transfers to other shareholders' equity components (equity securities)	-	-	-
3.5 Other increases	-	-	-
4. Closing balance	**(300)**	**(2,062)**	**-**

B.4 Valuation reserves relating to defined benefit plans: annual changes

	2019	2018
A. Opening balance	**(394)**	**(417)**
B. Increases	**(51)**	**-**
B.1 Actuarial losses	(51)	-
C. Decreases	**-**	**23**
C.1 Actuarial gains	-	23
D. Closing balance	**(445)**	**(394)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

For a review of Own Funds and capital ratios, refer to the information on own funds and capital adequacy contained in the public disclosure ("Third Pillar"), as well as to the paragraph "Equity and the state of affairs of the Company" in the Report on Operations.

PART H
RELATED PARTY TRANSACTIONS

1. INFORMATION ON REMUNERATION OF MANAGERS WITH STRATEGIC RESPONSIBILITIES

The remuneration shown refers to the Directors and Managers with strategic responsibilities who held these positions in 2019, as per IAS 24 paragraph 17.
The remuneration paid to members of the Board of Directors and to the Board of Statutory Auditors is established in the appropriate Shareholders' Meeting resolution.

	Emoluments and social security contributions	Bonuses and other short-term benefits	Severance indemnities and pension fund
Directors and General Manager	648,807	40,453	28,968
Statutory Auditors	124,343	-	-

2. RELATED PARTY TRANSACTION DISCLOSURE

The following tables were prepared according to IAS 24 and in particular, the breakdown of transactions performed with related parties was carried out in accordance with the instructions outlined in paragraphs 18 and 19 of the same standard.

Receivables and payables

Related parties	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	Other assets	Financial liabilities measured at amortised cost	Derivatives (notional)	Sundry payables
Entities that have joint control and significant influence over the Company	-	18,744	6,015	337,826	302	-
Subsidiary companies	-	7,860	-	-	-	500
Affiliated companies						
Joint ventures						
Managers with strategic responsibilities						
Other related parties						
Total	**-**	**26,604**	**6,015**	**337,826**	**302**	**500**

Financial assets measured at amortised cost

With regard to the amounts shown in the "Entities that have joint control and significant influence over the Company", these are made up for €13.9m of cash on current accounts and for €12.7m of loans and advances granted to the two Autonomous Provinces.
Under the heading "Subsidiary companies", the value refers to a credit facility granted by the Bank to the subsidiary Paradisidue S.r.l. (based in Trento - Via Paradisi 2, Tax Code 01856850225), for the acquisition and renovation of properties in the context of bankruptcy proceedings. The loan was granted for €10.0m with revocable maturity, with remuneration at the 1-month Euribor.

Other assets

These relate mostly illiquid assets in a bank account with Cassa Centrale Banca for €6.0m.

Financial liabilities measured at amortised cost

These are made up for €147.6m of deposits with counterparty Cassa Centrale Banca cooperative group (including exposures to individual BCCs that joined the Group on 1 January 2019), for €109.9m of deposits with counterparty Cassa Centrale Raiffeisen, for €50.4m of deposits from a functional company in the Autonomous Province of Trento and for €29.9m of funds from the two Autonomous Provinces under administration.

Derivatives

These relate to cap options booked to the financial statements for a positive fair value of €16.

Other liabilities

This is the payable to the subsidiary Paradisidue Srl relating to the payment to cover the 2019 loss.

Costs and revenues

Related parties	Interest income	Fee and commission income	Dividends/ other revenues	Interest expense	Fee and commission expenses	Other expenses
Entities that have joint control and significant influence over the Company	212	1		5,319	123	306
Subsidiary companies	9	2				
Affiliated companies						
Joint ventures						
Managers with strategic responsibilities						
Other related parties						
Total	**221**	**3**		**5,319**	**123**	**306**

Transactions with entities that have joint control and significant influence over the Company refer to relations with those shareholders who have joint control over the Bank, also due to agreements between the parties. Transactions with these shareholders were carried out under equivalent conditions to those that prevail in arm's length transactions.
Until 15 December 2019, the Autonomous Provinces of Trento and Bolzano provided a surety in favour of the EIB on behalf of the Bank, which paid them a commission of 0.08% per annum.
The Autonomous Region of Trentino-South Tyrol provides further surety on behalf of the Bank to the EIB for €22.3m; the Bank pays a commission of 0.4% per annum to the Region.

