MEDIOCREDITO
INVESTITIONSBANK
TRENTINO ALTO ADIGE SÜDTIROL

RIFUGIO
CONTO DEPOSITO

2020 ANNUAL REPORT

67TH FINANCIAL YEAR

ANNUAL REPORT AND ACCOUNTS AS AT 31 DECEMBER 2020

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

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mc@mediocredito.it

REGISTERED OFFICE AND GENERAL MANAGEMENT

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Tel. +39 0461/888511

SECONDARY HEADQUARTERS

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Tel. +39 0471/305111

BRANCHES

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Piazza delle Istituzioni 27 - 31100 Treviso
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Bologna
Via del Lavoro 53 – 40033 Casalecchio di Reno
Tel. +39 051/3390711

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Piazza Mons. Almici 23 - 25124 Brescia
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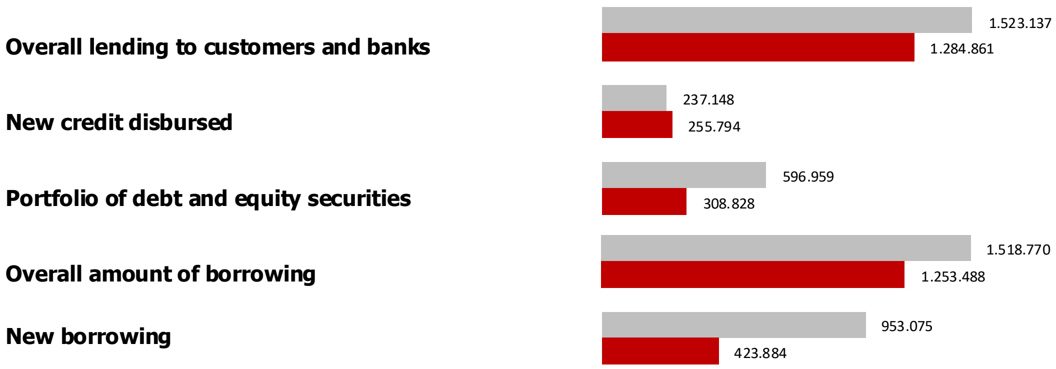
KEY RATIOS[1]

(Amounts are in thousands of Euros)

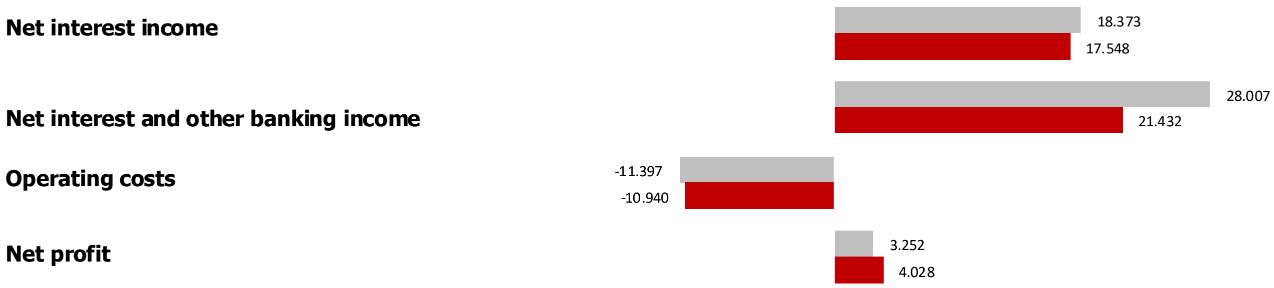
Rating

MOODY'S INVESTOR SERVICE	2020	2019
- Issuer Rating	Ba1	Ba1
- Bank Deposits	Baa3 / P-3	Baa3 / P-3
- Outlook	Negative	Stable

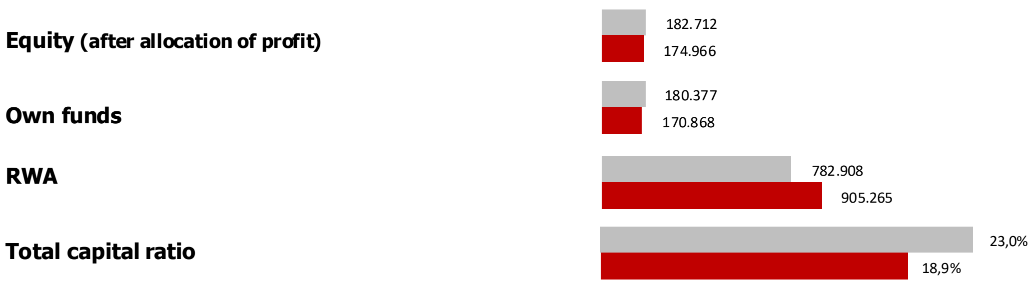
Data sheet and flow data



Reclassified income statement data

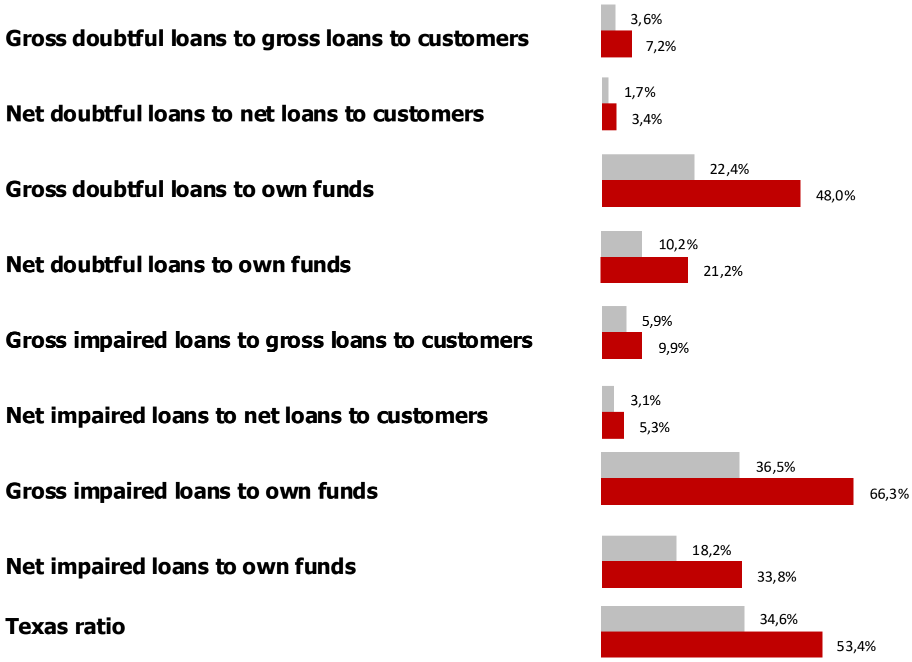


Capital and capital ratios

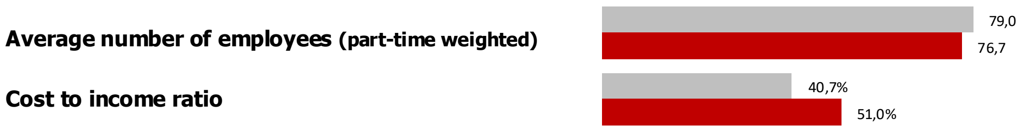


1 All the ratios in the table are explained clearly in appendix 2 "Glossary of ratios".

Risk ratios



Other ratios



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-FIN S.p.A.
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 ESOC.COOP.P.A.
0.178%	BANCA PER LO SVILUPPO DELLA COOPERAZIONE DI CREDITO S.p.A. E SOC.COOP.P.A.
0.107%	BANCA ALTO VICENTINO CREDITO COOPERATIVO DI SCHIO, PEDEMONTE E ROANA
0.078%	BANCA DEL VENETO CENTRALE CREDITO COOPERATIVO
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 DEL NORD-EST CREDITO COOPERATIVO ITALIANO
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 [2]

DIRECTORS

Hansjörg Bergmeister
Andrea Bologna
Giovanni Dies
Zenone Giacomuzzi
Hanspeter Felder [3]
Lorenzo Liviero
Giorgio Marchiodi
Stefano Mengoni
Cristina Odorizzi

BOARD OF STATUTORY AUDITORS

CHAIRMAN

Astrid Marinelli

STANDING AUDITORS

Renato Beltrami
Patrick Bergmeister

ALTERNATE AUDITOR

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.

2 Until 03.01.2021
3 Co-opted on 29 January 2021 to replace Deputy Chairman Michael Grüner.

SHAREHOLDERS' ORDINARY GENERAL MEETING

The Shareholders are requested to attend the Ordinary General Meeting on 25 April 2021 at 8.00 am for the first meeting date and if necessary on 26 April 2021 as a second option at 4.00 pm at the Company Headquarters in Trento – via Paradisi 1, to deliberate upon the following:

Agenda

1. Annual Report as at 31 December 2020; report on operations by the Board of Directors and Independent Auditors report; report by the Board of Statutory Auditors; related and following resolutions.
2. Appointment of the Chairman, the Deputy Chairman and the other members of the Board of Directors.
3. Appointment of the Chairman and the other members of the Board of Statutory Auditors.
4. Calculation of the remuneration of Directors and Statutory Auditors.
5. Internal policies regarding controls on risk activities and conflicts of interest with regard to related parties.
6. 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.

Considering the epidemiological situation currently underway, it is reasonable to believe that the Shareholders' Meeting will be held remotely, as envisaged by the By-laws, through audio-video connection. The connection methods, in this case, will be communicated through a specific disclosure.

The Chairman
Franco Senesi

REPORT ON OPERATIONS

GENERAL ECONOMIC OVERVIEW

Italian and international economic situation

According to the Bank of Italy surveys[4], the gross domestic product in Italy is estimated to be down by 9% in 2020, with a negative trend in the last quarter of the year compared to the previous one. In fact, after the robust recovery of the third quarter (+16%), a new contraction was recorded in the fourth quarter (-3.5% estimated) due to the economic effects of the new measures adopted to contain the second wave of health emergency. The figure is among the worst in the Eurozone, where the estimated annual contraction is 7.5%. The financial markets recorded a sharp decline in the first part of the year, to then generate a recovery that in any case resulted in a 5.4% drop the FTSE Mib index in 2020. The same can be said for the other indexes of the listing (FTSE Italia Mid Cap -5.8%, FTSE Italia Small Cap -4.6%, FTSE AIM Italia -6.5%). The rates on the Euro bond market remained steadily below zero for the most valuable ratings up to twenty-year maturities. The spread of 10-year Italian government bonds was 160 basis points at the beginning of 2020, temporarily reaching a peak of 300 basis points on 18 March, and closed the year at 111 basis points.
As the economic situation according to the World Bank[5], in 2020 the global economy was hit hard by the Covid-19 pandemic, as had not been seen since the Second World War. The global gross product fell by 4.3% (-7.4% in the Eurozone, -3.6% in the USA) and increased in very few areas of the globe, such as China (+2.0%) which had already suffered a significant impact in 2019. The volume of world trade fell by 9.5% in one year, while tourist flows were practically zero in April and May to then partially recover in the summer, but in any case at levels lower than 85% compared to 2019. Forecasts for 2021 indicate a partial recovery of gross product (+ 4.0%), stronger in emerging countries. The health emergency forced the States to make an unprecedented effort in public spending, also to support economic activities. The effect was a leap in public debt (+15.6% compared to global GDP) as had not been seen since the 1980s.
Focusing on the economic activity of companies, the ISTAT 2020 trend-based data on national industrial production highlight the drastic effect of the shutdown and the subsequent recovery. On a trend basis, the sectors of economic activity that experienced the greatest increases are the manufacture of electrical equipment (+5.9%), the manufacture of rubber and plastic materials (+2.9%) and the manufacture of equipment transport (+2.3%). The largest decreases were recorded in the textile, clothing, leather and accessories industries (-26.7%), in the manufacture of coke and refined petroleum products (-18.3%) and in the manufacture of basic pharmaceutical products and preparations (- 8.2%). The balance of trade, on the other hand, held steady, with exports increasing more than imports, both to the European Union and to the rest of the world. The sectors that contribute most to the increase in exports include basic metals and metal products, excluding machines and plants (+15.3%) and motor vehicles (+26.9%). The countries that contributed most to the good performance were Germany (+8.6%), China (+34.9%) and Switzerland (+12.8%).

Trends in credit, mini-bonds and AIM Italia

In 2019, the level of financial debt of SMEs was slightly up compared to margins (from 3.1 to 3.2 times). According to Cerved's estimates, the collapse of margins and the increase in debt in 2020 should cause a jump in this ratio (to 4.5 times)[6]. This context represents a significant stress test for SMEs, which on the one hand are called to manage the drop in margins and the consequent liquidity crisis and on the other to ensure the solvency of the existing debt.
To support SMEs, a set of measures have been taken by the State with the aim of stemming the liquidity crisis and facilitating access to credit. The interventions range from the moratorium on loans to the strengthening of public guarantees, the Cura Italia Decree (Law Decree 18/2020), the Liquidity Decree (Law Decree 23/2020) and the SACE Garanzia Italia in particular.
Also thanks to these interventions, it is interesting to see from the 2020 data how the stock of bank loans to non-financial corporations has returned to grow considerably, again reaching almost €700b[7]. In the last 12

4 Bank of Italy, Economic Bulletin 1/2021
5 Global Economic Prospects, January 2021
6 2020 Cerved SME Report
7 Bank of Italy, Economic Bulletin.

months surveyed, the value grew by 8.1%, with a peak of 13.7% for manufacturing companies. The flow to companies in the construction sector began to grow again.
Analysts tried to predict what the impacts of the scenario described could be in terms of deterioration of the default risk, especially when the future public support will begin to cease and the moratorium on loans will end. According to Cerved analysts, the long capital strengthening phase of SMEs was interrupted due to the pandemic and the number of SMEs "at risk" could almost double, from 8.4% to 16.3% of the total. The entire distribution will move towards the riskier classes, with the number of "safe" SMEs that could halve within a year. The increase in risk will be asymmetrical, focusing on the industry, services and construction sectors, while it will only marginally increase in energy, utilities and agricultural companies.

With regard to the minibond market[8], in 2020, there were 176 issuers of bonds of up to €50m denomination throughout Italy, of which 131 entered the market for the first time, down slightly from 2019. In 2020 the issuers were 61.4% SpA, 36.4% Srl (this type is increasing considerably) and 2.3% cooperative companies.
The volume of revenues of issuing companies is always highly variable: as many as 56 (28.9%) invoiced less than €10m before placement. With regard to the business sector, the manufacturing sector is in the lead (33.0% of the 2020 sample) but trade and professional activities (both to 9.8%) and construction (8.8%) are up.
The average value of the issues is €4.59m. With regard to maturity, the average value is 5.47 years (up compared to 2019). 61.0% of the securities are to be repaid in successive instalments (amortising). In 2020, remuneration fell again (the average was 3.61% compared to 4.34% in the previous year), also thanks to numerous issues that envisage public guarantees (Guarantee Fund and the SACE Garanzia Italia). As regards the investors that subscribed to the minibonds, Italian banks played an important role (subscribing 41% of volumes), followed by private debt funds (20%), which partly deviated on direct lending transactions. Foreign funds and banks contribute 15%; the role of Cassa Depositi e Prestiti (12%) was also important.
After a record-breaking 2019 for the AIM Italia market, 2020 started on quietly[9]. According to the data processed by the AIM Observatory of IR Top Consulting, in 2020 there were 23 new listings on the market dedicated to the growth of SMEs compared to the record of 2020 (35 listings). In the first half of the year, due to the Covid-19 emergency, IPOs on AIM slowed down, with a trend reversal starting from August, recalling 18 new IPOs and 2 admissions. The average denomination of AIM transactions in 2020 reached €6.5m in capital raising, exceeding the IPO figure of 2019 (€5.9m) with a company size of €21m in terms of average turnover and €24m in terms of IPO capitalisation. The regions that contributed most to the new placements include Lombardy with 38%, Lazio with 33%, Emilia-Romagna and Piedmont with 10%, respectively. 2020 saw the birth of the new AIM Professional segment, dedicated to *startups* and *scaleups,* which now includes 3 new companies.

8 7th Italian Report on minibonds – Mini-Bond Observatory Politecnico of Milan – Feb 2021.
9 AIM Italia Observatory – IR TOP Consulting – Jan 2020.

THE BANK IN 2020

As is known, the bank's operations and management performance in 2020 were influenced by the spread of the Covid-19 pandemic that - starting from the second quarter of the year - had heavy health repercussions, a generalised collapse of GDP and negative prospects for the global economy, with effects on the stability of financial markets.
In this extraordinary phase, Mediocredito supported the liquidity needs of SMEs, in addition to the normal disbursement of new credit, also through extensive and widespread moratoria and suspensions of instalments for a total of €55m, which involved approximately 700 loans, partly the result of laws or national and provincial trade agreements.
The credit granted, after slowing down at the same time as the decline in business confidence and the consequent reduction in demand for investments in the first part of the year, resumed at a good pace with the easing of the *lockdown* at the end of the second quarter, thanks also to the concurrent national and provincial maneuvers aimed at injecting liquidity into the real economy through the guarantees of the Central Fund and Confidi. A total of €246m was awarded to customers, compared to €285m in 2019, while there was an increase in the number of transactions granted (293 against 281 in the previous year), with a relative reduction in the average amount approved (from €1m in 2019 to €839 thousand in the current year); therefore, the already high and traditional risk selection and spreading policy improved.
That said, the volumes of new credit disbursed exceeded €237m, with a negative deviation from the development objectives indicated in the 2020-2022 business plan - adopted by the Bank in January 2020 - of only 15% and containing the decrease compared to the final figures for 2019 by 7% only.
The total stock of performing loans to customers did not suffer particular negative impacts, also due to the effect of the moratorium activity and the limited phenomenon of early repayment: these loans increased by 1.2% compared to the figure at the end of 2019, remaining firmly above €1b net.
The portfolio of non-performing loans recorded a further significant improvement, compared to 31 December 2019, both in gross (-41.8%) and net (-43.3%) relative terms, reaching an incidence of 5.9% on the total of gross receivables and 3.1% of total net receivables.
Worthy of mention is the constant return to riskiness for the portfolio, which, after the peak of 2015, which had recorded a gross incidence of NPLs of 18.7%, saw a constant reduction in the following years: 16.8% in 2016, 13.9% in 2017, 11.8% in 2018 and 9.9% in 2019.
The significant reduction in non-performing loans, recorded in 2020, was also due to the participation in the multi-originator securitisation transaction backed by GACS guarantee for around €21m; however, it should be emphasised that the significant and constant slowdown in the flow of new non-performing loans from performing loans (amounting to only €2.5m), also for the current year supported the process of constant risk reduction, together with the essential internal activity of recovery and enhancement of impaired exposures.
The degree of coverage of the impaired portfolio, thanks to significant provisions adopted to deal with the potential effects of the pandemic on the resilience of the economic fabric, is also confirmed to be in line with expectations and is strengthening (50.3%) compared to the end of 2019 (49.0%). Also in this case it recorded constant improvements from the level of 2015, when it stood at 34.6%.
In terms of liabilities, the bank managed the coverage of financial requirements through the renewal of TLTRO transactions for €472m, bond issues of €150m subscribed by the Raiffeisen system of South Tyrol, deposits of Credito Cooperativo Trentino for €133m, loans from Cassa Depositi e Prestiti for €31m, EIB disbursements for €40m and the opening of deposits from corporate and retail customers for €129m, of which €34m collected through the on-line product "Conto Rifugio".
"Conto Rifugio", launched at the beginning of 2020, has a particular strategic significance and, in line with the policies of diversification and structural positioning of the sources, is contributing - also thanks to an attractive remuneration profile and a targeted and effective advertising campaign - to consolidating the maturity profile of liabilities also with reference to the stable compliance with liquidity indicators. In this regard, the Bank further strengthened the volumes in the portfolio of Italian Government bonds, especially in the second and third quarters with simultaneous extension of maturities, and of credit assets that can be allocated, which make it possible to maintain adequate reserves to guarantee refinancing with the Central Bank.
From an economic point of view, the interest margin was strengthened compared to the previous year (+4.7%), mainly linked to the increase in the volume and profitability of the securities portfolio combined with the expansion of ECB refinancing at best rates. Comprehensive income remains affected, as for the entire banking system, by the persistent maintenance of very low rate benchmarks and the competitive pressure on the spreads applied to the best customer counterparties, as well as by the difficulty of triggering a solid growth in the average balances of the loan portfolio.

The operating margin (+6.5%) benefited from the development of income from equity investments, mainly blue chip, and equity investments (+€1m compared to 2019), which offset the contingent decrease in commission revenues linked to the slowdown of the core business.
Net interest and other banking income (+30.7%) also benefited from the significant revenues from securities trading compared to the previous year (overall +€6.2m), realised following the significant recovery of the price of government securities in the portfolio.
Thanks to the factors described above, the gross operating result reached €16.6m, up 58% compared to the final figures for 2019, despite the relative increase in operating costs, mainly due to higher advertising expenses for the launch of retail funding. The higher margin made it possible to cover the prudent policy of growth in value adjustments, also aimed at further strengthening the collective provisions for credit risk on performing positions influenced by the changed recessionary macroeconomic scenario.
In any event, given the above, the Bank managed to achieve a pre-tax profit of €4.5m and a net profit of €3.2m.
The efficiency indicator - cost to income - improved considerably as a result of the performance of the overall margins, standing at 40.7% compared to 51.0% in 2019, however confirming the level of excellence with respect to the system.
In terms of capital, the process of strengthening the Tier1 and Total Capital Ratio solidity indicators continues, with them exceeding 23% thanks to the increase in own funds as well as the simultaneous decrease in the riskiness of risk-weighted assets (RWA). The Texas Ratio fell sharply and effectively to 34.6% compared to 53.4% recorded in December 2019.
From an operational and organisational point of view, the architectural innovation processes of the IT systems were completed with the migration of the banking management software to the Allitude platform. At the same time and with great commitment on the part of the ICT structure, all the Bank's personnel were placed in a position to work in *"smart working"* mode: from this structure, the Bank will undoubtedly benefit - in the future and after the emergency in progress - to refine its characteristics of flexibility, modernity and organisational efficiency.

In this context of clear improvement in all significant internal indicators, the Bank - albeit aware of the difficulties of the economy and of the uncertainty over the prospect of the effects of the extended moratoria ceasing - will be able to continue along the path of strengthening its strategic positioning on the corporate credit market and on the financial markets, already benefiting from the actions aimed at diversifying the sources of liquidity and the income opportunities with the intention, in any case, to further contain the liquidity risk, improve the stability of funding and, last but not least, improve economic dynamics.

BUSINESS REVIEW

LENDING OPERATIONS

Outline of lending operations (thousands of Euros)

Surveyed activities		2020	2019	% Chg.
credit granted	number	293	283	+3.4
	amount	245,692	288,125	-14.7
credit disbursed	amount	237,148	255,794	-7.3
		31 Dec 2020	**31 Dec 2019**	**% Chg.**
Total lending		1,090,277	1,102,851	-1.1
	- loans and advances to banks	21,643	21,807	-0.8
	- loans and advances to customers[10]	1,068,634	1,081,044	-1.1
	impaired	*32,760*	*57,771*	*-43.3*
	performing	*1,035,873*	*1,023,273*	*+1.2*

Credit granted

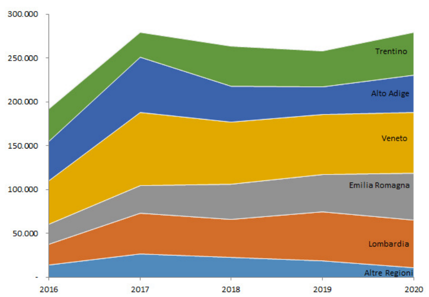
The granting of credit in 2020 was hit by the negative effects on the economy induced by the Covid-19 pandemic crisis, standing at €245.7m in terms of volumes, down 15% compared to 2019. The number of customers with credit lines increased by 3.4%, bringing the average amount approved from €1.0m to €0.9m. In particular, as part of the actions to combat the pandemic and support businesses, loans totalling €99.5m were granted pursuant to art. 13, paragraph 1 of the "Cura Italia" Decree or the "Ripresa Trentino" and "Alto Adige Riparte" protocols.