PART L
SEGMENT REPORTING

In spite of the essential single sector character of the Bank's business operations and the associated geographic concentration of activities predominantly in North-eastern Italy, segment disclosures are provided, as the Bank belongs to the category of listed issuers pursuant to transparency regulations.
The present disclosure was prepared according to the requirements of IFRS 8, based on internal reports for the management and the Board of Directors: it makes reference primarily to the classification of activities originated from commercial regional units and, secondarily, the breakdown of business by product. Consequently, the primary reporting basis is by geographical segments and the secondary reporting basis is by economic sector. Less significant data are also reported to observe the management approach to reporting.
Income statement/statement of financial position results are determined on the basis of the following principles:
- the net interest income is obtained by applying the internal transfer rates consistent with the financial characteristics of the products;
- net commissions are punctually attributed to the customer/area/product who/which has generated them;
- direct costs and manufacturing costs have been respectively charged in a punctual manner and on the basis of criteria of reversal of actual costs and only for the primary reporting basis, in keeping with internal management data processed;
- central services costs (Management, Auditing, Planning and Control, Compliance, Risk Management, Administration, ...) have been charged to Head Office;
- statement of financial position components relate to volumes administered by the respective organisational units and are expressed in terms of interest-bearing balances at the end of the period.

SEGMENT REPORTING (NOTES)

The tables that are provided, prepared on the basis of internal management reports and applying the above-mentioned criteria, show a homogeneous distribution of margins among the main regional units.
The Veneto area recorded a greater incidence of costs, characterised by a larger loan portfolio than the other areas. In relation to the cost of risk - excluding the Structure/Head office that also includes changes in the fair value of investments in UCITS - the South Tyrolean area shows higher absolute values. From a sector perspective, the cost of risk is concentrated mostly in the real estate sector and in leasing.

PRIMARY SEGMENT REPORTING BASIS

A.1 Distribution by geographical area of activity: income statement data in 2019

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/ Head office	Total amount
Net interest income	**1,769**	**2,633**	**2,128**	**1,436**	**1,072**	**8,510**	**17,548**
Net commissions	345	304	242	168	86	811	**1,956**
Dividends and other trading and hedging gains						1,928	***1,928***
Net interest and other banking income	**2,114**	**2,937**	**2,370**	**1,604**	**1,158**	**11,249**	**21,432**
Write-backs/Adjustments to fin. assets	1,236	(1,428)	(1,256)	(215)	(569)	(2,092)	**(4,324)**
Net income from financial activities	**3,350**	**1,509**	**1,114**	**1,389**	**589**	**9,157**	**17,108**
Total operating costs	(964)	(801)	(1,454)	(693)	(718)	(6,310)	**(10,940)**
Profit before income taxes	**2,386**	**708**	**(340)**	**696**	**(129)**	**2,847**	**6,167**

A.1 Distribution by geographical area of activity: income statement data in 2018

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/ Head office	Total amount
Net interest income	**1,847**	**2,769**	**2,370**	**1,016**	**911**	**10,403**	**19,316**
Net commissions	259	237	144	243	59	529	**1,470**
Dividends and other trading and hedging gains	-	-	-	-	-	803	***803***
Net interest and other banking income	**2,105**	**3,006**	**2,514**	**1,259**	**970**	**11,735**	**21,589**
Write-backs/Adjustments to fin. assets	(1,147)	2	(2,228)	(970)	(822)	(1,055)	**(6,220)**
Net income from financial activities	**959**	**3,008**	**286**	**289**	**148**	**10,679**	**15,369**
Total operating costs	(955)	(775)	(1,409)	(654)	(685)	(6,216)	**(10,695)**
Profit before income taxes	**4**	**2,233**	**(1,123)**	**(365)**	**(537)**	**4,463**	**4,674**

A.2 Distribution by geographical area of activity: statement of financial position Dec. 2019

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/Head office	Total amount
Lending operations	217,814	258,932	222,585	129,887	119,998	396,277	**1,345,494**
Borrowing operations							**1,253,487**

A.2 Distribution by geographical area of activity: statement of financial position Dec. 2018

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/Head office	Total amount
Lending operations	239,154	282,266	223,673	124,263	108,215	396,459	**1,374,030**
Borrowing operations						1,278,262	**1,278,262**

SECONDARY SEGMENT REPORTING BASIS

B.1 Distribution by economic sector: income statement data in 2019

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other assets	Total
Net interest income	**8,067**	**721**	**834**	**810**	**7,116**	**17,548**
Net commissions	*1,302*	*122*	*11*	*171*	*349*	***1,956***
Dividends and similar income					1,928	**1,928**
Net interest and other banking income	**9,639**	**844**	**844**	**981**	**9,934**	**21,432**
Write-backs/Adjustments to fin. assets	(711)	(1,465)	(671)	146	(1,624)	**(4,324)**
Net income from financial activities	**8,658**	**(621)**	**174**	**1,127**	**7,770**	**17,108**

B.1 Distribution by economic sector: income statement data in 2018

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other assets	Total
Net interest income	**8,166**	**398**	**781**	**956**	**9,015**	**19,316**
Net commissions	*1,052*	*105*	*59*	*75*	*179*	***1,470***
Dividends and similar income					803	**803**
Net interest and other banking income	**9,218**	**503**	**840**	**1,030**	**9,997**	**21,589**
Write-backs/Adjustments to fin. assets	(4,714)	706	75	(561)	(1,726)	**(6,220)**
Net income from financial activities	**4,504**	**1,209**	**915**	**470**	**8,271**	**15,369**

B.2 Distribution by economic sector: statement of financial position Dec. 2019

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other assets	Total
Lending operations	828,488	39,358	93,946	121,584	262,117	**1,345,494**
Borrowing operations						**1,253,487**

B.2 Distribution by economic sector: statement of financial position Dec. 2018

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other assets	Total
Lending operations	834,572	44,591	86,467	144,442	263,958	**1,374,030**
Borrowing operations						**1,278,262**

PART M
DISCLOSURE ON LEASES

SECTION 1 - LESSEE

QUALITATIVE DISCLOSURE

The Bank carried out an assessment to check the presence of contracts potentially falling within the scope of IFRS 16; this assessment made it possible to identify vehicle rental contracts and real estate leases as contracts subject to the new standard long-term, with the exception of those of less than €5 thousand or with a duration of less than 12 months - 2 real estate leases - for which the Bank made use of the option, envisaged by paragraph 6 of IFRS 16, not to apply the provisions of paragraphs 22-49 by continuing to recognise the payments due for the lease as a cost on an accruals basis, in the same way as in the past.

QUANTITATIVE DISCLOSURE

With regard to the additional disclosures required by IFRS 16 paragraph 59, refer to:
- Part B, Assets, Section 8 - Property, plant and equipment, for disclosures on rights-of-use acquired under leases;
- Part B, Liabilities, Section 1 - Financial liabilities measured at amortised cost, for disclosures on lease payables;
- Part C, Income Statement, Section 1 - Interest, for disclosures on interest expense on lease payables.

The following table shows the depreciation charges for assets consisting of the right-of-use broken down by class of underlying asset.