Most of the credit lines are concentrated in Veneto (32.1%), as the only area to record an increase compared to 2019 (+€10m; +14.0%); followed by Trentino-South Tyrol with 30.5%, Emilia Romagna (20.2%), Lombardy (13.0%) and, finally, the Other Regions with a residual 4.3%.
Trentino-South Tyrol saw a substantial stability of concessions in the province of Trento (+1%) while in the South Tyrol area there was a decrease of 40%. Moving on to the other areas, in Emilia Romagna the decrease was equal to €4.0m (-7.5%) while Lombardy and the other regions both recorded a decrease of around 40% (-€22.8m and -€8.5m, respectively).

Breakdown of credit granted by area (thousands of Euros)

	2020	%	2019	%	Chg.	% Chg.
Trentino	49,306	20.1	48,807	16.9	+499	+1.0
South Tyrol	25,438	10.4	42,655	14.8	-17,217	-40.4
Veneto	78,911	32.1	69,245	24.0	+9,666	+14.0
Emilia Romagna	49,515	20.2	53,530	18.6	-4,015	-7.5
Lombardy	32,061	13.0	54,908	19.1	-22,847	-41.6
Other Regions	10,462	4.3	18,980	6.6	-8,518	-44.9
Total	**245,692**	**100.0**	**288,125**	**100.0**	**-42,433**	**-14.7**

Trend in credit granted by area 2016-2020



As part of the disbursements of loans to non-financial corporations (down €41m; -15.1%), there were

10 The data include receivables for *cash reserves* relating to securitisations and/or self-securitisations that did not pass the SPPI test and that, therefore, are shown under item 20.c of the financial statement assets (€1.3m in 2020 and €11.4m in 2019)..

decreases in all business segments, particularly in the tourism and transport areas; the other services sector was an exception (+9.1m, +43%), while the construction sector, together with real estate activities, was substantially stable. The exposures and trends towards the financial and public sectors are less significant.

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

	2020	%	2019	%	Chg.	% Chg.
Non-financial corporations	**230,883**	**94.0**	**272,045**	**94.4**	**-41,162**	**-15.1**
Manufacturing	105,226	42.8	110,881	38.5	-5,655	-5.1
Market services	33,051	13.5	35,874	12.5	-2,824	-7.9
Other services	30,247	12.3	21,185	7.4	+9,062	+42.8
Energy	24,460	10.0	33,655	11.7	-9,195	-27.3
Hospitality	12,205	5.0	25,280	8.8	-13,075	-51.7
Building industry	11,905	4.8	4,880	1.7	+7,026	+144.0
Transport services	7,702	3.1	25,345	8.8	-17,643	-69.6
Real Estate	3,120	1.3	12,095	4.2	-8,975	-74.2
Agriculture	2,967	1.2	2,850	1.0	+117	+4.1
Government Agencies, families and others	**13,512**	**5.5**	**12,280**	**4.3**	**+1,232**	**+10.0**
Financial corporations and banks	**1,297**	**0.5**	**3,800**	**1.3**	**-2,503**	**-65.9**
Total	**245,692**	**100.0**	**288,125**	**100.0**	**-42,433**	**-14.7**

Credit disbursed

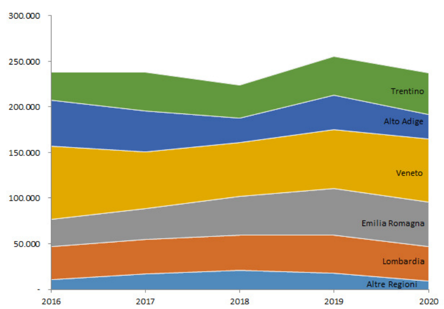
The Covid-19 pandemic also affected disbursements, which in 2020 recorded a limited decrease in volumes (-€18.6m; -7.3%); the total amount of €237.1m also includes €95.2m of disbursements pursuant to art. 13, paragraph 1 of the "Cura Italia" Decree or the "Ripresa Trentino" and "Alto Adige Riparte" Protocols.

The decrease is particularly evident in South Tyrol (-€11.1m; -29.2%) and in the other regions (-€8.3m; -46.9%); Emilia Romagna and Lombardy also recorded decreases, while disbursements increased in Trentino (+€2.6m; +6.2%) and in Veneto (+€4.8m; +7.4%).

Breakdown of credit disbursed by area (thousands of Euros)

	2020	%	2019	%	Chg.	% Chg.
Trentino	45,165	19.0	42,545	16.6	+2,621	+6.2
South Tyrol	27,097	11.4	38,246	15.0	-11,149	-29.2
Veneto	69,280	29.2	64,477	25.2	+4,803	+7.4
Emilia Romagna	49,090	20.7	50,902	19.9	-1,812	-3.6
Lombardy	37,117	15.7	41,918	16.4	-4,801	-11.5
Other Regions	9,399	4.0	17,706	6.9	-8,307	-46.9
Total	**237,148**	**100.0**	**255,794**	**100.0**	**-18,646**	**-7.3**

Trend in credit disbursed by area 2016-2020



With regard to the distribution of disbursements by counterparty and economic sector, compared to what was seen for credit lines, the considerable increase in the other services sectors (+€5.0m; +21.6%) and in the trade (+€6.0m; +22.6%) and the significant reduction in operations compared to the tourism and transport sectors (-€21m overall) were confirmed.

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

	2020	%	2019	%	Chg.	% Chg.
Non-financial corporations	**232,602**	**98.1**	**245,969**	**96.2**	**-13,367**	**-5.4**
Manufacturing	104,483	44.1	105,653	41.3	-1,170	-1.1
Market services	32,324	13.6	26,363	10.3	+5,961	+22.6
Other services	28,271	11.9	23,245	9.1	+5,026	+21.6
Energy	23,733	10.0	27,350	10.7	-3,617	-13.2
Building industry	13,148	5.5	5,620	2.2	+7,528	+133.9
Hospitality	12,539	5.3	23,526	9.2	-10,987	-46.7
Transport services	10,077	4.2	20,373	8.0	-10,296	-50.5
Agriculture	4,597	1.9	2,983	1.2	+1,614	+54.1
Real Estate	3,430	1.4	10,856	4.2	-7,426	-68.4
Government Agencies, families and others	**2,235**	**0.9**	**5,021**	**2.0**	**-2,786**	**-55.5**
Financial corporations and banks	**2,310**	**1.0**	**4,804**	**1.9**	**-2,493**	**-51.9**
Total	**237,148**	**100.0**	**255,794**	**100.0**	**-18,647**	**-7.3**

Synergy with co-operative credit

Operations recorded a decrease: 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 10.1% of the total compared to 20.9% of 2019.

Minibonds

In 2020 the subscription of minibonds issued by companies was in line with the previous year (€10.2m in both years) and involved 9 bonds (9 also in 2019); for 3 of these, in particular, the Bank also acted as *arranger* and *advisor*, subscribing the entire amount issued.

Performing loans[11]

Typical performing loans to customers grew compared to 2019 (+4.5%), exceeding €1b again. Increases of more than 10% were recorded in Lombardy (+€16.4m; +12.1%), Emilia Romagna (+€13.6m; +11.3%) and Veneto (+€22.9m; +10.0%) while in Trentino they increased to a lesser extent (+€10.0m; +4.5%). Also with regard to the stocks trend, decreases were recorded in South Tyrol (-€14.3m; -6.6%) and in the Other Regions (-€4.2m; -5.6%).

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

	31 Dec 2020	%	31 Dec 2019	%	Chg.	% Chg.
Trentino	230,324	22.1	220,366	22.1	+9,958	+4.5
South Tyrol	202,680	19.5	216,955	21.8	-14,275	-6.6
Veneto	251,166	24.1	228,299	22.9	+22,867	+10.0
Emilia Romagna	134,238	12.9	120,598	12.1	+13,640	+11.3
Lombardy	151,565	14.6	135,212	13.6	+16,353	+12.1
Other Regions	70,140	6.7	74,335	7.5	-4,195	-5.6
Total typical loans and advances	**1,040,113**	**100.0**	**995,765**	**100.0**	**+44,348**	**+4.5**
Receivables from SPV securitisations	*5,496*		*32,534*		*-27,038*	*-83.1*
Total performing loans and advances	**1,045,608**		**1,028,300**		**+17,309**	**+1.7**

11 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.

The steady balances, in the presence of more limited disbursements of new loans, is also linked to the important support measures through "moratoria", which involved approximately €55m instalments falling due. Overall, it should be noted that 41.6% of the performing loans portfolio remains allocated to investments in Trentino - South Tyrol.

Loans and advances to non-financial corporations came close to €940m against €886m at the end of 2019: the increase was focused particularly on the manufacturing (+€24.1m; +7.9%), transport (+€14.2m; +24.1%), trade (+€13.2m; +16.0%) and constructions (+€8.7m; +37.0%) sectors. On the other hand, the agricultural sector fell by around 10% (-€4.7m).

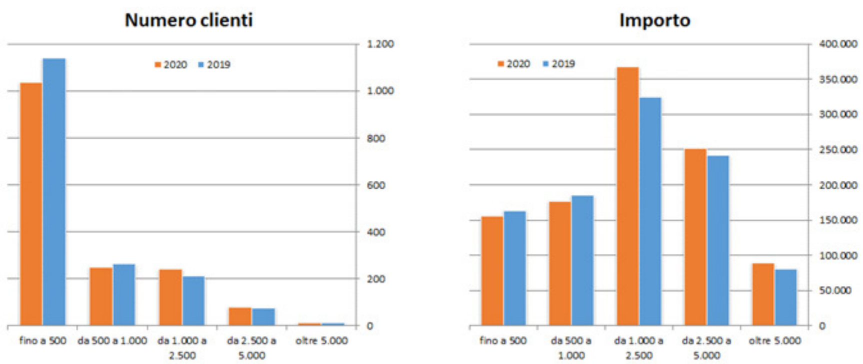
Typical performing loans and advances by counterparty and economic sector (thousands of Euro)

	31 Dec 2020	%	31 Dec 2019	%	Chg.	% Chg.
Non-financial corporations	**939,748**	**90.4**	**886,151**	**89.0**	**+53,597**	**+6.0**
Manufacturing	330,218	31.7	306,120	30.7	+24,098	+7.9
Energy	127,121	12.2	127,035	12.8	+86	+0.1
Real Estate	86,793	8.3	90,150	9.1	-3,357	-3.7
Market services	95,393	9.2	82,206	8.3	+13,187	+16.0
Hospitality	86,613	8.3	81,534	8.2	+5,079	+6.2
Transport services	72,949	7.0	69,198	6.9	+14,186	+24.1
Other services	65,484	6.3	58,763	5.9	-3,714	-5.4
Agriculture	43,008	4.1	47,668	4.8	-4,660	-9.8
Building industry	32,169	3.1	23,477	2.4	+8,692	+37.0
Government Agencies, families and others	**69,086**	**6.6**	**80,807**	**8.1**	**-11,721**	**-14.5**
Financial corporations and banks	**31,279**	**3.0**	**28,807**	**2.9**	**+2,472**	**+8.6**
Total	**1,040,113**	**100.0**	**995,765**	**100.0**	**+44,347**	**+4.5**

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	1,037	156,234	64.0	15.0	150.7
from 500 to 1,000	248	176,142	15.3	16.9	710.2
from 1,000 to 2,500	242	367,152	14.9	35.3	1,517.2
from 2,500 to 5,000	79	252,006	4.9	24.2	3,190.0
above 5,000	14	88,579	0.9	8.5	6,327.1
Total	**1,620**	**1,040,113**	**100.00**	**100.00**	**642.0**

Distribution by loan amount – comparison 2020/2019 by number and amount



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

- The overall amount of transactions with borrowers, with an overall exposure exceeding €2.5m was equal to 32.7% of the total, up slightly against the end of 2019 (32.4%);
- the average amount for performing loans and advances increased (from €585 thousand to €642 thousand);
- the incidence on the total of the loans for the top transaction was stable (0.8%) as well as the top 20 transactions (8.8%) whereas that of the top 100 fell slightly (from 28.7% to 28.2%).

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

	Dec 2020	%	Dec 2019	%
Top transaction	7,954	0.8	7,573	0.8
Top 20 transactions	91,325	8.8	87,727	8.8
Top 100 transactions	292,790	28.2	285,465	28.7

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

- overall exposure to the top borrower is marginally decreasing (from 0.9% to 0.8%);
- overall exposure to the top 20 borrowers fell (from 11.8% to 11.3%), and so did the exposure to the top 100 borrowers (from 35.5% to 34.4%);
- overall exposure to the top group of borrowers dropped from 1.5% to 1.3%; the top 20 groups equalled 13.9% of the total (14.7% at the end of 2019) and the top 100 groups came to 38.8% (39.5% at the end of 2019).

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

	Dec 2020	%	Dec 2019	%
Top borrower	8,083	0.8	9,209	0.9
Top 20 borrowers	117,054	11.3	117,819	11.8
Top 100 borrowers	357,608	34.4	353,295	35.5

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

	Dec 2020	%	Dec 2019	%
Top group of borrowers	13,173	1.3	14,511	1.5
Top 20 groups of borrowers	144,467	13.9	146,789	14.7
Top 100 groups of borrowers	403,327	38.8	393,470	39.5

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 2020:

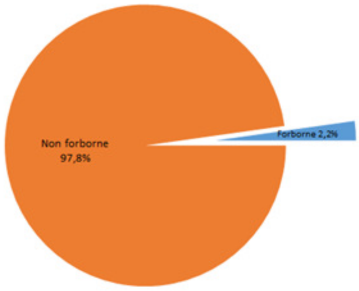
	Dec 2020		Dec 2019	
Counterparty	**Nominal**	**Weighted**	**Nominal**	**Weighted**
Governments	501,980	-	231,528	-
Banks	37,923	37,923	36,923	36,923
Ordinary customers	-	-	-	-
Total	**539,903**	**37,923**	**268,451**	**36,923**

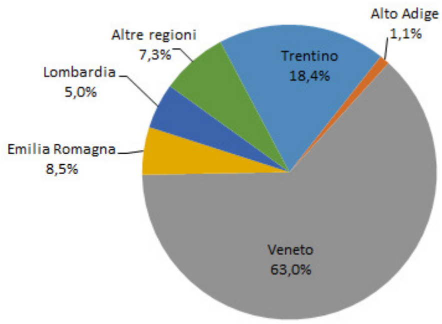
Exposures to Governments refer for the entire amount to securities eligible for refinancing with the European Central Bank. The Bank has no large exposures to ordinary customers.

Performing loans subject to forbearance measures – "Forborne"

Performing loans subject to forbearance measures amounted to €23.0m, equal to 2.2% of the total, and are mainly concentrated in Veneto (63.0%) and in the province of Trento (18.4%). The Bank's other areas of business each account for 1.1% to 8.5% of loan subject to forbearance measures.

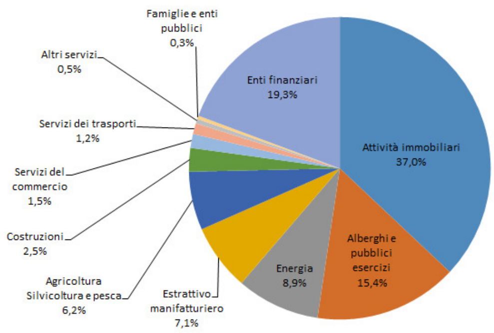
Performing loans subject to forbearance measures (forborne) by geographical area



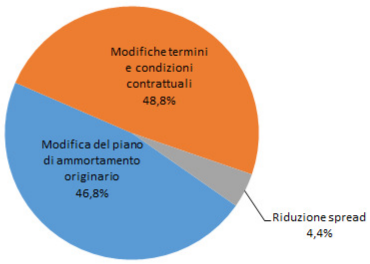


Performing loans subject to forbearance measures (forborne) by counterparty and economic sector

At sector level, 37% of forbearance measures benefited real estate companies, while the financial institutions (19.3%), the hospitality (15.4%), energy (8.9%) and mining/manufacturing (7.1%) sectors were less favoured. All other sectors include forborne loans in lower percentages.



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



Depending on the type of forbearance measure, 48.8% of loans benefited from the change in some contractual terms and/or conditions, 46.8% from an amendment in the original amortisation plan and 4.4% from a reduction in the spread.

Impaired loans

The amount of gross impaired loans was down compared to the end of 2019 (-€47.4m); in detail, the doubtful loan portfolio decreased by €41.5m (-50.6%), of which €21.1m for the securitisation transaction with GACS, unlikely to pay decreased by €5.2m (-17.2%) and overdue / past due receivables more than halved.
The following tables show the situation of impaired loans and a comparison with 31 December 2019.

Loans and advances to customers (thousands of Euro)

Dec 2020	Gross exposure	Overall adjustments	Net exposure	% gross loans	% net loans	% coverage
Impaired loans	**65,897**	**33,137**	**32,760**	***5.9***	***3.1***	**50.3**
- doubtful	40,491	22,059	18,433	*3.6*	*1.7*	54.5
- unlikely to pay	25,002	11,048	13,954	*2.2*	*1.3*	44.2
- past due	403	30	373	*0.0*	*0.0*	7.5
Performing loans[12]	**1,045,608**	**9,735**	**1,035,873**	***94.1***	***96.9***	**0.9**
Total loans	**1,111,506**	**42,872**	**1,068,634**	***100.0***	***100.0***	**3.9**

Dec 2019	Gross exposure	Overall 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[12]	**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**

% change 2020/2019	Gross exposure	Overall adjustments	Net exposure
Impaired loans	**-41.8**	**-40.3**	**-43.3**
- doubtful	-50.6	-51.8	-49.2
- unlikely to pay	-17.2	+14.0	-32.0
- past due	-62.0	-59.6	-62.2
Performing loans	**+1.7**	**+93.7**	**+1.2**
Total loans	**-2.6**	**-29.2**	**-1.1**

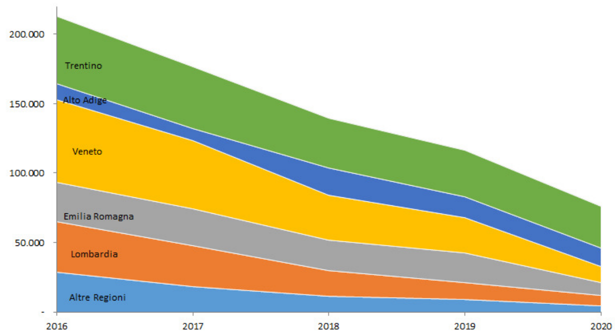
The situation illustrated above, also given the simultaneous decrease in total gross loans and advances to customers (-2.6%) shows a further drop in the incidence of impaired loans on the total loan portfolio (from 9.9% in December 2019 to the current 5.9%).
The figure net of value adjustments also decreased from 5.3% to 3.1%, while the degree of coverage of the overall portfolio was further strengthened (from 49.0% to 50.3%): in particular, the coverage of the unlikely to pay rose from 32.1% to 44.2%, that of doubtful loans from 55.8% to 54.5% and that of impaired past due exposures from 7.0% to 7.5%.
As a result of the worsening of the risk implicit in the performing portfolio (stages 1 and 2) - following the implementation of the economic scenario consequently to the pandemic - the coverage of these loans also fell from 0.5% to 0.9%, strengthening in terms of total amounts of around €5m (+93.7%).

12 The data include receivables for cash reserves relating to securitisations that did not pass the SPPI test and that are shown under item 20.c of assets for €1.3m in 2020 and €11.4m in 2019.

Gross impaired loans by area (thousands of Euros)

	31 Dec 2020	%	31 Dec 2019	%	Chg.	% Chg.
Trentino	20,042	30.4	30,066	26.5	-10,024	-33.3
South Tyrol	13,248	20.1	15,066	13.3	-1,818	-12.1
Veneto	11,558	17.5	25,668	22.7	-14,109	-55.0
Emilia Romagna	9,276	14.1	21,018	18.6	-11,741	-55.9
Lombardy	7,082	10.7	12,662	11.2	-5,581	-44.1
Other Regions	4,691	7.1	8,790	7.8	-4,099	-46.6
Total impaired loans	**65,897**	**100.0**	**113,269**	**100.0**	**-47,372**	**-41.8**

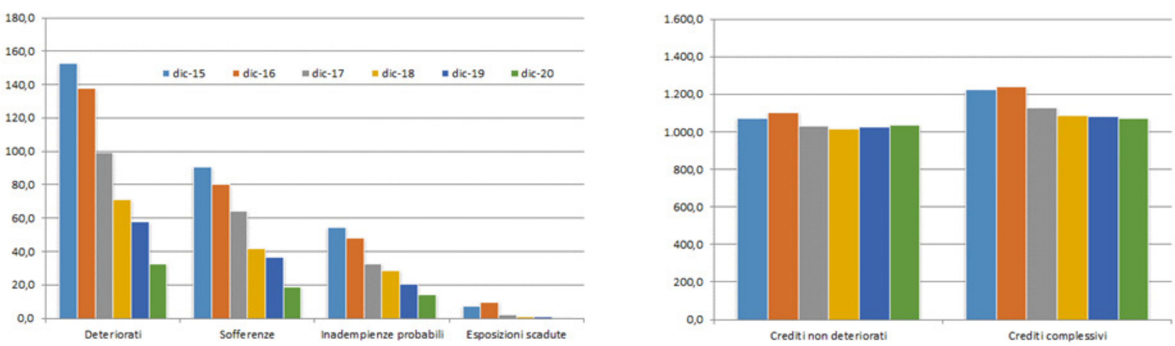
Trend in gross impaired loans by area 2016-2020



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

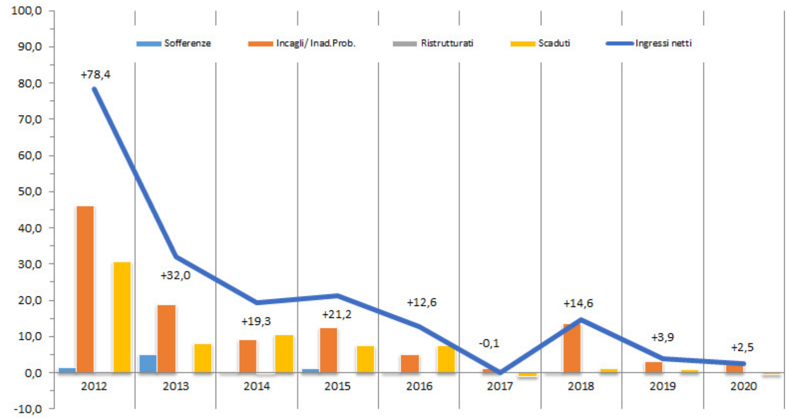
	31 Dec 2020	%	31 Dec 2019	%	Chg.	% Chg.
Non-financial corporations	**55,430**	**84.1**	**100,591**	**88.8**	**-45,161**	**-44.9**
Building industry	14,930	22.7	24,863	22.0	-9,934	-40.0
Manufacturing	11,131	16.9	25,084	22.1	-13,953	-55.6
Real Estate	11,013	16.7	24,717	21.8	-13,704	-55.4
Agriculture	6,134	9.3	7,069	6.2	-934	-13.2
Hospitality	5,885	8.9	9,216	8.1	-3,331	-36.1
Transport services	3,857	5.9	3,971	3.5	-114	-2.9
Market services	1,407	2.1	1,483	1.3	-76	-5.1
Other services	1,073	1.6	1,661	1.5	-588	-35.4
Energy	0	0.0	2,527	2.2	-2,527	-100.0
Government Agencies, families and others	**989**	**1.5**	**10,465**	**9.2**	**-9,475**	**-90.5**
Financial corporations and banks	**9,478**	**14.4**	**2,213**	**2.0**	**+7,264**	**+328.1**
Total	**65,897**	**100.0**	**113,269**	**100.0**	**-47,372**	**-41.8**

Trend in net loans (millions of Euro)

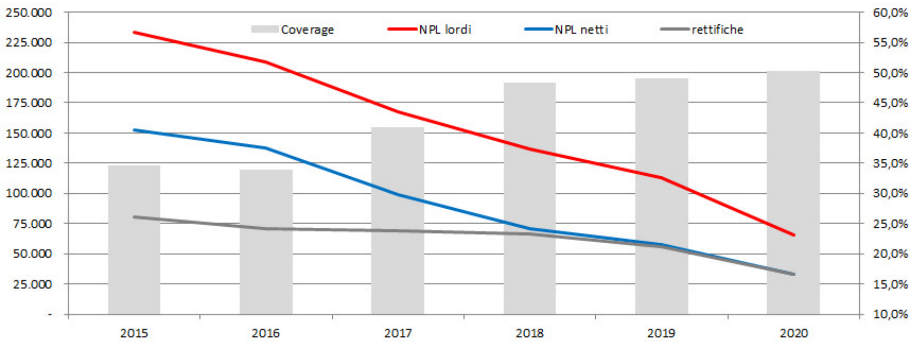


The net flow of new impaired loans (transfers in net of transfers out to "performing" loans) shows negative amounts of €0,5m for impaired past due loans, while there is a flow of new unlikely to pay of €3.0m; there are no flows to doubtful loans.