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Rights-of-use acquired under leases	(70)			(70)
Buildings	(40)			(40)
Vehicles	(30)			(30)
Total	**(70)**			**(70)**

Long-term rental contracts in which the Bank acts as lessee do not contain clauses that could give rise to potential cash flows that are not included in the measurement of the lease liability, such as:
i) variable payments related to the lease contract;
ii) extension options and termination options;
iii) guarantees on residual value; and
iv) leases not yet signed to which the lessee committed itself.

With regard to real estate leases, however, note that:
i) the Bank is potentially exposed to payments related to the lease contract (referring in particular to the ISTAT revaluation), which are not included in the measurement of the lease liability;
ii) a contract - relating to the rental of parking spaces servicing the Bolzano Head Office, also leased - contains an automatic renewal clause for a further six years; the Bank considers the potential financial flows deriving from this clause to be null and void in that the search for a new building to be used as the head office of Bolzano is underway.
iii) the Bank has not provided guarantees on the residual value of the leased asset, and
iv) has no commitments to enter into lease contracts not included in the value of the lease liability recognised in the financial statements.

Finally, note that no gains/losses deriving from sale and leaseback transactions, as well as income deriving from sub-leasing transactions, were recognised.

SECTION 2 - LESSOR

QUALITATIVE DISCLOSURE

Mediocredito offers finance lease contracts for companies that intend to use real estate that is in furtherance of their economic activity, without the immediate purchase of property (shops, warehouses, industrial plants and sheds, offices, hotels, etc.).
In recent years, the Bank added to this activity public leasing operations (public-private partnerships) and, in 2019, the first capital goods lease.
As lessor, the risk related to the rights that the Bank retains on the underlying assets is only managed in special cases by entering into buy-back agreements; the estimate of the residual unsecured values used in the calculation of the gross investment in the lease is reviewed periodically for contracts classified as impaired and for lease contracts of significant amount.

QUANTITATIVE DISCLOSURE

1. Disclosures on statement of financial position and income statement

Refer to:
- Part B, Assets, Section 4 - Financial assets measured at amortised cost, for disclosures on lease financing;
- Part C, Income Statement, Section 1 - Interest, for disclosures on interest income on lease financing.

2. Finance lease

2.1 Classification by time bands of payments to be received and reconciliation with lease financing recorded under assets

Time bands	2019 Lease payments to be received	2018 Lease payments to be received
Up to 1 year	11,136	9,839
From 1 to 2 years	11,482	9,902
From 2 to 3 years	10,877	10,275
From 3 to 4 years	7,776	9,614
From 4 to 5 years	6,545	6,541
Over 5 years	43,920	36,657
Total lease payments to be received	**91,736**	**82,828**
RECONCILIATION WITH FINANCING	**12,864**	**10,562**
Financial income not accrued (-) [1]	12,864	10,562
Residual unsecured value (-) [2]	-	-
Lease financing	**78,872**	**72,266**

	Gross	Adjust.	Net	Gross	Adjust.	Net
Receivables in the statement of financial position	81,152	2,280	**78,872**	75,033	2,767	**72,266**

1 In order to allow for the reconciliation between payments to be received and gross loans shown in the financial statements, "Financial income not accrued", equal to the portion of interest implicit in future lease payments net of accruals as at 31 December 2019, is shown at the value calculated using the amortised cost method.
2 The Bank has not recorded any impairment losses relating to the residual unsecured value of leased assets.

ANNEXES

ANNEXE 1
COUNTRY BY COUNTRY REPORTING

(in accordance with art. 89 of Directive no. 2013/36/EU ("CRD IV")

Reference date for information	31 December 2019
Country of establishment	Italy
Companies established	Mediocredito Trentino-Alto Adige S.p.A.
Nature of activity	Financial services to businesses Trading and sales Commercial banking services Retail banking services
Turnover (net interest and other banking income)	€ 22,532,671
Number of employees (full-time equivalent)	76.7
Profit before taxes	€ 6,167,639
Taxes on profit	€ (2,139,555)
Public contributions received	//

ANNEXE 2
FINANCIAL STATEMENTS OF THE SUBSIDIARY COMPANY PARADISIDUE S.R.L.

(prepared in abridged form under Article 2435 bis of the Civil Code)

Single-member private limited liability company
Registered office at Via Paradisi, 1 – Trento
Fully paid-up capital € 10,000.00
Registered with the Trento Register of Companies under no. 01856850225
Member company of "Gruppo Bancario Mediocredito Trentino – Alto Adige"
Under the first paragraph of Article 2497-bis, par. 1 of the Civil Code the Company is subject to the management and coordination of Mediocredito Trentino-Alto Adige S.p.A. with registered office in Trento – Via Paradisi, 1 – Tax code and Trento Register of Companies no. 00108470220 – Bank register no. 4764

- ASSETS
- EQUITY AND LIABILITIES
- GUARANTEES AND COMMITMENTS
- INCOME STATEMENT

STATEMENT OF FINANCIAL POSITION

(in Euro)

ASSETS	31/12/2019	31/12/2018
B. FIXED ASSETS		
I. Intangible assets	**-**	**-**
II. Property, plant and equipment	**3,601**	**4,621**
III. Financial assets	**-**	**-**
C. CURRENT ASSETS	**7,552,196**	**8,315,014**
I. Stocks	7,297,714	7,410,777
II. Receivables payable within one year	190,108	898,381
III. Financial assets - current assets	-	-
IV. Cash and cash equivalents	64,374	5,856
D. ACCRUED INCOME AND PREPAYMENTS	**29,265**	**15,809**
TOTAL ASSETS	**7,585,062**	**8,335,444**

EQUITY AND LIABILITIES	31/12/2019	31/12/2018
A. EQUITY	**(175,094)**	**(505,269)**
I. Share capital	10,000	10,000
II. Additional paid-in capital	-	-
III. Valuation reserve	-	-
IV. Legal reserve	1,547	1,547
V. Reserve for treasury shares	-	-
VI. Statutory reserves	-	-
VII. Other reserves	183,184	14,153
VIII. Losses carried forward	-	-
IX. Income (Loss) for the year	(369,825)	(530,969)
B. PROVISIONS FOR RISKS AND CHARGES	**-**	**-**
C. PROVISION FOR SEVERANCE INDEMNITIES	**-**	**-**
D. PAYABLES	**7,760,156**	**8,840,713**
Payables due within one year	**7,697,527**	**8,783,185**
Payables due after one year	**62,630**	**57,528**
E. ACCRUED LIABILITIES AND DEFERRED INCOME		**-**
TOTAL EQUITY AND LIABILITIES	**7,585,062**	**8,335,444**

GUARANTEES AND COMMITMENTS

(in Euro)

GUARANTEES AND COMMITMENTS	31/12/2019	31/12/2018
Personal guarantees issued/received	-	-
TOTAL GUARANTEES AND COMMITMENTS	**-**	**-**

INCOME STATEMENT

(in Euro)

INCOME STATEMENT		31/12/2019	31/12/2018
A.	**PRODUCTION VALUE**	**293,837**	**468,420**
	1) Revenues from sales and services	291,934	461,727
	2) Variation in stocks of finished goods and in work in progress	-	-
	3) Variation in stocks of contract work in progress	-	-
	4) Increases in own work capitalised	-	-
	5) Other revenues and income	1,903	6,693
B.	**PRODUCTION COSTS**	**653,191**	**988,343**
	6) Raw materials, subsidiary materials, consumables and goods	413,938	23,680
	7) Services	94,968	83,421
	8) Use of third parties' assets	-	-
	9) Staff costs	-	21,124
	10) Amortisation, depreciations and write-downs	720	420
	a) amortisation of intangible assets	-	-
	b) depreciation of property, plant and equipment	*720*	*420*
	c) write-down of receivables included under current assets and cash and cash equivalents	-	-
	11) Variation in stocks of raw materials, subsidiary materials, consumable and goods	113,062	798,546
	12) Provision for risks	-	-
	13) Other provisions	-	-
	14) Other operating charges	30,503	61,152
	DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	*(359,354)*	*(519,923)*
C.	**FINANCIAL INCOME AND CHARGES**	**(10,471)**	**(11,467)**
	15) Income from equity investments	-	-
	16) Other financial income	-	-
	17) Interest and other financial charges	10,471	11,467
D.	**VALUE ADJUSTMENTS TO FINANCIAL ASSETS**	**-**	**-**
	18) Revaluations	-	-
	19) Write-downs	-	-
E.	**EXTRAORDINARY INCOME AND CHARGES**	**-**	**-**
	20) Extraordinary income	-	-
	21) Extraordinary charges	-	-
	RESULT BEFORE TAXES	*(369,825)*	*(531,390)*
INCOME TAXES		-	(421)
	NET INCOME (LOSS) FOR THE YEAR	**(369,825)**	**(530,969)**