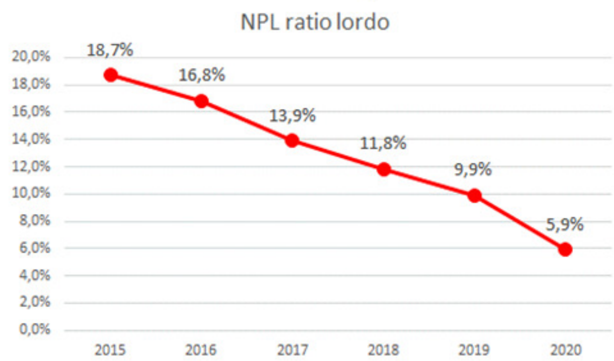
Net flow of new impaired loans coming from performing loans (millions of Euro)



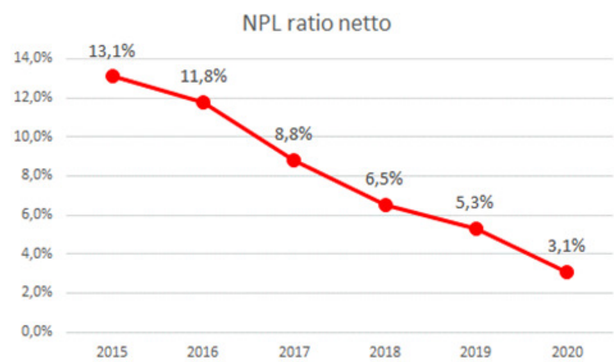
Gross and net NPLs, adjustments and coverage: 2015-2020 performance



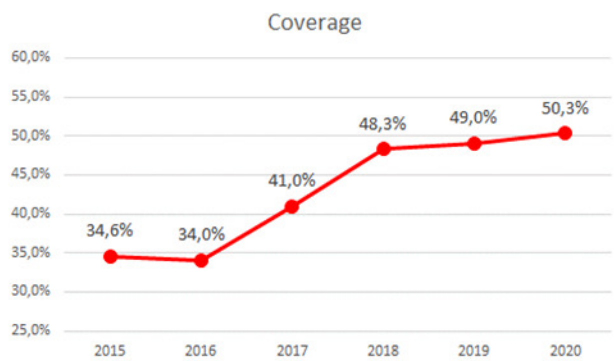
Gross NPL ratio: 2015-2020 performance



Net NPL ratio: 2015-2020 performance



NPL coverage ratio: 2015-2020 performance

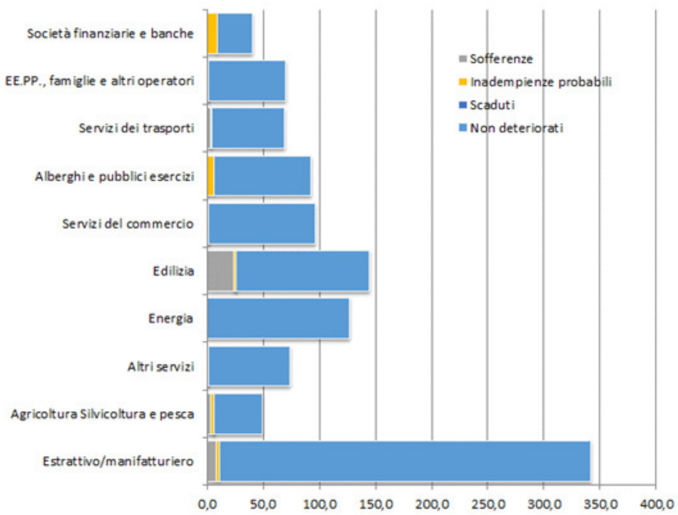


At sector level, the incidence of impaired loans on the total typical loans and advances portfolio is particularly relevant in sectors related to construction: 32% of loans to construction companies are impaired and approximately 11% of those to real estate businesses; however, the latter show an improvement compared to the figure of the previous year (21%). Approximately 5.6% of loans to companies operating in the manufacturing industry are also impaired (7.6% at the end of 2019).

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

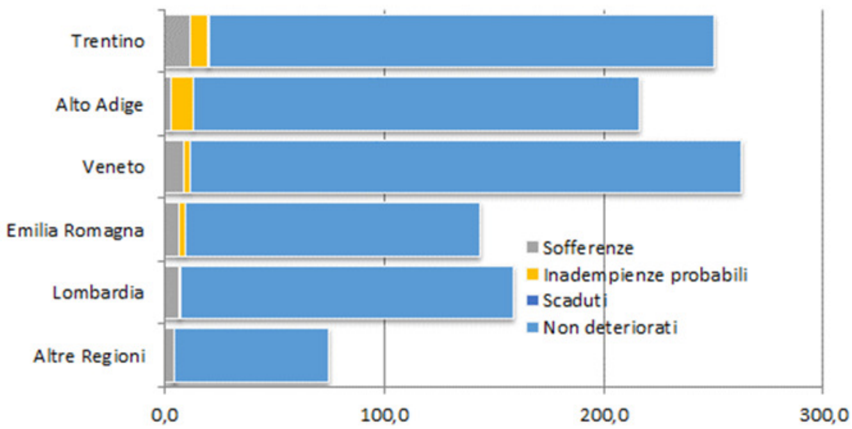
	Doubtful loans	Unlikely to pay	Past due	Total
Non-financial corporations	**4.0**	**1.5**	**0.0**	**5.6**
Manufacturing	2.4	0.9	0.0	**3.3**
Agriculture	6.9	5.4	0.3	**12.5**
Other services	0.5	0.9	0.0	**1.4**
Energy	0.0	0.0	0.0	**0.0**
Real Estate	10.7	0.4	0.2	**11.3**
Building industry	27.2	4.3	0.2	**31.7**
Market services	0.8	0.6	0.0	**1.5**
Hospitality	0.6	5.8	0.0	**6.4**
Transport services	4.8	0.8	0.0	**5.6**
Government Agencies, families and others	**1.0**	**0.4**	**0.0**	**1.4**
Financial corporations and banks	**0.0**	**23.3**	**0.0**	**23.3**

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



As regards the geographical distribution, it can be noted how loan impairment is more evident in Trentino-South Tyrol, considering that these areas were not affected by disposals, other than only marginally.

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



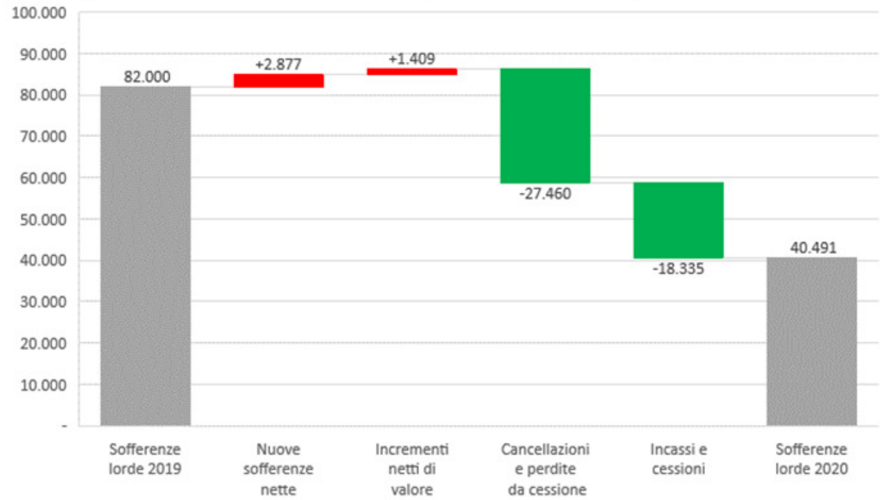
Gross impaired loans: incidence of each status by area (data in %)

	Doubtful loans	Unlikely to pay	Past due	Total
Trentino	4.6	3.3	0.2	**8.0**
South Tyrol	1.3	4.8	0.0	**6.1**
Veneto	3.4	0.9	0.0	**4.4**
Emilia Romagna	4.4	2.1	0.0	**6.5**
Lombardy	4.3	0.2	0.0	**4.5**
Other Regions	5.5	0.8	0.0	**6.3**

Doubtful loans

Doubtful loans gross of write-downs amounted to €40.5m, down by €41.5m in comparison to 2019. The trend was characterised by approximately €2.9m of new doubtful loans, €27.5m of write-offs and €18.3m of collections and disposals.

Trend in gross doubtful loans 2019-2020 (thousands of Euros)

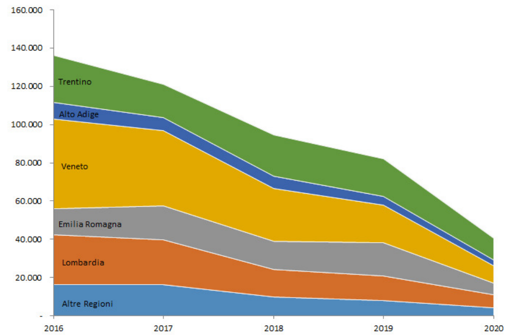


Geographically speaking, doubtful loans are mostly concentrated in Trentino and Veneto (39.4% and 31.2%, respectively); followed by Lombardy (23.4%) and Emilia Romagna (21.6%). There was a significant transversal decline in all areas; the most significant reductions are in Emilia Romagna (-€11.4m; -64.5%) and Veneto (-€10.5m; -53.7%); in the other regions, however, reductions of between 37.2% and 49.7% were recorded.
The securitisation transaction with GACS undoubtedly had a significant impact on the reduction in exposures in non-regional areas, mostly Veneto and Emilia Romagna.

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

	31 Dec 2020	%	31 Dec 2019	%	Chg.	% Chg.
Trentino	11,446	39.4	19,555	23.8	-8,109	-41.5
South Tyrol	2,837	9.8	4,519	5.5	-1,682	-37.2
Veneto	9,063	31.2	19,576	23.9	-10,513	-53.7
Emilia Romagna	6,265	21.6	17,644	21.5	-11,379	-64.5
Lombardy	6,790	23.4	12,569	15.3	-5,780	-46.0
Other Regions	4,090	14.1	8,137	9.9	-4,046	-49.7
Total	**40,491**	**100.0**	**82,000**	**100.0**	**-52,955**	**-64.6**

Trend in gross doubtful loans by area 2016-2020



The building industry and the real estate sector (approximately €23.3m, 57.5% of the portfolio), particularly concerned by the securitisation with GACS, remain in any case the top collectors of delinquent loans despite the continuing downward *trend* (-€19.8m). There were also significant decreases in the manufacturing (-€14.1m), hospitality (-€2.6m) and other services sectors (-€2.5m). The other sectors recorded decreases of between -€1.2m and €70 thousand. Only the market services sector remains stable.

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

	31 Dec 2020	%	31 Dec 2019	%	Chg.	% Chg.
Non-financial corporations	**39,792**	**98.3**	**80,123**	**96.8**	**-40,331**	**-50.3**
Building industry	12,819	31.7	21,749	26.1	-8,930	-41.1
Real Estate	10,470	25.9	21,308	23.7	-10,838	-50.9
Manufacturing	8,115	20.0	22,260	26.7	-14,144	-63.5
Agriculture	3,368	8.3	3,999	3.9	-631	-15.8
Transport services	3,313	8.2	3,383	3.6	-70	-2.1
Market services	807	2.0	807	0.9	0	0.0
Hospitality	515	1.3	3,171	4.4	-2,656	-83.8
Other services	385	1.0	919	4.9	-534	-58.1
Energy	0	0.0	2,527	2.7	-2,527	-100.0
Government Agencies, families and others	**699**	**1.7**	**1,877**	**2.0**	**-1,178**	**-62.8**
Financial corporations and banks	**0**	**0.0**	**0**	**1.2**	**0**	**0**
Total	**40,491**	**100.0**	**82,000**	**100.0**	**-41,509**	**-50.6**

Doubtful loans, net of value adjustments, amounted to €18.4m, down €17.8m compared to the figure in December 2019.
The ratio of net doubtful loans to total net loans to customers was 1.7%, halved compared to 3.4% at the end of the previous financial year; the ratio gross of value adjustments went from 7.2% in 2019 to 3.6%. The level of coverage of doubtful loans was 54.5%, slightly down when compared to the percentage at the end of 2019 (55.8%).

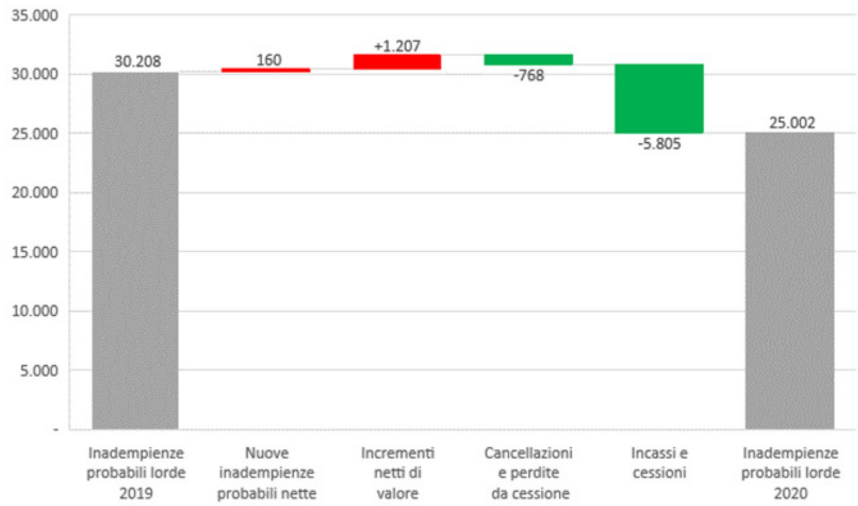
Key ratios relative to doubtful loans

in %	Dec 2020	Dec 2019
Gross doubtful loans / gross loans to customers	3.6	7.2
Gross doubtful loans / own funds	22.4	48.0
Net doubtful loans / net loans to customers	1.7	3.4
Net doubtful loans / own funds	10.2	21.2

Unlikely to pay loans

The "unlikely to pay" category gross of write-downs amounted to €25.0m, a decreased volume compared to that at the end of 2019 (-€5.2m, -17.2%). The trend is characterised by a net outflow to doubtful loans of €2.9m, €3.0m of new unlikely to pay and approximately €6.5m of collections and write-offs.

Trend in gross unlikely to pay 2019-2020 (thousands of Euro)

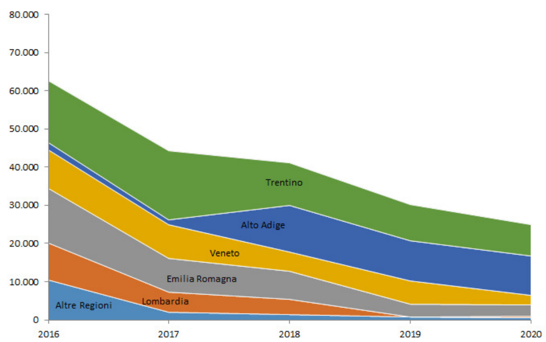


Also at a geographical level, a generalised decrease was recorded, mainly concentrated in Veneto (-€3.6m), while Lombardy recorded a slight increase. The concentration of unlikely to pay in Trentino-South Tyrol remains substantially stable and on average high, concentrated mostly in the hotel, manufacturing and agricultural sectors.

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

	31 Dec 2020	%	31 Dec 2019	%	Chg.	% Chg.
Trentino	8,192	32.8	9,450	31.3	-1,258	-13.3
South Tyrol	10,411	41.6	10,547	34.9	-136	-1.3
Veneto	2,495	10.0	6,092	20.2	-3,596	-59.0
Emilia Romagna	3,012	12.0	3,373	11.2	-362	-10.7
Lombardy	292	1.2	93	0.3	+199	+214.6
Other Regions	600	2.4	653	2.2	-53	-8.1
Total	**25,002**	**100.0**	**30,208**	**100.0**	**-5,205**	**-17.2**

Trend in gross unlikely to pay by area 2016-2020



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

	31 Dec 2020	%	31 Dec 2019	%	Chg.	% Chg.
Non-financial corporations	**15,234**	**60.9**	**19,406**	**64.2**	**-4,172**	**-21.5**
Hospitality	5,370	21.5	5,376	17.8	-5	-0.1
Manufacturing	3,016	12.1	2,824	9.3	+192	+6.8
Agriculture	2,637	10.5	2,882	9.5	-245	-8.5
Building industry	2,011	8.0	3,115	10.3	-1,104	-35.4
Other services	688	2.8	741	2.5	-53	-7.2
Market services	600	2.4	676	2.2	-76	-11.3
Transport services	543	2.2	588	1.9	-45	-7.6

Real Estate	370	1.5	3,205	10.6	-2,835	-88.5
Energy	0	0.0	0	0.0	0	0
Government Agencies, families and others	**291**	**1.2**	**337**	**1.1**	**-46**	**-13.7**
Financial corporations and banks	**9,478**	**37.9**	**10,465**	**34.6**	**-987**	**-9.4**
Total	**25,002**	**100.0**	**30,208**	**100.0**	**-5,205**	**-17.2**

The unlikely to pay category, net of value adjustments, totalled €14.0m, down by 32.0% compared to 31 December 2019. The ratio of net unlikely to pay to total net loans to customers was 1.3% compared to 1.9% at the end of the previous period.

Key ratios relative to unlikely to pay loans

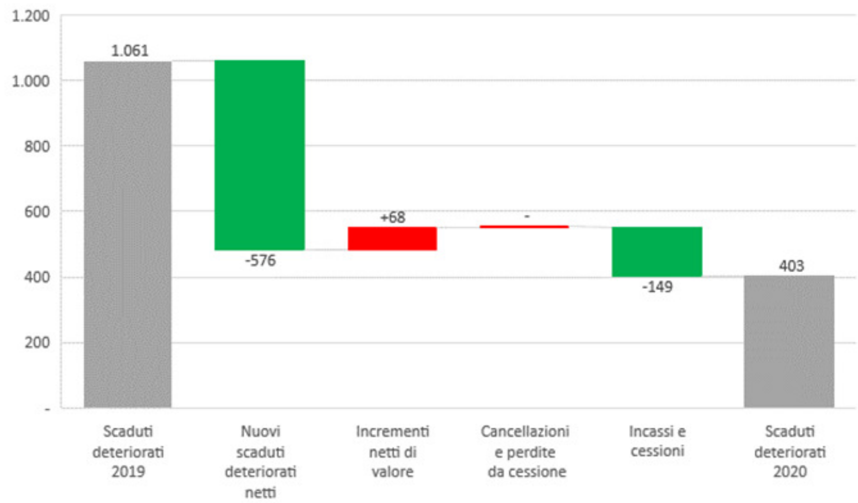
in %	Dec 2020	Dec 2019
Gross unlikely to pay / gross loans to customers	2.2	2.6
Net unlikely to pay / net loans to customers	1.3	1.9

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 €0.4m, more than halved compared to 31 December 2019 (-62%). The ratio of past due loans to total net loans is immaterial.

This category of impaired loans is characterised by changes of a limited amount (€275 thousand of transfers offset by performing returns of €803 thousand, transfers to unlikely to pay of €48 thousand and collections of €149 thousand).

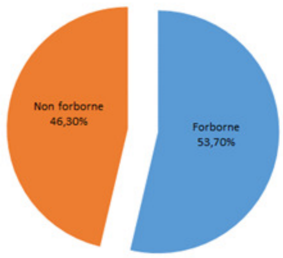
Trend of gross past due loans 2019-2020 (thousands of Euro)

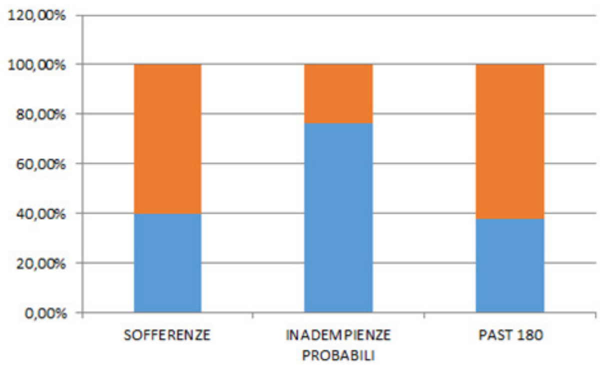


Impaired loans subject to forbearance measures – "Forborne"

Impaired loans subject to forbearance measures amounted to €35.4m, equal to 53.7% of the total; approximately 39.8% of doubtful loans, 76.4% of unlikely to pay loans and 37.8% of past due loans benefited from forbearance measures.

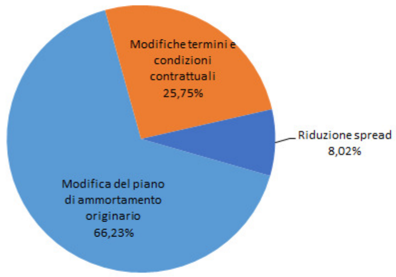
Impaired loans subject to forbearance measures (forborne) by status





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

Depending on the type of forbearance measure, approximately 66.2% of impaired loans benefited from a change in the original amortisation plan, 25.8% benefited from an amendment to some contractual terms/conditions, while the remaining 8.0% from rate reductions.



EQUITY INVESTMENT ACTIVITIES

Equity Investment

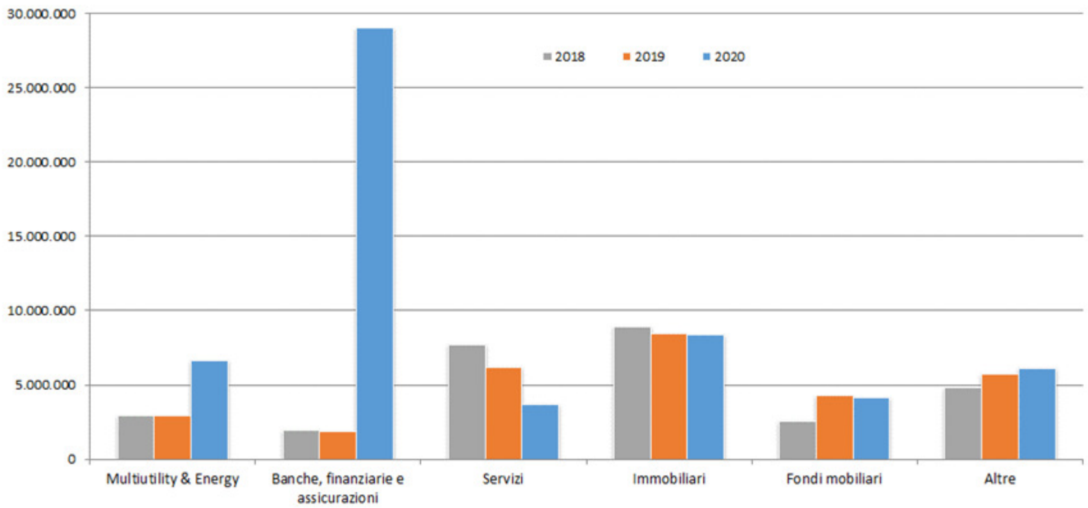
Equity investment activities, both direct and through investments in closed-end securities funds, recorded amounts of around €58.1m, doubling the amounts compared to 31 December 2019, following the establishment of an equity portfolio that is functional to the optimisation and diversification of investments, consisting - for around €13.5m - of securities of some important companies listed on the primary listing of the Italian Stock Exchange, samples and benchmarks of the respective segment, operating in the banking, insurance and energy sectors, with a large free float listed and able to generate adequate coupon returns on a stable basis. An investment of €15m in Bank of Italy shares was added to this component.