ANNEXE 3
GLOSSARY OF RATIOS

COST TO INCOME RATIO

$$\frac{\textit{operating costs}}{\textit{net interest and other banking income}}$$

The amount of operating costs that are used in the calculation of the ratio shown in the Report on Operations and precisely in the section "Income statement dynamics" (€10.940m) corresponds to the amount shown in item 210. of the income statement (€10.950m), augmented by the net gains on the sale of investments for €3 thousand (see item 250. of the income statement), interest expense on the payable to lessees of €3 thousand, write-backs on provisions for legal risks relating to disputes on loans of €1000 and net provisions for risks and charges for commitments and guarantees issued of €11 thousand.
Net interest and other banking income was calculated at €21.432m, equal to the value reported in the financial statements (€22.533m) net of capital gains from the sale of loans (€1.095m) and time reversal write-backs on NPLs (€1.539m).

TOTAL CAPITAL RATIO

$$\frac{\textit{own funds}}{\textit{risk-weighted assets}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" (€170.868m and €905.265m, respectively)

GROSS DOUBTFUL LOANS TO GROSS LOANS TO CUSTOMERS

$$\frac{\textit{gross doubtful loans}}{\textit{gross loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €82.000m and €1,141.569m, respectively.

NET DOUBTFUL LOANS TO NET LOANS TO CUSTOMERS

$$\frac{\textit{net doubtful loans}}{\textit{net loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €36.270m and €1,081.044m, respectively.

GROSS DOUBTFUL LOANS TO OWN FUNDS

$$\frac{\textit{gross doubtful loans}}{\textit{own funds}}$$

The amount of gross doubtful loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €82.000m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" and comes to €170.868m.

NET DOUBTFUL LOANS TO OWN FUNDS

$$\frac{\textit{net doubtful loans}}{\textit{own funds}}$$

The amount of net doubtful loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €36.270m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" and comes to €170.868m.

GROSS IMPAIRED LOANS TO GROSS LOANS TO CUSTOMERS

$$\frac{\textit{gross impaired loans}}{\textit{gross loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €113,269m and €1,141,569m, respectively.

NET IMPAIRED LOANS TO NET LOANS TO CUSTOMERS

$$\frac{\textit{net impaired loans}}{\textit{net loans}}$$

The amounts used in the calculation of the ratio are shown in the Report on Operations in the chapter on Lending operations, under section "Impaired loans" and come to €57,771m and €1,081.044m, respectively.

GROSS IMPAIRED LOANS TO OWN FUNDS

$$\frac{\textit{gross impaired loans}}{\textit{own funds}}$$

The amount of gross impaired loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €113.269m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" and comes to €170.868m.

NET IMPAIRED LOANS TO OWN FUNDS

$$\frac{\textit{net impaired loans}}{\textit{own funds}}$$

The amount of net impaired loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in the paragraph "Impaired loans" and comes to €57.771m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" and comes to €170.868m.

TEXAS RATIO

$$\frac{\textit{gross impaired loans + buildings}}{\textit{own funds + allowance for doubtful accounts (impaired loans)}}$$

The amount of gross impaired loans used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €113.269m. The amount relating to buildings is shown in the Notes to the Financial Statements, Part B, table 8.1, items 1.a (€1.950m) and 1.b (€5.601m) and table 8.2, item 1.a (€0.116m).
The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations in the paragraph "Equity and the state of affairs of the Company" and comes to €170.868m.
The amount of allowance for doubtful accounts (impaired loans) used in the calculation of the ratio is shown in the Report on Operations in the chapter on Lending operations, in section "Impaired loans" and comes to €55.498m.

PAYROLL TO NET INTEREST AND OTHER BANKING INCOME

$$\frac{\textit{payroll}}{\textit{net interest and other banking income}}$$

The amounts of payroll (€7.083m) used for the calculation of the ratio shown in the Report on Operations in section "Income statement dynamics" correspond to the amounts shown in the Income statement in item 160.a (€7.086m) net of an INAIL refund of €3 thousand booked under other administrative costs.
Net interest and other banking income was calculated at €21.432m, equal to the value reported in the financial statements (€22.533m) net of capital gains from the sale of loans (€1.095m) and time reversal write-backs on NPLs (€1.539m).

AVERAGE COST PER EMPLOYEE

$$\frac{\textit{payroll}}{\textit{average number of employees}}$$

The payroll cost, used for the calculation of the ratio shown in the Report on Operations in section "Income statement dynamics", amounted to €6.603m and is found in Table 10.1 of part "C - Information on the Income Statement" in item 1) of the notes to the financial statements.
The average number of employees (76.7) is shown in the Notes to the financial statements, part "C – Information on the Income statement", in the additional table at the end of table 10.2., and it is calculated as a weighted average taking into consideration the effective number of hours for the part-time contracts.

NET INTEREST AND OTHER BANKING INCOME TO AVERAGE NUMBER OF EMPLOYEES

Net interest and other banking income was calculated at €21.432m, equal to the value reported in the financial statements (€22.533m) net of capital gains from the sale of loans (€1.095m) and time reversal write-backs on NPLs (€1.539m). The average number of employees (76.7) is shown in the Notes to the financial statements, part "C – Information on the Income statement", in the additional table at the end of table 10.2., and it is calculated as a weighted average taking into consideration the effective number of hours for the part-time contracts.

TOTAL ASSETS TO AVERAGE NUMBER OF EMPLOYEES

$$\frac{\textit{total assets}}{\textit{average number of employees}}$$

The amount of total assets that was used for the calculation of the ratio shown in the Report on Operations in section "Income statement dynamics" comes to €1,442.164m, as shown in the financial statements.
The average number of employees (76.7) is shown in the Notes to the financial statements, part "C – Information on the Income statement", in the additional table at the end of table 10.2., and it is calculated as a weighted average taking into consideration the effective number of hours for the part-time contracts.

ROE – RETURN ON EQUITY

$$\frac{\textit{net income for the year}}{\textit{equity (excluding net income for the year)}}$$

The amount of net income for the year that was used for the calculation of the ratio is shown in the Report on operations in section "Income statement dynamics" and comes to €4.028m, as shown in item 290. of the Income Statement. Equity (excluding net income for the year) amounts to €171.138m and is the sum of items 130. "Valuation reserves", 160. "Reserves", 170. "Additional paid-in capital" and 180. "Share capital" of Statement of Financial Position liabilities.

RESOLUTION OF THE SHAREHOLDERS' MEETING

With the presence of 108,194,200 shares of 112,470,400 shares that make up the Company's share capital, the ordinary Shareholders' Meeting of 22 April 2020 unanimously

approved

- the report on operations presented by the Board of Directors for the year ended as at 31 December 2019;
- the financial statements for the year ended as at 31 December 2019 (statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the financial statements);
- the allocation of net income, taking into considerations the recommendations of the Bank of Italy.