In 2020, the following should be noted:
- the full reduction of the value of the equity investment in the Clesio real estate fund, for €250 thousand, following the zeroing of the NAV resulting from the adoption of the new management plan of the fund;
- the partial value recovery of the shares of the Finint Fenice real estate fund (€185 thousand), which began the phase of market enhancement of the property portfolio, acquired in recent years by the shareholding banks;
- the investment in the Equita Private Debt II closed-end investment fund for a total of €1m, already paid in for €419 thousand.

Equity Investments (thousands of Euro)

	Dec 2020				Dec 2019			
	FVTPL	OCI Option	Equity investments	Total	FVTPL	OCI Option	Equity investments	Total
Investments in UCITS	12,231	-	-	12,231	12,399	-	-	12,399
Institutionals and debt recovery	-	2,896	336	3,232	-	2,899	306	3,205
Other investments	-	11,046	-	11,046	-	13,685	-	13,685
Treasury	-	31,585	-	31,585	-	-	-	-
Total	**12,231**	**45,527**	**336**	**58,094**	**12,399**	**16,584**	**306**	**29,289**
of which: level 1	**-**	**22,359**	**-**	**22,359**	**-**	**5,913**	**-**	**5,913**

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 it to participate directly - where appropriate - in judicial auctions of real estate properties as collateral for disputed financing transactions. At the balance sheet date, the company owns four properties at a value that is consistent with the appraisal value and a photovoltaic barrier in Oppeano (VR). In particular, a property was valued in 2014 and the placement on the real estate market of the related real estate portions is still in progress; two properties are leased, while the photovoltaic plant was acquired during an auction in the year, deriving from an impaired loan to the Bank. The company closed 2020 with a loss of approximately €470 thousand, covered by a capital account payment by the Parent Company.

Balance as at 31/12/2019	**305.7**
Purchases	+500.0
Sales/Redemptions	-
Gains	-
Losses	-470.0
Balance as at 31/12/2020	**335.7**
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 generated a positive change in *fair value* of €185 thousand. A gradual recovery of the fund's profitability has therefore started, which is expected to continue over the next few years.

Balance as at 31/12/2019	**7,790.2**
Purchases	-
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	+184.6
Balance as at 31/12/2020	**7,974.8**

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 enterprises 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 2020, the Bank paid the call relating to the 60 shares subscribed of €72 thousand and their unit value - estimated as at 31 December 2020 - amounted to €21,111.328, generating a negative change in *fair value* of €961 thousand.

Balance as at 31/12/2019	**2,155.8**
Purchases	+71.9
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-961.0
Balance as at 31/12/2020	**1,266.7**

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 enterprises 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 2020, the Bank paid the call relating to the 40 shares subscribed of €104 thousand whose unit value - determined by the asset management company as at 30 September 2020 - amounted to €18,780.10875, generating a negative change in *fair value* of €30 thousand.

Balance as at 31/12/2019	**677.3**
Purchases	+103.7
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-29.8
Balance as at 31/12/2020	**751.2**

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 unit value of the shares - determined by the asset management company as at 30 June 2020 - was €204.1547, generating a negative change in *fair value* of €117 thousand.

Balance as at 31/12/2019	**729.8**
Purchases	-
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-117.3
Balance as at 31/12/2020	**612.5**

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.
In 2020, the Bank paid the call relating to the one million shares subscribed of €52 thousand whose unit value - determined by the asset management company as at 30 September 2020 - amounted to €0.4445, generating a negative change in *fair value* of €2 thousand.

Balance as at 31/12/2019	**504.2**
Purchases	+51.9
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-1.8
Balance as at 31/12/2020	**554.3**

Equita Private Debt II closed-end securities investment fund

It is an Italian closed-end alternative investment fund reserved for professional investors that invests in *unitary* instruments (hybrid product between senior loan and subordinated loan), subordinated loans or even in bonds. To a lesser extent, minority share capital interventions can also be made.
Aimed at medium-sized companies, with stabilised or growing production values, with a good capacity to generate cash flow and a well-defined market position, based mainly in Italy.
It is managed by EQUITA Capital SGR, one of the main independent managers in Italy.
In 2020, the Bank paid the call relating to the one million shares subscribed for €418 thousand, the value of which is aligned with the purchase cost.

Balance as at 31/12/2019	**-**
Purchases	+418.5
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-
Balance as at 31/12/2020	**418.5**

Value Italy Credit 3 fund

In December 2020, the Bank transferred the receivable from Plusvalore Spa in Liquidation to the Value Italy Credit 3 Fund against the subscription of 10 shares for a value of €500 thousand. As at 31 December 2020, the unit value is aligned with the purchase cost.

Balance as at 31/12/2019	**-**
Purchases	+500.0
Sales/Redemptions	-
Gains/Losses on disposal	-
Fair value changes	-
Balance as at 31/12/2020	**500.0**

	Closed-end securities investment fund HAT Technology & Innovation	Fondo immobiliare Leopardi - Milan	Closed-end real estate investment fund Clesio
Balance as at 31/12/2019	**202.5**	**89.2**	**250.0**
Purchases	-	-	-
Sales/Redemptions	-157.0	-	-
Gains/Losses on disposal	-	-	-
Fair value changes	+18.2	-	-250.0
Balance as at 31/12/2020	**63.7**	**89.2**	**-**

Notes on other investments in equity securities under the OCI Option

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 2020 does not express *fair value* changes with respect to 2019.

Balance as at 31/12/2019	**1,917.2**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2020	**1,917.2**
Stake held	**15.000%**

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's share capital was finalised in 2011 in order to continue the process of exploitation and development of the company launched by the MC^2 Impresa closed-end securities investment fund.
Following the desire of the two founding shareholders to have of all the shares in the short term for strategic reasons, the sale value of the equity investment was determined at €1.7m, based on the provisions of the shareholders' agreements; therefore, the valuation as at 31 December 2020 expresses a *fair value* aligned with this value.
The sale took place in January 2021.

Balance as at 31/12/2019	**1,201.0**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	+499.0
Balance as at 31/12/2020	**1,700.0**
Stake held	**14.966%**

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 €188 thousand.

Balance as at 31/12/2019	**1,459.6**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	+188.2
Balance as at 31/12/2020	**1,647.8**
Stake held	**0.298%**

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. The year-end listing shows a negative change in *fair value* of €147 thousand.

Balance as at 31/12/2019	**1,190.9**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-147.2
Balance as at 31/12/2020	**C 1,043.7**
Stake held	**0.431%**

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 €12 thousand to be recorded.

Balance as at 31/12/2019	**929.0**
Purchases	+115.7
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-12.1
Balance as at 31/12/2020	**1,032.6**
Stake held	**1.452%**

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 the "Spalma incentivi" Decree and the different reference scenario, an impairment loss was recorded in 2014, based on an appraisal prepared by an independent advisor. At the end of 2020, there were no changes in *fair value* compared to the previous book value.

Balance as at 31/12/2019	**986.7**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2020	**986.7**
Stake held	**5.346%**

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 (MTA) 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 2020, there was a negative change in *fair value* of €88 thousand.

Balance as at 31/12/2019	**1,055.1**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-88.4
Balance as at 31/12/2020	**966.7**
Stake held	**0.817%**

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 well-known health situation forced the closure of the structure in the first part of 2020 with the consequent loss of attendance and turnover, while the summer season brought considerable results with only a partial recovery of revenues. The *fair value* as at 31 December 2020 does not, however, express any changes compared to the previous value.

Balance as at 31/12/2019	**674.0**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2020	**674.0**
% stake held	**4.840%**

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 €169 thousand to be recorded.

Balance as at 31/12/2019	**760.5**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-168.7
Balance as at 31/12/2020	**591.8**
Stake held	**0.237%**

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 the Italian Stock Exchange 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 the Italian Stock Exchange.
In 2020, there was a negative change in *fair value* of €24 thousand.

Balance as at 31/12/2019	**509.4**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-23.7
Balance as at 31/12/2020	**485.7**
Stake held	**1.667%**

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.
During 2020, at the end of the investment time horizon, the equity investment was sold with a capital gain of around €324 thousand.

Balance as at 31/12/2019	
Purchases	**3.001.5**
Sales/Redemptions	-3,325.2
Gains/Losses to reserve on disposal	+323.7
Fair value changes	-
Balance as at 31/12/2020	-
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 31/12/2019	**979.7**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2020	**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 31/12/2019	**804.9**
Purchases	-
Sales/Redemptions	-
Gains/Losses to reserve on disposal	-
Fair value changes	-
Balance as at 31/12/2020	**804.9**
Stake held	**1.190%**

	Sviluppo Aree Sciistiche Srl	Cassa Centrale Banca S.p.a. - Trento	Funivie Madonna di Campiglio S.p.A. – Pinzolo (TN)	Funivie Folgarida Marilleva S.p.A. – Pinzolo (TN)
Balance as at 31/12/2019	**1.000.0**	**50.2**	**25.4**	**23.3**
Purchases	-	-	-	-
Sales/Redemptions	-	-	-	-
Gains/Losses to reserve on disposal	-	-	-	-
Fair value changes	-	-	-	-
Balance as at 31/12/2020	**1,000.0**	**50.2**	**25.4**	**23.3**
Stake held	**3.030%**	**0.000%**	**0.033%**	**0.027%**

	Federazione Trentina delle Cooperative Scarl - Trento	AEDES SIIQ SpA - Milano	Restart SIIQ SpA (ex Aedes SIIQ Spa) – Milan	Allitude S.p.A.
Balance as at 31/12/2019	**5.1**	**5.4**	**3.1**	**1.6**
Purchases	-	-	-	-
Sales/Redemptions	-	-	-	-
Gains/Losses to reserve on disposal	-	-	-	-
Fair value changes	-	-2.2	-0.8	-
Balance as at 31/12/2020	**5.1**	**3.2**	**2.3**	**1.6**
Stake held		**0.016%**	**0.016%**	**0.000%**

	Trentino Volley S.r.l. Trento	Lineapiù S.p.A. Prato	Formazione-Lavoro Società consortile per azioni - Trento
Balance as at 31/12/2019	**-**	**-**	**0.6**
Purchases	-	-	-
Sales/Redemptions	-	-	-0.5
Gains/Losses to reserve on disposal	-	-	-0.1
Fair value changes	-	-	-
Balance as at 31/12/2020	**-**	**-**	**-**
Stake held	**5.350%**	**1.668%**	

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. 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.

Summary of investments in treasury equity securities under the OCI Option

	Bank of Italy	Intesa San Paolo	Generali	Mediobanca
Balance as at 31/12/2019	**-**	**-**	**-**	**-**
Purchases	+15,000.0	+4,838.5	+3,948.7	+1,021.4-
Sales/Redemptions	-	-	-	-
Gains/Losses to reserve on disposal	-	-	-	-
Fair value changes	-	+608.9	+1,063.3	+722.2
Balance as at 31/12/2020	**15,000.0**	**5,447.4**	**5,012.0**	**1,743.6**

	Enel	ENI	A2A	Poste Italiane
Balance as at 31/12/2019	**-**	**-**	**-**	**-**
Purchases	+1,056.4	+1,039.7	+1,009.8	+521.9
Sales/Redemptions	-	-	-	-
Gains/Losses to reserve on disposal	-	-	-	-
Fair value changes	+394.5	+194.1	+70.3	+95.6
Balance as at 31/12/2020	**1,450.9**	**1,233.8**	**1,080.1**	**617.5**

SECURITIES PORTFOLIO

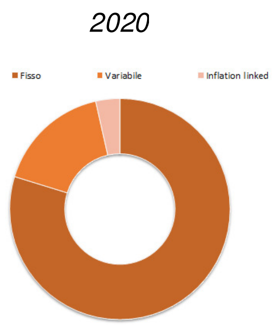
The portfolio of debt securities held as part of treasury activities is made up as follows:

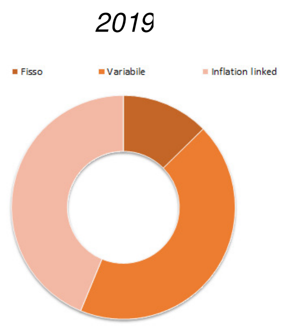
Amounts of portfolio of debt securities (thousands of Euro)

Issuer	2020			2019		
	Nominal Value	Amortised cost	Fair Value	Nominal Value	Amortised cost	Fair Value
Hold to Collect Business model	**414,972**	**432,954**	**455,389**	**178,000**	**182,110**	**180,488**
Governments	391,972	409,655	431,452	165,000	169,045	167,653
Banks	23,000	23,299	23,937	13,000	13,065	12,835
Hold to Collect & Sell Business model	**93,400**	**100,747**	**103,509**	**91,970**	**98,337**	**97,835**
Governments	82,500	89,655	92,409	57,500	63,136	62,574
Banks	10,900	11,092	11,100	34,470	35,201	35,261
Total	**508,372**	**533,701**	**558,898**	**269,970**	**280,446**	**278,323**

The bonds issued by banks have a residual average life of 2.1 years while government securities (Italian State bonds) have a residual average life of 7.5 years. The portfolio is composed of 80% of fixed-rate securities, of 17% of floating-rate securities and of 4% *inflation-linked* securities, after its significant recomposition, with the increase of the fixed-rate component to the detriment of the one indexed and linked to inflation.

Allocation of securities portfolio by interest rate type





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, 2 new contracts with symmetrical coverage were signed for a total of €3.0m.
The table below compares overall nominal amounts as at 31 December 2020 with 2019.

Financial derivatives – cap options (in thousands of Euros)

	NEW CONTRACTS		OVERALL NOMINAL AMOUNTS	
	2020	2019	Dec 20	Dec 19
- sales (customers)	1,500	18,060	41,704	43,768
- purchases (banks)	1,500	18,060	41,704	43,768
TOTAL	**3,000**	**36,120**	**83,408**	**87,537**

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 2020		Dec 2019	
	Quantity (no.)	Fair value (€/thousand)	Quantity (no.)	Fair value (€/thousand)
Aquafil S.p.A	20,300	3.5	20,300	6.7
Guala Closures S.p.A.	80,000	24.6	80,000	14.4
Fine Food & Pharmaceuticals NTM S.p.A.	30,000	46.5	30,000	63.0
Total	**130,300**	**74.6**	**130,300**	**84.1**

BORROWING OPERATIONS AND TREASURY MANAGEMENT

Borrowing flows for 2020 were essentially represented by bond issues for €150m over 3/5 years, deposits from Cooperative Credit Banks of €133m over 18/24 months, ECB funds of €472m (new TLTRO-III), EIB funds for €40m, targeted funding from Cassa Depositi e Prestiti of €31m and deposits from corporate and retail customers of €129m, of which €92m are time deposits.

Flows of funds (thousands of Euro)

TYPE	FLOWS				
	2020	%	2019	%	% Chg.
BONDS	**150,000**	**15.7**	**124,000**	**29.3**	**+21.0**
FUNDS FROM BANKS	**644,330**	**67.6**	**171,312**	**40.4**	**+276.1**
- EIB funds	39,600	4.2	10,312	2.4	+284.0
- ECB funds	472,230	49.5	-	-	
- other medium/long-term bonds	132,500	13.9	161,000	38.0	-17.7
- current accounts and short-term deposits	-		-	-	
FUNDS FROM CUSTOMERS	**158,745**	**16.7**	**128,572**	**30.3**	**+23.5**
- CDP funds	30,985	3.3	16,118	3.8	+92.2
- funds from third parties	120	0.0	1,333	0.3	-91.0
- corporate/retail demand deposits[1]	35,310	3.7	59,908	14.1	-41.1
- corporate/retail time deposits[2]	92,330	9.7	51,212	12.1	+80.3
TOTAL	**953,075**	**100.0**	**423,884**	**100.0**	**+124.8**

1 The amount includes €3.5m relating to the online account Conto Rifugio.
2 The amount includes €30.0m relating to the online account Conto Rifugio.

In terms of amounts, 2020 was characterised above all by the drawdowns of a total of €472m from the ECB (TLTRO-III), which replaced part of the other medium-term loans from banks that had reached maturity. There was also an increase in deposits from customers with demand and time deposits, which rose by a total of €104m to €313m.
Total funding amounts to €1.519m (+21.2%).

Overall amounts of borrowing operations (in thousands of Euros)

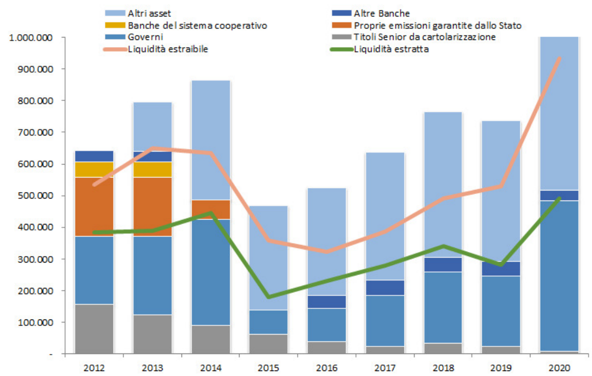
TYPE	OVERALL AMOUNTS				
	Dec 20	%	Dec 19	%	% Chg.
BONDS	**271,847**	**17.9**	**295,792**	**23.6**	**-8.1**
FUNDS FROM BANKS	**847,149**	**55.8**	**673,629**	**53.7**	**+25.8**
- EIB funds	87,123	5.7	60,462	4.8	+44.1
- ECB funds	471,722	31.1	275,538	22.0	+71.2
- other medium/long-term bonds	228,153	15.0	307,546	24.5	-25.8
- current accounts and short-term deposits	60,151	4.0	30,083	2.4	+100.0
FUNDS FROM CUSTOMERS	**399,774**	**26.3**	**284,067**	**22.7**	**+40.7**
- CDP funds	58,730	3.9	42,277	3.4	+38.9
- funds from third parties	28,315	1.9	33,116	2.6	-14.5
- corporate/retail demand deposits and c/c	183,242	12.1	143,441	11.4	+27.7
- corporate/retail time deposits[2]	129,487	8.5	65,233	5.2	+98.5
TOTAL	**1,518,770**	**100.0**	**1,253,488**	**100.0**	**+21.2**

1 The amount includes €3.1m relating to the online account Conto Rifugio.
2 The amount includes €30.3m relating to the online account Conto Rifugio.

With regard to the reserves of liquid assets, in the portfolio for a greater amount than at the end of 2019 (+€336m), the residual liquid assets available from the ECB and other counterparties as at 31 December 2020 amounted to approximately €443m, thanks also to the contribution by collateralised banking assets (approximately €415m).

Breakdown of eligible securities (thousands of Euro)

Issuer	Eligible	Potential liquidity
Governments	474,472	483,022
Banks	33,900	28,575
Securitisation senior bonds	8,142	7,513
Total bonds	**516,514**	**519,110**
Other collateralised assets	557,191	415,456
Total bonds and other assets	**1,073,705**	**934,566**
Liquidity already drawn		491,296
Residual available liquidity		**443,270**



PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets are functional investments that amount to approximately €8.7m, mainly buildings where the Trento headquarters and the Treviso, Bologna, Brescia and Padua branches are located (the latter purchased during the year).
The items Furniture and Buildings were also affected by a total investment of around €240 thousand for the renovation of some representative offices and the construction of the new consulting office at the Trento site. Electronic systems also recorded an increase, due to the investments made for the smart working technological preparation, as a response to operational continuity upon the emergence of restrictions on the free movement of people resulting from the Covid-19 pandemic.
All other asset categories are affected by the decrease resulting from the depreciation process.

	Dec 2020	%	Dec 2019	%	% Chg.
Functional assets	**8,684**	**98.7**	**8,410**	**98.6**	**+3.3**
- *Land and buildings*	7,837	89.1	7,551	88.6	+3.8
- *Furnishing*	307	3.5	226	3.2	+35.8
- *IT equipment*	91	1.0	85	2.7	+7.1
- *Other equipment*	353	4.0	398	4.7	-11.3
- *Vehicles*	5	0.1	18	0.2	-72.2
- *Software*	91	1.0	132	1.5	-31.1
Investment land	**116**	**1.3**	**116**	**1.4**	**-**
Total	**8,800**	**100.0**	**8,526**	**100.0**	**+3.2**

Pursuant to IFRS 16 - Leases, the Bank recognises under property, plant and equipment, 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.

	Dec 2020	%	Dec 2019	%	% Chg.
Rights of use	**152**	**100.0**	**219**	**100.0**	**-30.6**
- *Buildings*	115	75.7	154	70.3	-25.3
- *Vehicles*	37	24.3	65	29.7	-43.1
Total tangible and intangible assets	**8,952**	**100.0**	**8,746**	**100.0**	**+2.4**

During 2020, 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 2020, the Bank tested the adequacy of its operational continuity plan as well as the effectiveness of the *Disaster Recovery* Plan with the *outsourcer* of the IT System managed by Allitude S.p.A., following the important activity of migration from the SBA platform in Cuneo. The result of the test was positive, which means that should the need arise, it would be possible to maintain a sufficient level of business continuity for the Bank, characterised by low average levels of operational risk.

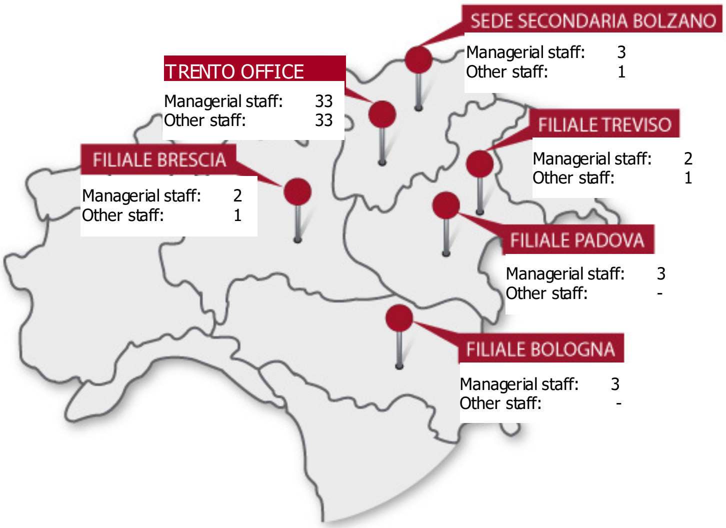
OPERATIONAL STRUCTURE

As at 31 December 2020, the number of employees decreased by 1 unit compared to 31 December 2019. There were 82 employees: 65 full-time contracts and 17 part-time contracts.

Position and movement of employees[13]

	31/12/2019 situation	Resignation	Recruitments	Change of positions	31/12/2020 situation
Managerial staff (Executives)	6	-	-	-	6
Managerial staff	40	-1	-	+1	40
Other staff	37	-2	+2	-1	36
Total	**83**	**-3**	**+2**	**-**	**82**

Breakdown by area



Breakdown by age Breakdown by length of service

	Men	Women	Total
≤ 30 years	3	1	4
> 30 years ≤ 45 years	11	8	19
> 45 years ≤ 55 years	21	14	35
>55 years	13	11	24
Total	**48**	**34**	**82**

	Men	Women	Total
≤ 5 years	7	3	10
> 5 years ≤ 10 years	3	-	3
> 10 years ≤ 20 years	12	8	20
> 20 years	26	23	49
Total	**48**	**34**	**82**

During the year, in order to ensure the highest level of safety for its employees, right from the start of the health emergency the Bank adopted the agile working method *(smart working)* extended to all personnel, which is still operational. The strengthening of IT equipment (laptops and smartphones) and ICT training initiatives were carried out in preparation for this action.

A total of 2,576 hours was dedicated to staff training; the following table shows a breakdown of "classroom days":

Area / Services	Planned behavioural training		Required technical training		Required technical training	
	Days	No. of attendees	Days	No. of attendees	Days	No. of attendees
Control functions	-	-	21.8	6	4.0	3
Management and Staff	-	-	69.3	19	39.9	12
Market Area	0.6	1	61.1	18	3.6	1
Credit area	-	-	77.3	13	4.9	2
Legal area	-	-	21.8	9	19.2	7
Admin. and Finance Area	-	-	57.0	18	4.8	6
Total	**0.6**	**1**	**268.1**	**83**	**76.4**	**31**

The Administrative Board carried out their activities through 18 meetings of the Board of Directors, 5 meetings of the Board of Statutory Auditors and 1 Ordinary Shareholders' Meeting.

13 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	31.12.2020	31/12/2019	Chg.	% Chg.
CASH AND CASH EQUIVALENTS	4	2	+1	+66.1
DERIVATIVES	189	291	-101	-34.9
EQUITY SECURITIES	57,758	28,983	+28,775	+99.3
DEBT SECURITIES	539,201	279,845	+259,356	+48.1
LOANS AND ADVANCES TO BANKS	21,643	21,807	-164	-0.8
LOANS AND ADVANCES TO CUSTOMERS	1,068,634	1,081,044	-12,410	-1.1
EQUITY INVESTMENTS	336	306	+30	+9.8
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	8,952	8,746	+206	+2.4
TAX ASSETS	15,911	16,202	-291	-1.8
OTHER ASSETS	5,163	4,938	+225	+4.5
TOTAL ASSETS	**1,716,512**	**1,442,164**	**+274,348**	**+19.0**

Equity and liabilities	31.12.2020	31/12/2019	Chg.	% Chg.
DUE TO BANKS	847,149	673,629	+173,520	+25.8
DUE TO CUSTOMERS	399,774	284,067	+115.708	+40.7
DEBT SECURITIES IN ISSUE	271,847	295,792	-23,945	-8.1
FINANCIAL LIABILITIES HELD FOR TRADING	110	198	-88	-44.5
TAX LIABILITIES	5,985	5,949	+36	+0.6
OTHER LIABILITIES	7,763	7,364	+400	+5.4
VALUATION RESERVES	7,010	1,512	+5,498	+363.7
CAPITAL AND RESERVES	173,622	169,627	+3,995	+2.4
NET INCOME FOR THE PERIOD	3,252	4,028	-776	-19.3
TOTAL EQUITY AND LIABILITIES	**1,716,512**	**1,442,164**	**+274,348**	**+19.0**

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

RECLASSIFIED ABRIDGED INCOME STATEMENT[14]

(in thousands of Euro)

Items	2020	2019	Chg.	% Chg.
NET INTEREST INCOME	**18,373**	**17,548**	**+825**	**+4.7**
Net fee and commission income	1,442	1,956	-513	-26.3
Dividends	1,370	382	+988	+258.7
OPERATING MARGIN	**21,185**	**19,886**	**1,299**	**+6.5**
Revenues from sale	6,821	1,465	+5,357	+365.8
Net fair value results	1	82	-81	-99.2
NET INTEREST AND OTHER BANKING INCOME	**28,007**	**21,432**	**+6,575**	**+30.7**
OPERATING COSTS	(11,397)	(10,940)	-457	+4.2
GROSS OPERATING INCOME	**16,610**	**10,492**	**+6,118**	**+58.3**
NET IMPAIRMENT ADJUSTMENTS	(12,092)	(4,324)	-7,768	+179.6
PROFIT (LOSS) BEFORE INCOME TAXES	**4,518**	**6,168**	**-1,650**	**-26.8**
INCOME TAXES	(1,265)	(2,140)	+874	-40.9
NET INCOME FOR THE PERIOD	**3,252**	**4,028**	**-776**	**-19.3**

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 %)	2020	2019
Net interest income / Net interest and other banking income	65.6	81.9
Gross operating income / Net interest and other banking income	59.3	49.0
Profit (loss) before income taxes / Net interest and other banking income	16.1	28.8
Net income for the period / Net interest and other banking income	11.6	18.8

14 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 €1.124m in 2020 and €1.539m in 2019, profits/losses from the sale of loans from net interest and other banking income to "net impairment adjustments" of €0.712m (losses) in 2020 and €1.095m (profits) in 2019, the net negative result of financial assets mandatorily measured at fair value of €1.188m (-€1.531m in 2019) and the provisions for legal risks relating to disputes on loans from "operating costs" to "net impairment adjustments" of €30 thousand (write-backs) in 2020 and €1 thousand (write-backs) in 2019. Moreover, net losses on equity investments of €470 thousand (€370 thousand in 2019) 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 (€2.0 thousand in 2020 and €2.7 thousand in 2019) and depreciations of rights of use (€70.6 thousand in 2020 and €69.9 thousand in 2019). Finally, interest income includes interest expense on assets of €64 thousand in 2020 and €72 thousand in 2019 and interest expense includes interest income on liabilities of €1.671m in 2020 and €1.281m in 2019.

INCOME STATEMENT DYNAMICS

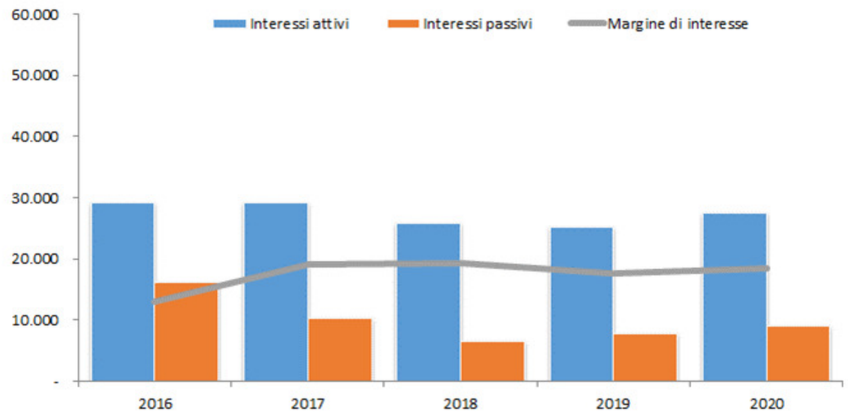
Net interest income

Breakdown of the net interest income (thousands of Euros)

Items	2020	2019	Chg.	% Chg.
INTEREST INCOME AND SIMILAR REVENUES	27,435	25,240	+2,195	+8.7
INTEREST EXPENSE AND SIMILAR CHARGES	(9,062)	(7,692)	-1,370	+17.8
NET INTEREST INCOME	**18,373**	**17,548**	**+825**	**+4.7**

The net interest income was up by 4.7% compared to that of 2019: overall, the *spread* of money management (net interest income net of interest on arrears and doubtful loans) fell to 1.15% from the 1.22% recorded by the Bank in the previous year; this trend, in relative terms, is linked in particular to the increase in the average cost of funding (0.64% vs 0.61%; + 0.03%) in the presence of a reduction in the average return on interest-bearing assets (1.79% vs 1.84%; -0.04%). The improvement in margins in absolute terms, on the other hand, is mainly linked to the increase in the volume and profitability of the securities portfolio, together with the expansion of ECB refinancing at better rates; the overall effect was +€1.3m, offset by lower collections of interest on doubtful loans and arrears of €447 thousand.

Trend in net interest income (thousands of Euro)



Operating margin

Net commissions, amounting to €1.442m, decreased by €514 thousand (-26.3%) compared to 2019, due to lower commissions for early repayment (-€259 thousand) and the slowdown of the component linked to the disbursement of credit (-€201 thousand). Also contributing is the increase in commission expense on guarantees received, in particular on hedges of the European Investment Fund (EIF).

Net revenue from services (thousands of Euro)

Items	2020	2019	Chg.	% Chg.
FEE AND COMMISSION INCOME	**1,906**	**2,384**	**-479**	**-20.1**
- survey and investigation	941	1,143	-201	-17.6
- corporate finance	606	751	-146	-19.4
- contractual	130	-	+130	
- administrative	87	99	-12	-12.4
- early termination	87	346	-259	-74.9
- others	55	45	+10	+21.4
FEE AND COMMISSION EXPENSE	**(463)**	**(428)**	**+35**	**+8.2**
- brokerage of applications for credit lines	(83)	(76)	+7	+8.7
- guarantees on lending / borrowing	(354)	(332)	+22	+6.6
- others	(26)	(20)	+6	+28.2
NET COMMISSIONS	**1,442**	**1,956**	**-514**	**-26.3**

In 2020, dividends of €1,370 thousand were collected (€382 thousand in 2019) of which €1,063 thousand came from the share portfolio (Bank of Italy shares and shares of listed companies).
These income, together with the result from net commissions, brought the operating margin to €21.185m (+€1.299m; +6.5%).

Dividends (thousands of Euro)

	Dec 2020	Dec 2019	Chg.	% Chg.
Institutionals and debt recovery	42	46	-4	-8.1
Other investments	265	336	-71	-21.2
Treasury	1,063	-	+1,063	
Total	**1,370**	**382**	**+988**	**+258.7**

Net interest and other banking income

Debt securities portfolio management generated capital gains of €6.8m (compared to €1.5m in 2019). The net result of assets and liabilities measured at *fair value* included capital gains of less than €1 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 €28.007m, up by 30.7% (+€6.6m) with respect to the comparative data of the previous year.

Operating costs

Administrative costs came to €10.620m, up by +€381 thousand compared to the previous year (€10.239m) as a result, for the most part, of a contingent increase in payroll (+€193 thousand). Other administrative costs also increased compared to the comparison period (+€124 thousand): this result is mainly due to the higher spending effort for advertising campaigns linked to the launch of retail funding through "Conto Rifugio". This is only partially offset by savings, due to the impact of the pandemic, on operating expenses (electricity, fuel, concierge, staff travel), by the containment of costs for professional services, appraisals and IT technologies which, despite the extraordinary interventions required to activate the *smart working* mode, were in any case more limited compared to the final figures for 2019.

Operating costs (thousands of Euros)

Items	31.12.2020	31/12/2019	Chg.	% Chg.
ADMINISTRATIVE COSTS:	(10,620)	(10,239)	-381	+3.7
a) payroll:	(7,283)	(7,083)	-200	+2.8
- employees costs	*(6,793)*	*(6,600)*	*-193*	*+2.9*
- directors and auditors costs	*(490)*	*(483)*	*-7*	*+1.5*
b) other administrative costs[15]	(2,517)	(2,394)	-123	+5.1
c) contribution to the banking crisis resolution fund[16]	(821)	(763)	-58	+7.6
NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES	(239)	(132)	-107	+80.5
NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	(496)	(513)	+17	-3.3
OTHER OPERATING CHARGES/INCOME	(42)	(55)	+13	-23.6
OPERATING COSTS	**(11,397)**	**(10,940)**	**-457**	**+4.2**

Net provisions for risks and charges relate to personnel incentive schemes.
Amortisation and depreciation for the period totalled €496 thousand, down by €17 thousand compared to December 2019. Taking into consideration other net expenses of €42 thousand, operating costs recorded an increase of €457 thousand; in spite of this, the *cost to income* ratio came to 40.7%, compared to 51.0% in 2019; net of the extraordinary components[17], the ratio decreased to 40.0% from 50.1% in December 2019.

15 Recoveries from customers for indirect expenses and taxes incurred by the Bank (+€445 thousand in 2020, +€574 thousand in 2019) 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" (-€1.6 thousand in 2020, +€2.6 thousand in 2019) was reclassified to the item "Net adjustments to property, plant and equipment and intangible assets". Moreover, the effects of applying IFRS 16 were neutralised by reclassifying under other administrative costs both interest expense on the payable to lessees (€2.0 thousand in 2020, €2.7 thousand in 2019) and depreciations of rights of use (€70.6 thousand in 2020, €69.9 thousand in 2019).

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

17 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.

Efficiency indices

Items	2020	2019	Chg.
Operating costs/Net interest and other banking income (%)	40.7	51.0	-10.4
Payroll/Net interest and other banking income (%)	26.0	33.0	-7.0
Average cost per employee (thousands of Euros)	86.0	86.0	-0.1
Net interest and other banking income/average number of employees (thousands of Euros)	354.3	279.2	+75.1
Positive total/average number of employees (thousands of Euros)	21,717.0	18,790.4	+2,926.6

Net of the operating costs shown above, the Gross operating income stood at €16.610m, up (+€6.1m, +58.3%) compared to the result in the previous year.

Value adjustments and net income from financial activities

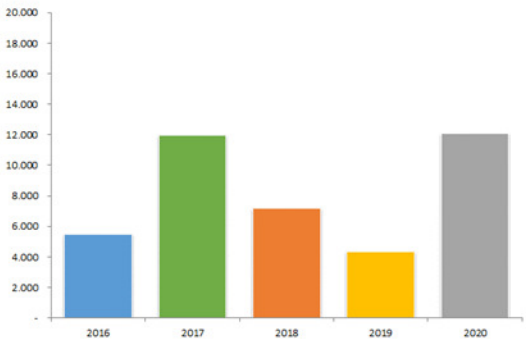
The analytical valuation of impaired loans produced value adjustments of €9.156m and write-backs of €4.392m, as well as recoveries of €282 thousand from collections on doubtful loans classified as loss-generating in previous periods.
On the other hand, the collective valuation process of the loans portfolio produced total net adjustments of €4,507 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 adjustments of €293 thousand, while the analytical valuation of an unlikely to pay minibond generated write-backs of €51 thousand. During the period, losses of €485 thousand were charged directly to the income statement. The disposal of doubtful loans also generated net losses amounting to €712 thousand.
The collective valuation of HTCS securities - government securities and securities issued by banks - generated net write-backs of €21 thousand, while the valuation of the subsidiary Paradisidue resulted in adjustments of €470 thousand.
The collective valuation of the guarantees issued and the available margins generated adjustments of €58 thousand.
The total net value adjustments on financial assets reached €12.092m, compared to €4.324m in the previous year.

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

(thousands of Euro)

Items	31.12.2020	31/12/2019	Chg.	Chg.
Value adjustments on HTC loans and advances (see part C tab.	(9,715)	(3,681)	-6,034	+163.9
Net gains/losses on the sale of HTC loans and advances (see	(712)	1,095	-1,807	-165.0
Provisions for legal disputes on loans and advances (see	30	1	+29	+3,003.1
Value adjustments on HTCS debt securities (see part C tab. 8.2)	21	173	-152	-87.6
Change in FV investments in UCITS (see part C tab. 7.2)	(1,157)	(1,531)	+374	-24.4
Change in FV debt securities FVTPL (see part C tab. 7.2)	(31)	-	-31	
Value adjustments on equity investments (see part C tab. 15.1)	(470)	(370)	-100	+27.0
Value adjustments on other fin. transactions (see part C tab. 11.1)	(58)	(11)	-47	+427.1
Write-down of receivables, securities and equity	**(12,092)**	**(4,324)**	**-7,768**	**+179.6**

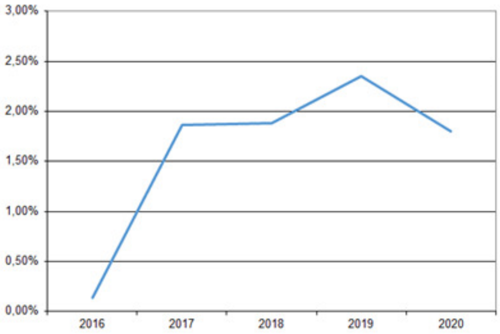
Trend in adjustments to loans and advances (thousands of Euro)



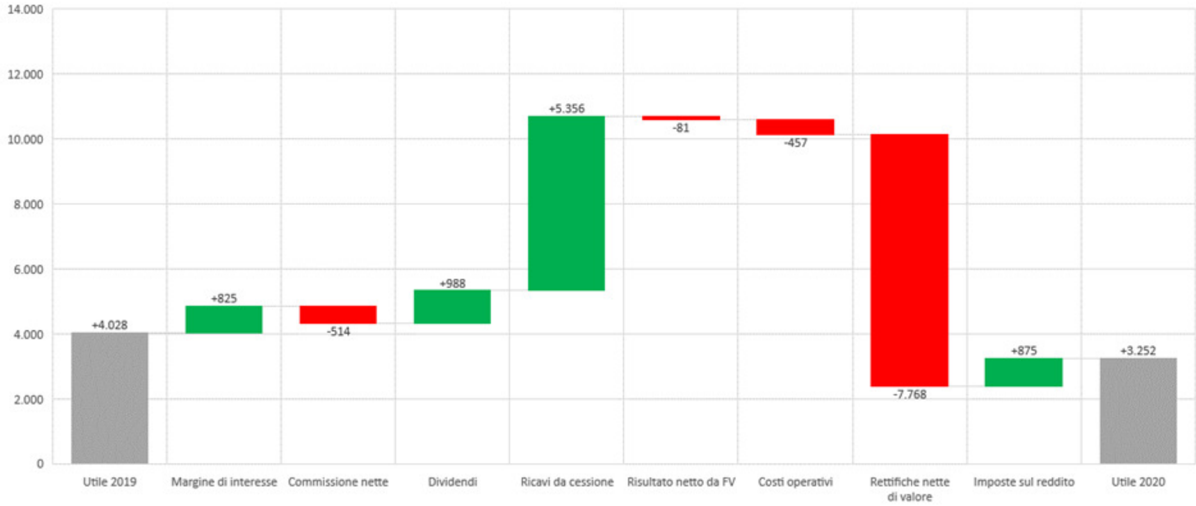
Profit (loss) for the year

The profit on current operations before taxes was €4.518m, marking an increase by 27% compared to the previous year (-€1.650m). The net profit for the period was €3.252m, after the calculation of the tax burden of €1.265m, which expresses a tax rate of 28.0%.

Trend for ROE



Comparison of net profit 2019/2020



Equity and the state of affairs of the Company

Equity

Reserves increased by €3.995m due to the allocation of the profit for 2019.
Valuation reserves increased by €134 thousand due to the reversal to the extraordinary reserve of negative reserves relating to equity securities under the OCI options transferred in 2019 and by €5.364m 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 €183.884m, up by €8.718m.

(in thousands of Euro)

	Items	Dec 2020	Dec 2019	Chg.
110.	Valuation reserves	7,010	1,512	+5,498
140.	Reserves	85,296	81,301	+3,995
150.	Additional paid-in capital	29,841	29,841	-
160.	Share capital	58,485	58,485	-
180.	Profit for the period	3,252	4,028	-776
	Total equity	**183,884**	**175,166**	**+8,718**

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. The Bank 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, those formed at the time of application/review of IAS/IFRS and that originated during the year from the sale of equity securities under the OCI Option) for an overall amount of €85.296m.[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 €3.149m (positive) and reserves from actuarial gains/losses related to defined benefit plans (severance indemnities) amounting to €457 thousand (negative). It is adjusted by negative elements attributable to intangible assets of €91 thousand and by supplementary value adjustments to regulatory capital of €164 thousand.

2. Additional Tier 1 capital (Additional Tier 1 - AT1)

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

3. Tier 2 capital (TIER 2 - T2)

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

	2020	2019
A1. CET 1 before the application of prudential filters	**180,632**	**171,138**
of which CET1 instruments subject to transitional provisions	-	-
B. CET 1 prudential filters (+/-)	-164	-139
C. CET1 gross of the elements to be deducted and of the effects of the transitional regime (A+/-B)	**180,468**	**171,000**
D. Elements to be deducted from CET1	**+91**	**+132**
E. Transitional regime – Impact on CET1 (+/-)	**-**	**-**
F. Total CET 1 (C-D+/-E)	**180,377**	**170,868**
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)	**180,377**	**170,868**

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.

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 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	
	2020	2019	2020	2019
A. RISK-WEIGHTED ASSETS	**1,736,916**	**1,469,864**	**742,095**	**864,473**
A.1 Credit risk and counterparty risk	**1,736,916**	**1,469,864**	**742,095**	**864,473**
1. Standardised approach	1,731,967	1,469,864	736,480	864,473
2. Internal ratings-based approach				
2.1 Basic				
2.2 Advanced				
3. Securitisation framework	4,949	-	5,614	-
B. REGULATORY CAPITAL REQUIREMENTS			**62,633**	**72,421**
B.1 Credit risk and counterparty risk			**59,368**	**69,158**
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			**3,265**	
1. Basic approach			3,265	3,263
2. Standard approach				
3. Advanced approach				
B.6 Other calculation elements				
B.7 Total prudential requirements			**62,633**	**72,421**
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			782,908	905,265
C.2 CET1/Risk-weighted assets (CET1 capital ratio)			23.04	18.87
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			23.04	18.87
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			23.04	18.87

Own funds amounted to €180.4m; net of the minimum regulatory requirements, their residual value was as follows:

- €142.1m with respect to the 4.88% threshold set for CET1, reduced to €122.6m to take into account the additional conservation buffer;
- €109.8m with respect to the 9.01% threshold set for total tier 1 capital; and
- €92.8m 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

	2020	2019
Opening tier 1 capital	**170,868**	**167,924**
Share capital increase (+)	-	-
Share capital reduction (-)	-	-
Non-distributed income (-)[19]	+3,995	+1,366
Change in Bank's creditworthiness (-)	-	-
Change in comprehensive income:	+5,498	+1,325
Assets through other comprehensive income	+5,511	+1,375
Defined benefit plans	-13	-51
Other	-	-
Changes in goodwill and other intangible assets	+41	-84
Changes in deferred tax assets that depend on future profitability and do not derive from temporary differences	-	+347
Changes in the impact of the transitional regime	-	-
Losses in the current year	-	
Unrealised losses measured at fair value	-	-
Unrealised gains measured at fair value	-	-
Deduction of deferred tax assets that depend on future profitability and do not derive from temporary differences	-	-
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	-26	-10
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	**180,377**	**170,868**
Opening tier 2 capital	**-**	**-**
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:	-	-
Filters and deductions provided for by national regulations in accordance with Basel II (known as Prudential filters)	-	-
Amortisation/Depreciation changes	-	-
Other changes	-	-
Closing tier 2 capital	**-**	**-**
Own funds	**180,377**	**170,868**

Rating

Following the assessment activities carried out by Moody's in March 2020, taking into account the ongoing pandemic crisis, the rating agency changed the outlook from *stable* to *negative* while maintaining the previous rating levels unchanged, as shown below:

Moody's Investor Service

Outlook	**Negative**
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

19 The amount also includes the profit or losses deriving from the sale of equity securities held under the OCI option.

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

In spite of the fact that the Bank, given its size and business model, operates in a moderate risk context, which remained essentially stable also during 2020, 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 department 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 2020, Internal Auditing activities were also focused on controlling the correct functioning of I- and II-level 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 (Allitude/SIC platform) is in place, which includes specific functionalities dedicated to the control system and, also in 2020, 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, assessing the Bank's new areas of operation, in order to identify and define the necessary regulatory compliance processes, 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 2020, the traditional activities of controlling the risk of non-compliance and verification and updating of the internal control system concerned the following aspects:

- completion of the process of regulatory and operational compliance with the new EU provisions on anti-money laundering (Directive no. 2018/843 of the European Parliament and of the Council of 30 May 2018 - the so-called "V Anti-Money Laundering Directive");
- migration of the banking information system (Gesbank) from the SBA tabular and functional infrastructure to the Allitude infrastructure, with consequent organisational and procedural measures regarding anti-money laundering;
- activation of new tools and services for managing and controlling money laundering risk;
- management of de-securitised transactions with the consequent need to submit them to customer due diligence obligations;
- review of internal regulations on remuneration and incentive policies and practices ("Regulation of remuneration policies" and "Regulation of the incentive system");
- analysis of the impact of the new definition of loans in default;
- analysis of the new operating areas of the Bank.

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

- ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process);
- remuneration and incentive policies;
- organisational procedures for the provision of investment services and activities to the public;
- risk assets and conflicts of interest;
- anti-money laundering - correct identification of beneficial owners
- process for managing targeted longer-term TLTRO III refinancing operations.

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 2020, the main areas of intervention of the "Risk Management" department 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, activities relating to the monitoring of the performance of credit exposures, risk concentrations, the assessment of the consistency of asset classifications and the adequacy of provisions for impaired and non-impaired exposures IFRS 9 compliant; in this context, it carried out an in-depth analysis of the risk profiles of the sectors potentially subject to impairment as a result of the ongoing pandemic context, with particular reference to customers belonging to the segment of cableways, hotels and tourism as well as, in a transversal manner, to customers in a *"forborne" status*.
- 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.

Impacts deriving from the Covid-19 pandemic

In terms of credit risk, the Risk Management Department carried out an in-depth analysis of the portfolio in terms of risk by segment, focusing on the Bank's lending operations in the sectors most exposed to the consequences of the Covid-19 pandemic crisis, identified - in consideration of the area of operation of the Bank and the economy of the reference territories - in the sectors related to tourist flows, first of all that of Hospitality and that of Cableways, in addition to an appropriate review of the accounts subject to Covid-19 moratoria.
This activity was carried out with the aim of providing the Management and the Board of Directors with a snapshot of the scope and the current composition of the portfolios under analysis, showing the *breakdown* in terms of customers' operating segments, geographical location, degree of risk and presence of collateral guarantees; some monitoring indicators were also used (such as, for example, the Rating classes of the IFRS 9 Impairment Model) with the aim of identifying transactions with potential critical areas to be included in a possible monitoring watch list. No particular risk phenomena emerged from the analyses.
Please refer to the sections of Part E for further details.

COMPLIANCE WITH REGULATIONS

V Anti-Money Laundering Directive (Legislative Decree 125/2019)

During 2020, the process of adapting to the so-called "V Anti-Money Laundering Directive" (Directive no. 2018/843 of the European Parliament and of the Council of 30 May 2018) on preventing the use of the financial system for money laundering purposes and terrorist financing (transposed into Italian law with Legislative Decree no. 125 of 4 October 2019) was completed. The Legislative Decree introduces amendments and additions to the previous Legislative Decree no. 231/2007 as amended by Legislative Decree no. 90/2017 (which in 2017 transposed the fourth EU directive).
The main changes regarding the new EU legislation are outlined below.

1. The reasons for the new regulations.
Following the terrorist events that struck some European cities and the "Panama Papers" scandal, with which documents containing information on numerous off-shore corporate structures were made public, used as a "screen" for illegal activities, especially in the tax field, the European Council decided to strengthen the legislation concerning the regulation of virtual currencies (in order to contain the risks of financing terrorism), the powers of the Financial Intelligence Units of the European Union and their cooperation through the expansion of the range of information made available to them as well as the risks associated with anonymous prepaid instruments.

2. The changes introduced by the national regulations (Legislative Decree 125/2019)
Legislative Decree no. 125/2019 (which makes amendments to Legislative Decree no. 231/2007), on the one hand, implements the contents of the 5th Anti-Money Laundering Directive and, on the other, revises and supplements the implementing text of the 4th Directive. In particular, to ensure greater access to information on beneficial owners while strengthening the supervisory system and active collaboration in order to combat the increased risk of money laundering associated with new means of payment, works of art and cross-border operations of the parties, including in the precautionary regulations also operators in virtual currencies, artworks and prestigious real estate, enhance the controls on transactions involving high-risk third countries.

3. The recipients of anti-money laundering obligations
Following the reform of the provisions, the group of recipients of anti-money laundering obligations was integrated to include digital portfolio service providers, the subjects that carry out the activity of trading antiques, business agents that carry out activities in real estate brokerage in certain situations.
In addition, the new wording of the Anti-Money Laundering Legislative Decree (231/2007) transfers to the banking and financial intermediaries the task of monitoring all parties involved in various capacities in securitisation transactions (transferred debtors, subscribers of the bonds issued) in order to avoid the risk that securitisations may give rise to money laundering.

4. Due diligence activities
The update of the provisions also concerned the due diligence obligations, in particular it was specified that:

- the due diligence must be re-performed with respect to those who are already customers, not only in the event that there is a change in the level of risk attributed to the customer, but also in the event of an

extension of the obligations arising, imposed by rules issued subsequently at the time the customer was acquired;
- for digital identifications, it is specified that digital identities and certificates for the generation of digital signatures issued in compliance with Regulation (EU) 910/2014 can be accepted only if characterised by a maximum level of security.

The list of sectors / products that present a higher risk factor was also redefined, including oil, weapons, precious metals, tobacco, cultural artifacts and other movable assets of historical, archaeological, cultural or religious importance or of rare scientific value, as well as ivory and protected species.
Lastly, the new paragraph 4-bis of article 25 of Legislative Decree 231/2007 specifies the measures to be adopted for customers operating in high-risk countries.

5. Outsourcing of anti-money laundering services
The new wording of the sector provisions extends the inspection and control powers of the supervisory authorities to the structures to which the obliged parties have outsourced the fulfilment of the anti-money laundering obligations (outsourcer) or the essential or important company functions for the fulfilment of the anti-money laundering obligations.

6. International cooperation
Because of the growing cross-border operations, the new provisions require the sector Supervisory Authorities to cooperate with the competent anti-money laundering authorities of the Member States in which the owned banking and financial intermediaries or the branches of the group are established, with the possibility of requesting that these authorities carry out inspections and checks, or agreeing on other methods of verification.

7. The regime for access to the Register of beneficial owners
According to the new Directive, specific types of information must be accessible to the public (and no longer to stakeholders), also with reference to trusts and similar legal arrangements, it being understood that the data that may be disclosed are: name, surname, month and year of birth, country of residence, citizenship of the beneficial owner and the conditions under which the individual qualifies as beneficial owner.

8. Operational interventions
In operational terms, the process of adapting internal regulations to the so-called IV and V Anti-Money Laundering Directives was completed in 2020. In particular:
- a special Working Group was set up in order to subject customers previously classified under simplified due diligence and the relationships deriving from a de-securitised process to due diligence;
- the operating processes were rewritten with the aim not only of adapting them to the renewed regulatory context, but also of rationalising / simplifying their content;
- the control processes were revised, also adopting new and more efficient IT tools to support the process, i.e. tools for diagnosis and assessment of anomalous positions and preventive and constant control tools; with particular reference to the operational process of customer due diligence (correct identification of beneficial owners, constant control, etc.).

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 2020:

- 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 2020, the Public Disclosure as at 31 December 2019 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 Body;
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.

Remuneration and incentive policies and procedures

With regard to remuneration and incentive policies and practices, as part of the SREP process carried out annually by the Bank of Italy, the internal regulations on remuneration and incentive policies and practices were reviewed (Regulation of remuneration policies and Incentive System Regulation). The interventions carried out made it possible to achieve greater regulatory compliance with the provisions of Circular no. 285 of 17 December 2013, through greater detail on the following points:

- more precise definition of the tasks of the human resources and strategic planning functions;
- update of the criteria for identifying key personnel (also specifying the role of company bodies and functions);
- extension of the policy also to the subsidiary and to any parties with professional and collaboration assignments;
- more precise definition of the remuneration components (fixed part and variable part);
- update of the limits to the variable component (taking into account the levels of capital resources and liquidity);

- exclusion of the company control functions from incentive mechanisms linked to the results of the areas of the Bank under their control;
- redefinition of the claw back and malus clauses;
- insertion of specific mechanisms linking the variable component of remuneration and the "risk appetite framework" (RAF);
- update of the provisions on early termination of employment / office.

Calendar provisioning (EU Regulation 2019/630)

With the entry into force of Regulation (EU) 2019/630, which amended Regulation (EU) 2013/575, as regards the minimum loss coverage applicable to positions disbursed after 26 April 2019 and subsequently classified as non-performing exposures, the Bank issued an update of the internal policy to ensure the correct application of the so-called Calendar provisioning. In particular, the following activities were implemented:
- update of the internal rules on the management of impaired loans-NPLs;
- analysis for 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.

New definition of *default*

As from 1 January 2021, the new European rules on the definition of "default" came into force, with which all financial intermediaries (banks and otherwise) have been aligned, pursuant to Regulation (EU) No. 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment companies and related provisions of the European Banking Authority (EBA) and the European Commission. The aforementioned Regulation (see in particular art. 178), in defining the essential conditions in the presence of which a debtor must be considered in a state of default, delegates:
- the EBA to carry out the task of defining the guidelines on the application of the definition of default as well as the technical regulations on the so-called "materiality thresholds" (see the "Guidelines on the application of the definition of default pursuant to art. 178 of the EU Regulation no. 575/2013" and "New regulatory techniques relating to the materiality threshold of past due loans");
- the European Commission has the task of quantitatively determining the extent of these thresholds.

In view of this renewed regulatory framework, the main changes that have occurred are shown below.

1. Objective default.

The new definition of default did not change the time limits for triggering the classification of past due positions (the limit of 90 days remained unchanged); the element on which the regulators intervened is the so-called "materiality threshold", i.e. the exemption that allowed banks - within certain limits - not to classify a position as default (set until 31/12/2020 in the 5% of total exposure).
On the basis of the new regulations, there will be an objective default (past due) after 90 days from the maturity date of the obligation (instalment payment), without the debtor having fulfilled it, in the presence of both of the following conditions (new "materiality thresholds"):
- the unpaid portion must be at least 1% of the debtor's total exposure (this component - valid for all types of counterparties - is defined as the "relative component");
- the total value of the past due exposure must be at least €100 for retail exposures / retail customers and €500 for other exposures / non-retail customers (so-called "absolute component").

2. Subjective default.

In any case it is still possible to classify a customer in default subjectively, or in the opinion of the bank, if this is not deemed able to fulfil the obligations assumed (if not through the enforcement of the guarantees given to cover the credit), or, in the case of unsecured credit positions, is not deemed able to promptly fulfil the obligations undertaken.
In this regard, it should be noted that in its Guidelines, in order to harmonise the discretion granted to intermediaries in the classification of customers, the EBA considered it appropriate to define a series of *triggers* in the presence of which the position must be qualified as in *default*. In particular: a) in the case of disposal of loans for which there has been a "distressed restructuring" (of the debt) that entailed a substantial remission of the same or a deferral of payments of principal, interest or commissions with a loss higher than 1% of the original debt; b) in case of bankruptcy of the borrower; c) in the event of specific provisions on the exposure in accordance with IFRS 9; d) in the event of loss of sources of income and increase in the level of financial leverage.

Upon the occurrence of the above conditions, all exposures to the debtor must be considered in default.

3. Default contagion.
The new regulation also introduces another important aspect called "default contagion", by virtue of which:
- if the joint account is in default, the contagion applies to the exposures of the individual joint holders;
- if all the joint holders are in default, the contagion is automatically applied to the exposures of the joint account.

In this regard, it points out that this new provision applies only to joint transactions and not to legal and/or economic links between parties (companies belonging to the same group).
On the other hand, within banking groups, the classification of a default position with one company of the group will entail the extension of this classification to all the companies of the same group.

4. Offsetting between exposures.
A further change related to the new definition of default is that it is no longer possible to apply the offsetting of past due amounts with any other available funds on unused or partially used credit lines, consequently classifying the customer as in default even in the presence of other available credit lines.

5. Restructuring of credit lines.
The regulations also introduce a new threshold for the classification as default in cases of credit line restructuring due to financial difficulties of the customer. If, as a result of the remodulation (forborne), a loss of more than 1% occurs, the Bank is required to classify the customer in a state of default (known as Diminished financial obligation).

6. Disposal of loans through securitisations.
The new EU provisions also apply to the disposal of loans through securitisations ("traditional securitisations", i.e. those that transfer ownership of the loans to the special purpose vehicle). In particular, the EBA Guidelines identify the cases in which the disposal of loans must be considered an indication of default with consequent classification of the customer. In particular:
- position without default index: if the disposal takes place for corporate policy reasons, or to increase liquidity, the loss resulting from it is not to be considered an indicator of default if the bank is able to document that the loss itself does not derive from an impairment of the possibility of debt recovery;
- position with default index:
  - individual position: if the sale takes place due to the decrease in the possibility of credit recovery and the loss incurred by the bank is greater than 5% of the value of the receivable gross of value adjustments, the transaction will give rise to a default ratio with consequent classification of the position (and any other related positions) in default status;
  - loan portfolio: in the event of disposal of a loan portfolio, if its price is determined by applying a discount to the total value of the loans (gross of value adjustments) that is such to entail a loss of more than 5%, it will be necessary to extend the default status to the entire portfolio (i.e. to all individual positions). The extension of the status should not be applied if the portfolio price was determined by specifying the discount rate applied to the individual positions.

7. Exit from default classification.
The provisions in question also introduce new conditions to "exit" the default condition; in particular, the transition to performing status will take place after the cure period that is three months after the position is settled (i.e. from the moment in which the conditions set forth in art. 178 of the CRR cease), or one year with reference to the customers that benefited from debt restructuring.
In these cases, the new provisions require that an important role is played by the bank's assessment of the customer's overall financial situation. The return to a performing status will in fact be possible only if the financial situation of the customer is considered stable in an effective and permanent manner.

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 605/1973): the submission to the Inland Revenue 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 (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 Law on Banking", 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 Law on Finance) - the Bank, issuer 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) – an assignment was conferred by the Bank relating to the PPSM function and the "employer" function was outsourced in accordance with art. 16 of Legislative Decree no. 81/2008;
- Internal system for reporting violations - Whistle-blowing (Legislative Decree 385/93 - Consolidated Law on Banking, 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).
- Market abuse regulation (Regulation (EU) 596/2014)
- Guidance on the management of non-performing loans for Italy's Less significant institutions (NPL)

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES

(Legislative Decree 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 Law on Finance 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. In this "project" are established 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 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 Law on Finance		
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[20]
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 Law on Finance), in which the Bank is required to document information regarding the main

20 The shareholders' agreements between public and industrial cooperative credit shareholders expired on 31 December 2020 but are being renewed.

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, the IT Audit service is performed by the internal control function, through the specialist consultancy support of Cassa Centrale Banca, which 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 scenario prospects, also illustrated by the Bank of Italy[21], remain strictly dependent both on the evolution of the pandemic and on the measures adopted, on the one hand to combat the increase in contagion, and on the other to mitigate its impact on the economic activity. The baseline projection assumes that, after the second wave of infections last autumn, the epidemic will get gradually under control in the first half of 2021 and that the health emergency will be completely overcome by 2022, especially thanks to the global vaccination campaign.
As mentioned, the considerable support to economic activities comes from budgetary policy and the use of European funds available within the NGEU: it is expected that the planned budget measures, including those financed with European funds, may raise the level of the GDP overall by approximately 2.5 percentage points over the three-year period 2021-23. However, the achievement of these effects depends on the concrete specification of further interventions - which are expected to be largely defined in the coming months and included in the National Recovery and Resilience Plan - and on their timely implementation.
In the scenario considered, the monetary and financial conditions remain extremely favourable, also thanks to the action of the Eurosystem, governments and European institutions. In line with the expectations inferred from market prices, the yields of ten-year Italian government bonds would remain at historically low levels in 2021, to increase very gradually in subsequent years; this is due to the extensive monetary accommodation and the reduction in sovereign risk premiums.
The persistence of low interest rates and the support measures adopted by the Government have largely mitigated the risks of liquidity and insolvency of companies; in this scenario, the economic policy measures are assumed to be able to ensure that the repercussions of the crisis on corporate indebtedness and credit quality remain limited and do not translate into a significant tightening of financing conditions. The average cost of credit to businesses, which fell slightly in 2020 (to 1.5% from 1.7% in 2019), would rise to a limited extent.

(percentage changes on the previous year) [22]

	2020	2021	2022	2023
GDP	-9.2	+3.5	+3.8	+2.3
Household consumption	-10.4	+3.2	3.1	+1.9
Investments in operating assets	-8.5	+8.6	+13.9	+7.0
Building investments	-14.3	+9.2	+8.9	+2.9
Total exports	-14.9	+9.8	+4.5	+3.3
Total imports	-13.4	+9.0	+6.6	+3.6
Consumer prices (HICP)	-0.1	+0.7	+0.8	+1.1
Unemployment rate	9.3	10.5	10.0	9.5
3-month Euribor rate	-0.4	-0.5	-0.5	-0.5
Ten-year BTP	1.2	0.8	1.0	1.2

In this scenario, the Bank of Italy's projection, after a contraction of GDP in Italy of 9.2% in the year just ended, is of a recovery in the next three years (3.5% on average in 2021, 3.8% in 2022 and 2.3% in 2023).
It is understood that future dynamics are strongly dependent on the evolution of the pandemic and, therefore, a prolongation of the adverse effects of the pandemic at global level, if not effectively countered by economic policies, could pose a risk for growth prospects if it were to affect the consumption and investment behaviour, on international trade or on financial conditions. The Bank of Italy estimates that - in the presence of stagnation in foreign demand in 2021, a further extension of the measures to contain the pandemic, combined with a tighter supply of credit - could generate negative effects on GDP in 2021 of 3.4 percentage points and in 2022 of -2.4 percentage points. Only in 2023 would the improvement of the healthcare framework give rise to a higher growth of 1.4 percentage points.

The overall scenario presented will also undoubtedly have repercussions on the Bank's operations and economic dynamics: on the one hand, the Bank will have to support the liquidity needs of SMEs in the best possible way, also by managing the expiry dates of the extensive and widespread moratoria and instalment suspensions granted in 2020; on the other hand, it will have to look beyond the end of the crisis and, by

21 Economic Bulletin, January 2021.
22 Bank of Italy. *Macroeconomic projections for the Italian economy*, 19 January 2021.

leveraging its advisory capacity, identify the most suitable financial structures for its customers to enable them to reconnect the development path with new investments.
In this regard, the disbursement of new loans with innovative instruments such as minibonds and the intense use of guarantees from the EIF Plafonds on EGF funds for €400m, which the bank was able to obtain first among European competitors, will be part of the plan as an essential mix for a solid restart after the crisis. Considerable advisory efforts will be made with the aim of strengthening the risk capital of SMEs, especially with a view to the potential of the rapidly growing AIM market.
Despite this effort, it is thus reasonable to believe that, also for 2021, the objectives and the dynamics of credit development will be affected, at least for the first part of the year, by a significant slowdown, while the overall stock of loans will be impacted even less due to the benefits linked to the suspensions and the foreseeable containment of the phenomenon of early redemptions.
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 or reverse the trend, in close correlation to the repercussions of the economic crisis, the ability of companies to support the post-moratorium and, last but not least, the new and more stringent regulations on "defaults" to which the banking system must comply starting from 1 January 2021.
As regards the coverage of financial requirements, the bank will continue to strengthen the diversification of sources with the intention of containing the liquidity risk and improving the stability of funding: in this area of return to the collection of private savings, the Conto Rifugio *online* channel has been supplemented by a modern consulting office at the Trento headquarters - inaugurated in January 2021 - and by the start of an important collaboration with the *fintech Raisin,* functional to the extension of *retail* deposits also outside national borders, particularly in Germany and Austria.
In terms of the 2021 economic forecasts, the interest margin will significantly benefit from the profitability and size of the securities portfolio as well as from the level of the best rates applied by the ECB on long-term refinancing operations (TLTRO 3), although it will still remain under pressure, due to the worsening of the competitive environment and the persistence of the low level of market rates.
net interest and other banking income should remain at the levels of 2020 both in terms of commission income and dividends. Moreover, in the first two months of the year, it has already benefited from significant capital gains on the sale of Government bonds.
In the presence of substantial stability in operating costs, net profitability for the year will in any case be affected by adjustments to loans that are not easily quantifiable to date, which as regards the first quarter still show very limited trends - considering the policies of strengthening the provisions of the last few years and limited impairment rates.
From an organisational point of view, agile work and the flexible management of services are expected to be continued, also inspired by the strengthening of models based on objectives and trust in employees. Moreover, constant training will continue and some commercial and technical-IT controls will be strengthened with new hires; the latter related to further technological and digital advances of the Bank. On the other hand, with regard to logistics investments, the Bank intends to acquire the ownership of a new property to house the Bolzano branch, now rented.

With respect to the regulatory adjustments of the Legislator and the Supervisory Authority as well as to compliance measures in relation to the development of new products, the Bank will be committed to the following issues with the greatest impact.

- Application to the Bank of Italy to obtain authorisation for the provision of investment services and activities, combined with the provision of investment advisory services, in order to launch the provision of the service to support the listing of mini-bonds. The new service activation process envisages:
    - the preparation of the "Preliminary report", structured on the basis of the format envisaged by the supervisory provisions and on the types of investment services to be activated;
    - the preparation/updating of "framework agreements for the provision of investment services" for the specific services offered;
    - review/implementation of internal regulations on the matter (e.g. policies drawn up for the purposes of the MiFID 2 Directive and the Market Abuse Regulation);
    - the formalisation of the placement process, with or without firm guarantee, and management of the *road show* phase and expressions of interest (standard NDA - also MAR compliant);
    - the verification of the internal company processes activated by the new operations, with particular reference to the management and dissemination of relevant information;
    - the activation of any agent bank operations and consequent relations with Monte Titoli and related supporting documentation;

- the Bank's accreditation as a listing sponsor at the Italian Stock Exchange and related supporting documentation.
- In line with regulatory and supervisory provisions in various areas, including:
  - assessment of the suitability of representatives of banks, financial intermediaries, confidi, electronic money institutions, payment institutions and depositor guarantee systems;
  - supervisory provisions on bank corporate governance and on remuneration and incentive policies and practices - Amendments to Circular no. 285/2013;
  - updates to reports from banks and other supervised intermediaries;

PROPOSAL FOR THE ALLOCATION OF THE NET PROFIT

Dear Shareholders,

the net profit for 2020 amounted to €3,252,388.43, entirely distributable.
Given the above, even in consideration of the level of capitalisation and the overall risk profiles of the Bank, it is considered appropriate to implement the recommendation of the Bank of Italy[23], which invites to refrain from recognising or paying dividends or to limit their amount to no more than 15% of the cumulated profits of 2019-2020 or 20 basis points of the CET1 coefficient (in any case, the lower of the two), to refrain from recognising or paying provisional dividends on the profits of 2021 and to exercise extreme prudence in the recognition of the variable remuneration.

a. maximum distributable dividend calculated on profits	1,092,070.85
b. maximum distributable dividend calculated on CET1	1,565,816.53
c. maximum distributable dividend (lower between a. and b.)	**1,092,070.85**

Profit for the year	**3,252,388.43**
- non-distributable reserves under article 6, paragraph 2 of Legislative Decree no. 38/2005 freed during the year	-
- allocation to non-distributable reserves under article 6, paragraph 2 of Legislative Decree no. 38/2005	-
- 5% to the legal reserve	162,000.00
Distributable amount	**3,090,388.43**
- at the disposal of the Board of Directors for initiatives as per article 21 of the By-laws	160,000.00
- dividend to distribute to shareholders (€0,009 for the 112,470,400 shares, which correspond to 1.731% of their nominal value)	1,012,233.60
- further allocation to the extraordinary reserve	1,918,154.83

During 2020, the Bank sold/disposed of 2 equity investments held under the OCI option without recycling the gains/losses in the income statement; it is hereby proposed to allocate the positive net balance of these capital gains/losses, equal to €301,129.06 to the extraordinary reserve.

Net realised capital gains (losses) on equity securities	**301,129.06**
- capital gains	301,234.82
- capital losses	(105.76)

This proposal for the distribution of dividends must be submitted to the supervisory authority, which will assess whether the planned distribution level is prudent. It is also proposed to begin paying dividends starting from 10 May 2021.
In case of approval of the aforementioned distribution, the Company equity as at 31 December 2020 as specified above, is as follows:

- capital	58,484,608.00
- additional paid-in capital	29,841,458.06
- legal reserve	19,768,007.66
- statutory reserves	55,763,525.81
- valuation reserves	7,009,709.20
- OCI option reserves on disposal (without recycling)	-
- reserve from the reclassification of risk provisions	18,936,305.62
- reserve from the FTA as per Legislative Decree 38/2005	2,273,855.22
- reserve from the IFRS 9 FTA	(9,746,345.90)
- reserve under IAS 8	380,695.00
- non-distributable reserve under article 6, paragraph 2 of Legislative Decree 38/2005	-
Total	**182,711,818.67**

The Board of Directors

23 Bank of Italy, "Recommendation on the distribution of dividends and variable remuneration policies for banks", 16 December 2020

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

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 2020.

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 2020 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, 15 March 2021

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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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 separate financial statements

Opinion

We have audited the separate financial statements of Mediocredito Trentino-Alto Adige S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2020, 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 separate financial statements give a true and fair view of the financial position of Mediocredito Trentino-Alto Adige S.p.A. as at 31 December 2020 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 separate 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 separate financial statements of the current year. These matters were addressed in the context of our audit of the separate 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 separate financial statements "Part A - Accounting policies": paragraph A.2.3 "Financial assets at amortised cost"

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

Notes to the separate financial statements "Part C - Information on the income statement": paragraph 8.1 "Net impairment losses for credit risk on financial assets at amortised cost: breakdown"

Notes to the separate financial statements "Part E - Information on risks and related 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 at amortised cost totalled €1,477 million at 31 December 2020, accounting for 86.0% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €10.8 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. 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	Our audit procedures included: — gaining an understanding of the banks' 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, as well as the adjustments made as a result of the effects of the Covid-19 pandemic. We carried out these procedures with the assistance of experts of the KPMG network;

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Key audit matter	Audit procedures addressing the key audit matter
guarantees, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the bank's customers operate. The complexity of the directors' estimation process has increased in 2020 due to the Covid-19 emergency which has severely affected current economic conditions and potential future macroeconomic scenarios, requiring an adjustment to the valuation processes and methods. 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.	— selecting a sample of exposures tested collectively, checking the application of the measurement models applied and 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 about loans and receivables with customers recognised under financial assets measured at amortised cost, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

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

The directors are responsible for the preparation of separate 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 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15, 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 separate 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 separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 separate 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 separate 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 separate 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 a directors' report and a report on corporate governance and ownership structure at 31 December 2020 and for the consistency of such reports with the related separate 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 separate financial statements at 31 December 2020 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 separate financial statements at 31 December 2020 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, 2 April 2021

KPMG S.p.A.

(signed on the original)

Massimo Rossignoli
Director of Audit

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 2020 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 2020 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 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 have adequately illustrated, in the financial statements, the impacts linked to the Covid-19 pandemic.
3. For comparative purposes, the financial statements present the corresponding figures for 2020 summarised as follows:

Statement of financial position				
Total assets			Euro	1,716,512,354.79
Payables and provisions	Euro	1,532,628,302.52		
Share capital and reserves	Euro	180,631,663.84	Euro	1,713,259,966.36
Profit for the year			Euro	3,252,388.43

Income statement		
Net interest and other banking income	Euro	27,229,471.54
Value adjustments	Euro	(10,818,100.36)
Operating costs	Euro	(11,422,258.96)
Revenues from equity investments, property, plant and equipment and intangible assets	Euro	(471,565.81)
Income taxes on current operations	Euro	(1,265,157.98)
Profit for the year	Euro	3,252,388.43

4. During the course of 2020, there were changes to the Bank's equity owing to:
   - the recognition of €3,828,083.93 in reserves of part of the profits in 2019 (portion not distributed);

- the allocation to the extraordinary reserve of net losses from the sale of equity investments held under the OCI option, suspended in the valuation reserve, for a total of €133,824.42;
- the recognition using the valuation reserves of a positive €5,364,127.93 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 €133,824.42 due to the allocation to the extraordinary reserve of net losses from the sale of equity investments held under the OCI option;
- the allocation to the fund as per article 21 of the By-laws of €200,000.00;
- a net profit of €3,252,388.43 was also recorded for the year 2020.

The equity of the Bank as at 31 December 2020 amounted therefore to €183,884,052.27, composed of:

- Share Capital - item 160:	€	58,484,608.00
- Additional paid-in capital – item 150:	€	29,841,458.06
- Reserves - item 140:	€	85,295,888.58
- Valuation Reserves – item 110:	€	7,009,709.20
- Profit for the year - item 180	€	3,252,388.43

5. Own Funds entered into the financial statements as at 31 December 2020 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 €9,508,852.20 as at 31 December 2020, compared to 31 December 2019, therefore standing at €180,376,574.08: the *Total capital ratio* stood at 23.04% as at 31 December 2020 compared to 18.87% in 2019. 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 with particular reference to the prospective effects of the pandemic crisis. 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)	(9,598,682.82)	3,549,698.91	(6,048,983.91)
Loans (net collective adjustments)	(4,506,776.55)	-	(4,506,776.55)
HTC debt securities	(328,554.40)	86,343.79	(242,210.61)
HTCS debt securities	(9,615.57)	31,063.12	21,447.55
Total item 130.	**(14,443,629.34)**	**3,667,105.82**	**(10,776,523.52)**
"Time reversal" write-backs item 10.	-	1,124,479.63	1,124,479.63
Profits/losses from contractual changes	(42,329.47)	752.63	(41,576.84)
Net gains on the sale of loans and advances	(1,498,549.77)	786,248.80	(712,300.97)
Fair value change of investments in UCITS	(1,360,006.66)	202,858.08	(1,157,148.58)
Changes in fair value of FVTPL debt securities	(30,644.74)	-	(30,644.74)
Provisions for legal disputes on loans and advances	-	30,000.00	30,000.00
Provisions for commitments and guarantees issued item 170.a	(58,377.03)	-	(58,377.03)
Value adjustments on equity investments item 220.	(470,000.00)	-	(470,000.00)
Total	**(17,903,537.01)**	**5,811,444.96**	**(12,092,092.05)**

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.

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 run functionality tests of *disaster recovery* with the outsourcer of the IT system managed by Allitude, which gave a positive outcome.
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 2020, the Board of Auditors held five 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 15 March 2021, which was submitted to the Board of Directors prior to the issuing of the Certification pursuant to article 81-ter of the Consob Issuers' Regulation.
   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. It oversaw the processes for the adoption of the 2020-2022 Strategic Plan, as well as the revision of the Recovery Plan and the multi-year NPL management plan, assessing regulatory compliance and consistency with the strategies and *reference framework* for risk, deeming it compliant and adequate with respect to the characteristics expected by 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 2020, no complaints (reprehensible acts) were submitted to the Board of Statutory Auditors pursuant to article 2408 of the Italian 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, the equity situation and the economic result of the Bank for the year ended 31 December 2020 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 2 April 2021 for the financial statements as at 31 December 2020, which contains no significant observations. Based on the work done as independent auditors of the financial statements as at 31 December 2020, 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. With particular reference to the allocation of profit for the year, the Board of Statutory Auditors considers the proposed distribution of dividends to shareholders as prudent and compatible with the recommendations of the Supervisory Body of 16 December 2020.
Finally, 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, 2 April 2021

Astrid Marinelli	Renato Beltrami	Patrick Bergmeister
Chairman	Standing auditor	Standing auditor

COMPANY FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION – ASSETS

	Assets	31.12.2020	31/12/2019
10.	CASH AND CASH EQUIVALENTS	3,578	2,154
20.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	15,252,070	24,129,201
	a) FINANCIAL ASSETS HELD FOR TRADING	189,053	290,517
	b) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	-	-
	c) OTHER FINANCIAL ASSETS MANDATORILY MEASURED AT FAIR VALUE	15,063,017	23,838,684
30.	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	149,036,253	114,419,491
40.	FINANCIAL ASSETS MEASURED AT AMORTISED COST	1,521,858,923	1,273,421,331
	a) LOANS AND ADVANCES TO BANKS	44,932,385	34,862,751
	b) LOANS AND ADVANCES TO CUSTOMERS	1,476,926,538	1,238,558,580
70.	EQUITY INVESTMENTS	335,700	305,700
80.	PROPERTY, PLANT AND EQUIPMENT	8,861,617	8,614,218
90.	INTANGIBLE ASSETS	90,692	131,859
	of which:		
	- goodwill		-
100.	TAX ASSETS	15,910,899	16,202,374
	(a) current	1,655,267	6
	(b) deferred	14,255,632	16,202,368
	pursuant to Law no. 214/2011	9,309,881	10,523,396
110.	NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE	-	-
120.	OTHER ASSETS	5,162,623	4,938,103
	TOTAL ASSETS	**1,716,512,355**	**1,442,164,431**

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 assets".

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

	Equity and liabilities	31.12.2020	31/12/2019
10.	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	1,518,769,842	1,253,487,162
	a) DUE TO BANKS	847,148,568	673,628,933
	b) DUE TO CUSTOMERS	399,774,363	284,066,523
	c) DEBT SECURITIES IN ISSUE	271,846,911	295,791,706
20.	FINANCIAL LIABILITIES HELD FOR TRADING	110,012	198,205
60.	TAX LIABILITIES	5,985,001	5,948,851
	(a) current	-	581,676
	(b) deferred	5,985,001	5,367,175
80.	OTHER LIABILITIES	4,038,707	3,675,428
90.	PROVISION FOR SEVERANCE INDEMNITIES	1,436,702	1,432,396
100.	PROVISIONS FOR RISKS AND CHARGES	2,288,039	2,255,982
	(a) commitments and guarantees issued	76,976	18,599
	(b) pension fund and similar provisions	-	-
	(c) other provisions	2,211,063	2,237,383
110.	VALUATION RESERVES	7,009,709	1,511,757
140.	RESERVES	85,295,889	81,300,500
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 (+/-)	3,252,388	4,028,084
	TOTAL EQUITY AND LIABILITIES	**1,716,512,355**	**1,442,164,431**

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

INCOME STATEMENT

	Items	31.12.2020	31/12/2019
10	INTEREST INCOME AND SIMILAR REVENUES	30,294,991	28,131,525
	of which interest income calculated with the effective interest method	29,740,510.37	27,036,345
20	INTEREST EXPENSE AND SIMILAR CHARGES	(10,799,872)	(9,047,386)
30	**NET INTEREST INCOME**	**19,495,119**	**19,084,139**
40	FEE AND COMMISSION INCOME	1,905,578	2,384,137
50	FEE AND COMMISSION EXPENSE	(463,204)	(428,296)
60	**NET FEE AND COMMISSION INCOME (EXPENSE)**	**1,442,374**	**1,955,841**
70	DIVIDENDS AND SIMILAR INCOME	1,369,994	381,921
80	NET TRADING INCOME	629	81,679
100	GAINS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	6,109,149	2,559,688
	a) financial assets measured at amortised cost	4,002,788	1,392,474
	b) financial assets measured at fair value through other comprehensive income	2,090,056	1,167,214
	c) financial liabilities	16,305	-
110	NET CHANGE IN OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	(1,187,793)	(1,530,598)
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	(1,187,793)	(1,530,598)
120	**NET INTEREST AND OTHER BANKING INCOME**	**27,229,472**	**22,532,670**
130	NET ADJUSTMENTS DUE TO CREDIT RISK TO:	(10,776,523)	(5,047,652)
	a) financial assets measured at amortised cost	(10,797,971)	(5,220,663)
	b) financial assets measured at fair value through other comprehensive income	21,448	173,011
140	Profits/losses from contractual changes without derecognitions	(41,577)	-
150	**NET INCOME FROM FINANCIAL ACTIVITIES**	**16,411,372**	**17,485,018**
160	ADMINISTRATIVE COSTS:	(10,993,079)	(10,741,104)
	a) payroll	(7,282,506)	(7,085,915)
	b) other administrative costs	(3,710,573)	(3,655,189)
170	NET PROVISIONS FOR RISKS AND CHARGES	(267,109)	(142,338)
	a) commitments and guarantees issued	(58,377)	(11,074)
	b) other net accruals	(208,732)	(131,264)
180	NET ADJUSTMENTS TO PROPERTY, PLANT AND EQUIPMENT	(524,120)	(553,699)
190	NET ADJUSTMENTS TO INTANGIBLE ASSETS	(41,168)	(32,138)
200	OTHER OPERATING CHARGES/INCOME	403,216	519,269
210	**OPERATING COSTS**	**(11,422,260)**	**(10,950,010)**
220	PROFIT (LOSS) FROM EQUITY INVESTMENTS	(470,000)	(370,000)
250	GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS	(1,566)	2,631
260	**PROFIT (LOSS) ON CURRENT OPERATIONS BEFORE INCOME TAXES**	**4,517,546**	**6,167,639**
270	INCOME TAXES ON CURRENT OPERATIONS	(1,265,158)	(2,139,555)
280	**PROFIT (LOSS) FROM CURRENT OPERATIONS AFTER TAX**	**3,252,388**	**4,028,084**
290	PROFIT (LOSS) FROM DISCONTINUED OPERATIONS AFTER TAX	**-**	**-**
300	**PROFIT (LOSS) FOR THE YEAR**	**3,252,388**	**4,028,084**

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	31.12.2020	31/12/2019
10.	NET PROFIT (LOSS) FOR THE PERIOD	**3,252,388**	**4,028,084**
	Other income components net of taxes without reversal to income statement		
20.	EQUITY SECURITIES DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	+3,187,024	+188,298
70.	DEFINED BENEFIT PLANS	(12,801)	(50,604)
	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	+2,189,905	+1,106,141
170.	**TOTAL OTHER INCOME COMPONENTS NET OF TAXES**	**+5,364,128**	**+1,243,834**
180.	**COMPREHENSIVE INCOME (Item 10+170)**	**8,616,516**	**5,271,918**

STATEMENT OF CHANGES IN EQUITY 31/12/2019 - 31/12/2020

	Balance as at 31.12.2019	Changes in opening balance	Balance as at 1.1.2020	Allocation of the previous year's result		Change for the year								Equity a
							Transaction booked to equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 2019	
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:	81,300,500	-	81,300,500	+3,694,260	-	301,129	-	-	-	-	-		-	85,295,889
a) profit	81,300,500	-	81,300,500	+3,694,260	-	301,129	-	-	-	-	-		-	85,295,889
- legal reserve	19,405,008	-	19,405,008	+201,000	-	-	-	-	-	-	-		-	19,606,008
- statutory reserves[24]	50,050,983	-	50,050,983	+3,493,260	-	-	-	-	-	-	-		-	53,544,242
- other profit reserves[25]	11,844,509	-	11,844,509	-	-	301,129	-	-	-	-	-		-	12,145,639
b) other	-	-	-	-	-	-	-	-	-	-	-		-	-
Valuation reserves:	1,511,757	-	1,511,757	+133,824	-	-	-	-	-	-	-	-	+5,364,128	7,009,709
a) at FV through OCI	-2,361,914	-	-2,361,914	+133,824	-	-	-	-	-	-	-	-	+5,376,929	3,148,839
b) cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c) others	3,873,671	-	3,873,671	-	-	-	-	-	-	-	-	-	-12,801	3,860,870
- Severance indemnities	-444,661	-	-444,661	-	-	-	-	-	-	-	-	-	-12,801	-457,462
- 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	4,028,083	-	4,028,083	-3,828,084	-200,000	-	-	-	-	-	-	-	3,252,388	3,252,388
Equity	**175,166,407**	**-**	**175,166,407**	**-**	**-200,000**	**301,129**	**-**	**-**	**-**	**-**	**-**	**-**	**8,616,516**	**183,884,052**

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
							Transaction booked to equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 2019	
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[26]	48,838,754	-	48,838,754	+1,212,229	-	-	-	-	-	-	-	-	-	50,050,983
- other profit reserves[27]	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**

24 The item includes the non-distributable reserve under article 6, paragraph 2 of Legislative Decree no. 38/2005.
25 "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.
26 The item includes the non-distributable reserve under article 6, paragraph 2 of Legislative Decree no. 38/2005.
27 "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	2020	2019
1.	**Operations**	**+15,592,993**	**+11,053,525**
-	profit (loss) for the year	+3,252,388	+4,028,085
-	capital gains/losses on financial assets held for trading and on financial assets/liabilities measured at fair value through profit or loss	+1,201,064	+1,509,882
-	capital gains/losses on hedging activities	-	-
-	net adjustments due to credit risk	+10,585,256	+2,859,905
-	net adjustments/write-backs to property, plant and equipment and intangible assets	+566,854	+585,836
-	net provision for risks and charges and other costs/revenues	+14,529	+168,609
-	unpaid duties, taxes and tax credits	+1,265,158	+2,139,556
-	other adjustments	-1,292,256	-238,348
2.	**Cash flow generated/absorbed by financial assets**	**-278,671,350**	**+15,265,722**
-	financial assets held for trading	-	-
-	financial assets designated at fair value	-	-
-	other financial assets mandatorily measured at fair value	+7,587,874	-2,073,645
-	financial assets measured at fair value through other comprehensive income	-25,598,561	-8,301,992
-	financial assets measured at amortised cost	-258,752,031	+25,236,883
-	other assets	-1,908,631	+404,476
3.	**Cash flow generated/absorbed by financial liabilities**	**+264,552,869**	**-23,031,627**
-	financial liabilities measured at amortised cost	+267,021,516	-23,840,331
-	financial liabilities held for trading	-	-
-	financial liabilities designated at fair value	-	-
-	other liabilities	-2,468,647	+808,704
	Net cash flow generated/absorbed by operating activities	**+1,474,512**	**+3,287,620**

B.	INVESTING ACTIVITY	2020	2019
1.	**Cash flow generated by**	**+6,029**	**+2,631**
-	sale of equity investments	-	-
-	dividends from equity investments	-	-
-	sale of property, plant and equipment	+6,029	+2,632
-	sale of intangible assets	-	-
-	sale of company divisions	-	-
2.	**Cash flow absorbed by**	**-1,279,114**	**-1,567,966**
-	purchase of equity investments	-500,000	-500,000
-	purchase of property, plant and equipment	-779,114	-951,835
-	purchase of intangible assets	-	-116,131
-	purchase of company divisions	-	-
	Net cash flow generated/absorbed by operating activities	**-1,273,085**	**-1,565,335**

C.	FINANCING ACTIVITY	2020	2019
-	issue/purchase of treasury shares	-	-
-	issue/purchase of equity instruments	-	-
-	distribution of dividends and other objectives	-200,000	-1,724,586
	Net liquidity generated/absorbed by financing activities	**-200,000**	**-1,724,586**
	NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD	**+1,424**	**-2,304**

RECONCILIATION

Statement of financial position items	2020	2019
Cash and cash equivalent at the beginning of the period	**2,154**	**4,458**
Net liquidity generated/absorbed during the period	+1,424	-2,304
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at the end of the year	**3,578**	**2,154**

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. The sixth update is currently in force, issued on 30 November 2018 and integrated with the Communication of 15 December 2020 of the Bank of Italy concerning the impacts of COVID-19 and measures to support the economy and amendments to IAS/IFRS.

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 Cash flow statement and Notes to the financial statements.[28] 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.
The Communication of 15 December 2020 of the Bank of Italy concerning the impacts of COVID-19 and measures to support the economy and amendments to IAS/IFRS was considered.
It should be noted that, in the valuation of company assets as at 31 December 2020 and with particular reference to unlisted financial assets, in accordance with the most recent recommendations of the *regulators*, all available information regarding the implications of the COVID-19 pandemic on the significant factors that influence its value was taken into account.
There were no departures from the application of the IAS/IFRS.
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 joint 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 test of assets, clauses in financial 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 persistent spread of the Covid-19 virus as well as 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 2020 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 2020 and the date of approval of these financial statements, there were no new internal material events that have occurred such as to appreciably impinge on the Bank's activities, economic results and portfolio risk. However, note that

28 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.

the worrying spread of contagion from Covid-19 is persisting, 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.

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 2020 of €8.5m) 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 buildings, 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 2020 are indicated below:

- Statutory audit of annual accounts (including limited audit of the condensed half-yearly financial statements): €48,000 plus VAT, including expenses and Consob contribution up to 10% of the fees;
- 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 2020, 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 2020.

Changes in accounting estimates

In 2020, the Allitude/CRIF model for the calculation of collective impairment pursuant to IFRS 9 was revised by Allitude/CRIF to take into account the recommendations of the regulators relating to the acknowledgement of the impact of the Covid-19 pandemic; in particular, for the year-end valuation, it was decided to adopt a prudential approach induced by the persistence of the pandemic crisis, which resulted in the following actions:

- confirmation, from a prudential perspective, of the PD and LGD curves adopted in the two previous quarters;
- defrosting of the rating class (and therefore of the relative PD) relating to the exposures that benefit from the moratoria (until the previous quarter still anchored to the pre-pandemic surveys carried out in February 2020), due to the growing uncertainties about the prospective confirmation of the same and the economic/financial sustainability (in terms of objective capacity to honour its obligations) of the exit from this status by companies and small economic operators;
- application of a penalty in terms of rating classes to individuals and exposures belonging to economic sectors which, on the basis of a targeted *forward-looking* analysis, are expected to be more inclined to negatively factor the effects of the economic crisis caused by the Covid-19 pandemic. This choice is based on the use of macroeconomic forecasts published by one of the main specialised market operators.
  In particular:
  - exposures to individuals + 1 class;
  - exposures to Companies, Small Businesses and POE in the selected economic sectors and geographical areas:
    + 1 class if the initial rating class is less than or equal to 4;
    + 2 classes if the initial rating class is equal to or greater than 5.

Added to this is the fact that the CRIF/Allitude model, not being able to assign a rating to exposures to public entities, applied to them the same increase in terms of PD applied to exposures to companies. Considering that due to the riskiness of the public administration sector, no evidence of a significant prospective impairment was obtained, the collective write-down of exposures to public entities was determined by maintaining the PD calculated in March 2020.
In consideration of the fact that the intervention was necessary due to the crisis induced by the Covid-19 pandemic, which began in 2020, the balances as at 31 December 2019 were not restated, as required by IFRS.

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 124/2017, in 2020 the Bank received a contribution relating to advertising investments pursuant to Law 50/2017, Article 57 bis, paragraph 1, in the form of a tax credit for a total of €4,303, used for offsetting purposes on F24 on 09/07/2020. It also benefited from the sanitation and PPE bonus pursuant to article 125 of Law Decree 34/2020, for €3,983, used for offsetting purposes on F24 on 16 December 2020.
Apart from the above, it did not receive any other grants, contributions, paid assignments or economic benefits of any kind from public administrations or companies directly or indirectly controlled or invested in by the same.
The guarantee granted on behalf of the Bank and in favour of the EIB by the Autonomous Region of Trentino-South Tyrol (shareholder of the bank) is 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.

Disclosure required by IFRS 7 related to the interest rate benchmark reform

On 15 January 2020, Regulation (EU) no. 34, which endorsed the amendments to IFRS 9, IAS 39 and IFRS 7, was issued by the IASB on 26 September 2019, as part of the project for the "Interest rate benchmark reform". The aforementioned amendments are aimed at seeking solutions to reduce the effects on the financial statements of the interest rate reform, with particular reference to the potential impacts before the replacement of the benchmarks.
In this regard, please note that the Bank does not have any hedging transactions in place and therefore does not apply the exceptions set forth in paragraphs 6.8.4 - 6.8.12 of IFRS 9, or paragraphs 102D – 102N of IAS 39.

Risks, uncertainties and impacts of the Covid-19 epidemic

The European regulatory and supervisory bodies, as well as the standard setters, have published a series of interventions aimed also at clarifying the methods of application of the international accounting standards, with particular reference to IFRS 9, in the current context of the Covid-19 pandemic.
In particular, the ECB drew attention to the need to assess the significant increase in credit risk on a collective basis if the entity is not able to identify the credit risk indicators with reference to individual financial instruments, thus seeking, in accordance with the provisions of the accounting standard (IFRS 9 B5.5.1-6), to best approximate the effects that would have been obtained with a specific valuation.
With reference to the definition of macroeconomic scenarios for the purposes of forward-looking conditioning of the expected loss, the ECB highlighted the need to extend the historical time horizon on the basis of which the macroeconomic forecasts are formulated to reduce the distorting effect of the recent period, identify an appropriate weighting factor in order to reflect in the model the probability of occurrence of each scenario used ("mild", "baseline", "adverse") and apply a higher weighting to the short-term prospects to then reduce it systematically and progressively as a function of the loss of relevance over more distant time horizons.
With regard to the use of macroeconomic projections, the ECB itself recommended using, for the accounting closures as at 30 June 2020, its projections formulated on 4 June 2020. With reference to the baseline scenario, these recorded a drastic reduction in the GDP of the Eurozone in 2020 for 8.7%, and a subsequent rebound of 5.2% and 3.3%, respectively in 2021 and 2022. The figure referring only to Italy and reported by the Bank of Italy, shows a more pronounced reduction in GDP for 9.2% in 2020, and a subsequent rebound of 4.8% and 2.5%, respectively in 2021 and 2022.

Contractual changes resulting from COVID-19

1) Contractual amendments and derecognition (IFRS 9)

Based on the indications provided by the European Banking Authority in the document "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis*" of 4 April 2020 (EBA/GL/2020/02), the moratoria granted to customers pursuant to law (mainly Law Decree 18 of 17 March 2020) and in application of the industry agreements (ABI Agreements)[29], were not considered as an expression of the financial difficulty of the debtor, for all cases granted by 30 September 2020. Therefore, the aforementioned positions were not classified as *forborne* exposures.
With communication dated 21 September 2020, the EBA then declared the interruption as at 30 September 2020 of the exemptions previously arranged for the moratoria granted as a result of the health emergency, thus for the similar concessions resolved after 1 October 2020, the Bank instead carried out a specific assessment on the possible satisfaction of the requirements envisaged to qualify as *forborne*.
The subsequent worsening of the pandemic, however, led EBA to a new change of direction, expressed in the *Amendment* of 2 December 2020, from when the moratoria granted by law or in application of national agreements were able to further benefit from the exemption from the obligation to assess the state of difficulty of the counterparty. This benefit therefore refers to the moratoria granted between 2 December 2020 and 31 March 2021, fully assimilating them to those granted before 30 September 2020.
In relation to this *Amendment*, the Bank applied for the possibility, set out in the same document, of adopting the guidelines also to positions classified as *forborne* on the basis of moratoria granted by law or in application of sector agreements between 1 October 2020 and 01 December 2020 by retroactively reclassifying these relationships from "*forborne performing*" to "*performing*" in cases where the changes to the payment plan did not exceed 9 months.
Therefore, in relation to the above, all the moratoria granted to customers were not treated according to the *modification accounting* as they cannot be classified as *forbearance* measures.
For all other moratoria granted by the Bank on the basis of common initiatives promoted, or in any case in the absence of the objective and subjective requirements envisaged by law or general agreements, the criteria for identifying forbearance measures (*forborne*) were applied, as required by the "Policy for the management of non-performing loans - NPLs".

2) Amendment to IFRS 16

According to Regulation (EU) no. 1434/2020 the lessee may, in the presence of concessions on rentals that are a direct consequence of the Covid-19 pandemic and that meet certain conditions, make use of the practical expedient of not assessing whether a concession is a modification of the lease, accounting for any change in the payments due for the lease in the same way it would account for the change if it did not constitute a change in the lease.

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29 Mediocredito Trentino-Alto Adige, at the end of an analysis carried out internally and subject to the positive opinion of the Compliance function, considered that the moratoria granted on the basis of the "Ripresa Trentino" protocols (signed between the Autonomous Province of Trento, Cassa del Trentino SpA and banks, financial intermediaries and the Confidi of the province of Trento) and "Alto Adige Riparte" (signed between the Autonomous Province of Bolzano, Confidi, Garfidi and banking institutions with headquarters or branches in South Tyrol) meet the requirements of the EBA Guidelines (EBA/GL/2020/02) and therefore fall within the scope of application of the provisions contained therein.

The Bank has neither requested nor benefited, with respect to the lease agreements in which it is involved as a lessee, from changes in the fees that are a direct consequence of the Covid-19 pandemic and, therefore, has not exercised the right to adopt the practical expedient envisaged by Regulation (EU) no. 1434/2020.

Disclosure regarding Targeted Longer-Term Refinancing Operations (TLTRO III)

As at 31 December 2020, the Bank had two refinancing operations in place through the Eurosystem, related to the TLTRO-III program, for a book value of €471.7m, which resulted in a positive contribution to the interest margin of €0.508m during the year.
These transactions cannot be assimilated to loans at an interest rate lower than the market rate, as there is no reference market where financing transactions with comparable characteristics can be negotiated and as the ECB defines the economic conditions applied to the refinancing operations in order to achieve monetary policy objectives for the benefit of the entire economic system of the Eurozone.

As at 31 December 2020, with the monitoring time window still open for the purposes of achieving the performance objectives of loan disbursements envisaged by the TLTRO-III program, and having the European Central Bank, at the Governing Council meeting of 10 December 2020, introduced a new timeframe for monitoring loan disbursements expiring on 31 December 2021, the Bank decided to prudentially apply the minimum guaranteed rates to these transactions for each period of duration of the transactions[30].
The above has led to the recognition at the amortised cost of the drawdown of 24 June 2020 (nominal €243.2m) at an IRR of -0.168% and of the drawdown of 30 September 2020 (nominal €229.1m) at an IRR of -0.124%.

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".

30 The rates applied are -0.50% from the date of each drawdown until 23 June 2021 and 0.00% from 23 June 2021 to the expiry date of each drawdown.

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: the 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 regarding 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 section "A.4 Fair value disclosure" 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 without significant delay.

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 section "A.4 Fair value disclosure" 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 without significant delay.

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 Law on Banking and the Consolidated Law on Finance (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 without significant delay.

3.5 Income component recognition criteria

Interest income on loans and securities is entered to item 10. “interest income and similar revenues”.
Profits 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 value readjustments 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 investments 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 investee companies, impairment losses and the effects of measurement according to the equity method are allocated in the income statement to item 220. "Profit (loss) from equity investments", 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:

- 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 with contra-entry to the income statement 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 value re-adjustments 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 value re-adjustments 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 in question includes provisions for credit risk recognised against commitments to disburse funds and guarantees given that fall within the scope of application of the rules on impairment pursuant to IFRS 9. For these cases, the same methods for allocating to the three stages (credit risk stages) and calculating the expected loss shown with reference to financial assets measured at amortised cost or at fair value through other comprehensive income are adopted in principle.
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.

16.6 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.

16.7 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.

16.8 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 2020, 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 mainly 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 derivatives.

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.

Impacts of Covid-19 on the determination of the fair value of securities in the portfolio

The Bank's securities portfolio at *fair value* is mainly made up of listed government securities with *fair value* level 1 that do not give rise to valuation issues arising from the effects of the pandemic crisis; the same considerations are also valid for listed debt securities issued by banking counterparties (level 1), for listed equity securities and for *warrants*.
Investments in UCITS mandatorily measured at *fair value* were measured on the basis of the NAV; any impacts of the pandemic crisis are considered as already expressed by this value.
The remaining investments in unlisted minority interests and recorded in the portfolio of financial assets measured at fair value through other comprehensive income (level 3) were measured as at 31 December 2020; the valuation process, which took into account the particular economic situation, substantially confirmed the book values as at 31 December 2019.

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 mainly 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 derivatives.

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

Bonds classified under HTCS or under the FVO

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.

Equity securities listed on a market that is not considered to be active
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.[31]
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 (2.1%) 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

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

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.

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

Financial assets/liabilities measured at fair value	2020 L1	2020 L2	2020 L3	2019 L1	2019 L2	2019 L3
1. Financial assets measured at FV through profit or loss	75	1,668	13,509	84	207	23,839
a) financial assets held for trading	75	114		84	207	
b) financial assets designated at fair value						
c) other financial assets mandatorily measured at fair value [1]		1,554	13,509			23,839
2. Financial assets measured at FV through other comprehensive income	125,868	-	23,168	90,356	13,392	10,671
3. Hedging derivatives						
4. Property, plant and equipment						
5. Intangible assets						
Total	**125,943**	**1,668**	**36,677**	**90,440**	**13,599**	**34,510**
1. Financial liabilities held for trading		110			198	
2. Financial liabilities designated at fair value		-			-	
3. Hedging derivatives		-			-	
Total		**110**			**198**	

1 In both financial years, the amount contains receivables for *cash reserves* related to the two securitisations that did not pass the SPPI test (€1.3m in 2020 and €11.4m in 2019).

In 2020, 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 €2 thousand (€4 thousand in 2019) while the fair value of derivative liabilities includes Mediocredito credit risk (DVA) of €6 thousand (€12 thousand in 2019).

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	**23,839**			**23,839**	**10,672**			
2. Increases	**1,562**			**1,562**	**15,823**			
2.1 Purchases [1]	1,359			1,359	15,000			
2.2 Profits in:	203			203	823			
2.2.1 Income statement [2]	203			203	-			
- of which: Capital gains					-			
2.2.2 Equity [3]					823			
2.3 Transfers from other levels								
2.4 Other increases								
3. Decreases	**11,892**			**11,892**	**3,327**			
3.1 Sales [4]					3,327			
3.2 Redemptions [5]	10,532			10,532				
3.3 Losses in:	1,360			1,360	0			
3.3.1 Income statement [6]	1,360			1,360	-			
- of which: capital losses	-			-	-			
3.3.2 Equity [7]					0			
3.4 Transfers to other levels								
3.5 Other decreases								
4. Closing balance	**13,509**			**13,509**	**23,168**			

1 With regard to financial assets measured at fair value through profit or loss, the amount refers for €72 thousand to the units of the Assietta Private Equity III closed-end fund, for €104 thousand to the units of the Assietta Private Equity IV closed-end fund, for €52 thousand to the units of the PMI Italia II fund, for €419 thousand to the units of the Equita private Debt II closed-end fund , for €500 thousand to the units of the Value Italy Credit 3 fund and for €213 thousand to the limited-recourse loan in favour of the Buonconsiglio 3 securitisation that did not pass the SPPI test. With regard to financial assets at fair value through other comprehensive income, the full amount refers to the purchase of the equity investment in the Bank of Italy.

2 With regard to financial assets measured at fair value through profit or loss, the amount refers for €18 thousand to the positive change in fair value of the HAT Technology & Innovation fund and for €185 thousand to the positive change in the fair value of the Finint Fenice fund.

3 This refers to the capital gain arising from the sale of the equity investment in Dedagroup Stealth SpA (€324 thousand) and the positive change in fair value of the equity investment in SWS Group SpA (€499 thousand).

4 This relates for €3.325m to the sale of the equity investment in Dedagroup Stealth SpA (which resulted in a capital gain of €324 thousand represented in item 2.2.2) and for €488m to the sale of the equity investment in Formazione-Lavoro S.c.p.A. (which showed a capital loss of €112 represented in item 3.3.2).

5 With regard to financial assets measured at fair value through profit or loss, €157 thousand refers to the reimbursement, following the entry of new subscribers, of part of the amount paid for the purchase of shares of the HAT Technology & Innovation fund and the repayment of the loan with limited recourse relating to the securitisation of Cassa Centrale Finance 3 for €10.4 m.

6 With regard to financial assets measured at fair value through profit or loss, these include €250 thousand for the zeroing of the value of the Clesio fund, €961 thousand for the negative change in fair value of the Assietta Private Equity III closed-end fund, €30 thousand for the negative change in fair value of the closed-end investment fund Assietta Private Equity IV, €117 thousand for the negative change in fair value of the Industry 4.0 SICAV fund and €2 thousand for the negative change in fair value of the PMI Italia II fund.

7 The amount refers to the capital loss as per point 4.

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	2020				2019			
	BV	FV			BV	FV		
		Lev. 1	Lev. 2	Lev. 3		Lev. 1	Lev. 2	Lev. 3
1. Financial assets measured at amortised cost	1,521,859	431,452	1,054,566	67,556	1,273,421	167,653	968,190	110,564
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	**1,521,974**	**431,452**	**1,054,566**	**67,671**	**1,273,537**	**167,653**	**968,190**	**110,680**
1. Financial liabilities measured at amortised cost	1,518,770	-	1,094,452	401,195	1,253,487	-	975,017	271,873
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**1,518,770**	**-**	**1,094,452**	**401,195**	**1,253,487**	**-**	**975,017**	**271,873**

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

	2020	2019
a) Cash	4	2
b) Demand deposits with Central Banks	-	-
Total	**4**	**2**

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	2020			2019		
	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	75	114		84	207	
1.1 trading[1]	75	114		84	207	
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	**75**	**114**		**84**	**207**	
Total (A+B)	**75**	**114**		**84**	**207**	

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 counterparty credit risk (CVA) for €2 thousand (€4 thousand in 2019).

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

Items/Amounts	2020	2019
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	**189**	**291**
a) Clearing House	-	-
b) Other	189	291
Total B	**189**	**291**
Total (A+B)	**189**	**291**

Financial assets held for trading: annual changes

	Financial trading derivatives
A. Opening balance	**291**
B. Increases	**38**
B1. Purchases	-
B2. Positive changes in fair value	38
B3. Other changes	-
C. Decreases	**139**
C1. Sales	-
C2. Redemptions	-
C3. Negative changes in fair value	139
C4. Transfers to other portfolios	-
C5. Other changes	-
D. Closing balance	**189**

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

Items/Amounts	2020			2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	-	1,554	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities [1]	-	1,554	-	-	-	-
2. Equity securities	-	-	-	-	-	-
3. Investments in UCITS [2]	-	-	12,231	-	-	12,399
4. Loans	-	-	1,278	-	-	11,440
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Others [3]	-	-	1,278	-	-	11,440
Total	**-**	**1,554**	**13,509**	**-**	**-**	**23,839**

1 These are debt securities that did not pass the SPPI test; in particular, the amount refers for €1.543 to a subordinated bond issued by an insurance counterparty and for €12 thousand to the mezzanine and junior tranches issued by the Buonconsiglio 3 securitisation.
2 This item is made up of €8.0m of units of the Finint Fenice closed-end real estate investment fund; it also includes the value of the units of the Assietta Private Equity III closed-end securities investment fund of €1.3m, the Assietta Private Equity IV closed-end securities investment fund of €0.8m, the HAT Technology and Innovation closed-end securities investment fund of €0.1m, PMI Italia II of €0.6m, Industry 4.0 SICAV of €0.6m, the Equita Private Debt II closed-end securities investment fund for €0.4m, the Value Italy Credit 3 closed-end securities investment fund for €0.5m and the real estate investment fund Leopardi of €0.1m.
3 These are receivables for cash reserves relating to securitisations (2020) or self-securitisations (2019) that did not pass the SPPI test.

Commitments relating to investments in UCITS

Fund	2020	2019
Assietta Private Equity III	111	183
Assietta Private Equity IV	1,139	1,243
Finint PMI Italia II	455	507
HAT Technology & Innovation	799	642
Industry 4.0 SICAV	2,194	2,194
Equita Private Debt II	581	-
Sustainable Securities Fund	1,000	

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	**1,554**	**-**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	1,554	-
of which: insurance companies	1,543	-
e) Non-financial corporations	-	-
3. Investments in UCITS	**12,231**	**12,399**
4. Loans	**1,278**	**11,440**
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial corporations	1,278	11,440
of which insurance companies	-	-
e) Non-financial corporations	-	-
f) Families	-	-
Total	**15,063**	**23,839**

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	2020			2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities [1]	103,509			84,443	13,392	-
1.1 Structured securities				-	-	-
1.2 Other debt securities	103,509			84,443	13,392	-
2. Equity securities [2]	22,359		23,168	5,913	-	10,671
3. Loans				-	-	-
Total	**125,868**		**23,168**	**90,356**	**13,392**	**10,671**

1 These consist of a nominal amount of €82.5m of government securities and €10.9m of bonds issued by banks (level 1), purchased by the Bank to create adequate reserves of assets readily available and eligible for refinancing with the ECB.
2 Level 3 includes in particular the equity investment in the Bank of Italy as well as the equity investments deriving from the restructuring of impaired loans (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.)).

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

Items/Amounts	2020	2019
1. Debt securities	**103,509**	**97,835**
a) Central Banks	-	-
b) Public administrations	92,409	62,574
c) Banks	11,100	35,261
d) Other financial corporations	-	-
of which insurance companies	-	-
e) Non-financial corporations	-	-
2. Equity securities	**45,527**	**16,584**
a) Banks	22,241	50
b) Other issuers	23,286	16,534
- other financial corporations	9,701	4,689
of which insurance companies	5,012	-
- non-financial corporations	13,585	11,845
- 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	**149,036**	**114,419**

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	103,509	92,409	-	-	24	-	-	-
Loans	-	-	-	-	-	-	-	-
Total	**103,509**	**92,409**	**-**	**-**	**24**	**-**	**-**	**-**
Total (T-1)	**97,835**	**62,574**	**-**	**-**	**59**	**-**	**-**	**-**
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. Therefore, the value adjustments are shown in the table for information purposes only.

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

The Bank has no loans measured at fair value through other comprehensive income in its portfolio.

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	2020						2019					
	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. For reserve requirements	-	-	-	-	-	-	-	-	-	-	-	-
3. Repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
B. Loans and advances to banks	**44,932**	**-**	**-**	**-**	**23,937**	**21,643**	**34,863**	**-**	**-**	**-**	**12,835**	**21,807**
1. Loans	21,643	-	-	-	-	21,643	21,807	-	-	-	-	21,807
1.1 Current accounts and demand deposits	19,218	-	-				20,181	-	-			
1.2 Time deposits	2,425	-	-				1,626	-	-			
1.3 Other loans:	-	-	-				-	-	-			
- Repurchase agreements	-	-	-				-	-	-			
- Lease financing	-	-	-				-	-	-			
- Other	-	-	-				-	-	-			
2. Debt securities	23,289	-	-	-	23,937	-	13,055	-	-	-	12,835	-
2.1 Structured securities	-	-	-				-	-	-			
2.2 Other debt securities	23,289	-	-				13,055	-	-			
Total	**44,932**	**-**	**-**	**-**	**23,937**	**21,643**	**34,863**	**-**	**-**	**-**	**12,835**	**21,807**

It is noted that 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 €2.425m as at 31 December 2020 and to €1.626m as at 31 December 2019 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	2020					
	Book value			Fair value		
	Stage 1 and 2	Stage 3	of which: acquired or originated impaired	Lev. 1	Lev. 2	Lev. 3
Loans	**1,005,573**	**32,347**	**-**	**-**	**1,000,735**	**45,499**
1.1. Current accounts	8,934	-	-			
1.2 Repurchase agreements	-	-	-			
1.3 Mortgages	831,520	25,993	-			
1.4 Credit cards, personal loans including "one-fifth of salary deducted loan"	-	-	-			
1.5 Lease financing [1]	77,304	1,543	-			
1.6 Factoring	-	-	-			
1.7 Other loans[2]	87,815	4,811	-			
Debt securities	**438,593**	**413**	**-**	**431,452**	**29,894**	**413**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities [3]	438,593	413	-	431,452	29,894	413
Total	**1,444,166**	**32,760**	**-**	**431,452**	**1,030,629**	**45,912**

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 €3.8m.
2 They also include performing building leasing turnkey operations for €17.9m.
3 They include government bonds of €410m and minibonds of €29m.

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 performing building leasing turnkey operations for €12.8m.

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 €28.3m of funding provided from funds made available by the Autonomous Province of Trento for €1.2m, the Autonomous Province of Bolzano for €24.1m and the Veneto Region, directly or through the instrumental company Veneto Sviluppo, for €3.1m.
All of the above funds, intended for particular funding operations as envisaged and governed by specific legislation[32], 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	2020			2019		
	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:	**438,593**	**413**		**186,233**	**415**	
a) Public administrations	409,571			168,954		
b) Other financial corporations	10,155			4,770		
of which: insurance companies	-			-		
c) Non-financial corporations	18,867	413		12,509	415	
2. Loans to:	**1,005,573**	**32,347**		**994,554**	**57,356**	
a) Public administrations	60,334			67,824		
b) Other financial corporations	21,903	4,784		45,017	7,571	
of which: insurance companies	-			-		
c) Non-financial corporations	883,488	23,659		838,147	44,094	
d) Families	39,848	3,904		43,566	5,691	
Total	**1,444,166**	**32,760**		**1,180,787**	**57,771**	

32 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	462,290	409,656	-	688	408	-	275	-
Loans	921,827	17,303	114,820	65,209	4,392	5,038	32,862	26
Total	**1,384,117**	**426,959**	**114,820**	**65,897**	**4,800**	**5,038**	**33,137**	**26**
Total (T-1)	**1,144,475**	**194,874**	**76,310**	**113,269**	**1,941**	**3,193**	**55,498**	**26**
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.

4.4a Loans measured at amortised cost subject to Covid-19 support measures: 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	
1. Loans subject to concession in compliance with the GL	205,992	1,982	44,344	630	806	2,171	152[1]	-
2. Loans subject to other forbearance measures	891	-	674	1,113	1	83	257	-
3. New loans	88,347	1,552	6,338	-	137	42	-	-
Total	**295,230**	**3,534**	**51,356**	**1,743**	**944**	**2,296**	**409**	**-**

1 The amount shown relates to loans that at the time of granting were in stage 1 (see table A.1.5a "Loans subject to Covid-19 support measures: transfers between the different stages of credit risk (gross values))

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	**336**	**8,494**	**8,138**	**601**	**(468)**	**-**	**(468)**	**-**	**(468)**
1. Paradisidue S.r.l.	336	8,494	8,138	601	(468)	-	(468)	-	(468)
B. Joint ventures									
C. Companies under significant influence									

1 Statement of financial position data as at 31 December 2020.

7.5 Equity investments: annual changes

	2020	2019
A. Opening balance	**306**	**176**
B. Increases	**500**	**500**
B.1 Purchases	500	500
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**470**	**370**
C.1 Sales	-	-
C.2 Value adjustments	470	370
C.3 Write-downs	-	-
C.4 Other changes	-	-
D. Closing balance	**336**	**306**
E. Total revaluations	-	-
F. Total adjustments	1,848	1,378

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 €7.953m was drawn as at 31 December 2020 - for the purpose of acquiring and renovating a building as part of bankruptcy proceedings.
The Bank granted the subsidiary Paradisidue S.r.l. unsecured loans of €841,2 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	2020	2019
1. Assets owned	**8,594**	**8,279**
a) land[1]	1,950	1,950
b) buildings[2]	5,887	5,601
c) furniture	308	226
d) IT equipment	91	85
e) others	358	416
2. Rights-of-use acquired under leases [3]	**152**	**219**
a) land	-	-
b) buildings	115	154
c) furniture	-	-
d) IT equipment	-	-
e) others	37	65
Total	**8,746**	**8,499**
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 paragraph 58 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.

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

Assets/Amount	2020				2019			
	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) buildings	-	-	-	-	-	-	-	-
2 Rights-of-use acquired under leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
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.

Land .... 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**	**10,936**	**2,092**	**682**	**1,972**	**17,633**
A.1 Total net write-downs	-	5,181	1,866	597	1,491	9,137
A.2 Net opening balance	**1,950**	**5,755**	**226**	**85**	**482**	**8,499**
B. Increases:	-	**573**	**195**	**72**	**66**	**906**
B.1 Purchases		457	123	41	38	660
B.2 Capitalised expenditure on improvements		117				117
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			72	30	28	129
C. Decreases:	**-**	**327**	**114**	**66**	**152**	**658**
C.1 Sales [1]			1	15		16
C.2 Depreciation		327	42	28	128	524
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			71	23	25	119
D. Net closing balance	**1,950**	**6,002**	**308**	**91**	**395**	**8,746**
D.1 Total net write-downs	-	5,507	1,837	594	1,594	9,532
D.2 Gross closing balance	**1,950**	**11,509**	**2,144**	**685**	**1,989**	**18,278**
E. Measured at cost	-	-	-	-	-	-

1 Amounts in the item "sales" refer to the transfer of assets, most of which being depreciated, whose cash flow, equalling €6 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 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.

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

	Buildings	Other	Total
A. Gross opening balance	**194**	**96**	**290**
A.1 Total net write-downs	40	30	70
A.2 Net opening balance	**154**	**65**	**219**
B. Increases:	**-**	**3**	**3**
B.1 Purchases	-	-	-
B.2 Capitalised expenditure on improvements [1]	-	-	-
B.7 Other changes	-	3	3
C. Decreases:	**40**	**31**	**71**
C.2 Depreciation	40	31	71
D. Net closing balance	**115**	**37**	**152**
D.1 Total net write-downs	79	61	140
D.2 Gross closing balance	**194**	**98**	**292**

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	2020		2019	
	Limited duration	Unlimited duration	Limited duration	Unlimited duration
A.1 Goodwill				
A.2 Other intangible assets	**91**	**-**	**132**	**-**
A.2.1 Assets measured at cost:	91	-	132	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	91	-	132	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets generated internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**91**	**-**	**132**	**-**

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	**-**	**-**	**-**	**3,265**	**-**	**3,265**
A.1 Total net write-downs	-	-	-	3,133	-	3,133
A.2 Net opening balance	**-**	**-**	**-**	**132**	**-**	**132**
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Purchases	-	-	-	-	-	-
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	**-**	**-**	**-**	**41**	**-**	**41**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	41	-	41
- Amortisation		-	-	41	-	41
- 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	**-**	**-**	**-**	**91**	**-**	**91**
D.1 Net total value adjustments	-	-	-	3,174	-	3,174
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

	2020	2019
	14,256	**16,203**
A. With contra-entry to income statement	**14,052**	**15,788**
Adjustments to loans deductible in future years	13,405	15,145
Depreciation of buildings for operational use	30	25
Other	617	618
B. With contra-entry to equity	**203**	**415**
Financial assets measured at fair value through OCI	141	356
Other	62	59

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

	2020	2019
	5,985	**5,367**
A. With contra-entry to income statement	**4,836**	**5,248**
Provision for credit risks	4,705	5,117
Depreciation of buildings for operational use	108	108
Change in employee leaving indemnity	23	23
B. With contra-entry to equity	**1,149**	**119**
Financial assets measured at fair value through OCI	1,149	119

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)

	2020	2019
1. Opening balance	**15,788**	**16,208**
2. Increases	**113**	**71**
2.1 Deferred tax assets recognised during the period	113	66
a) related to previous periods	-	-
b) due to change in accounting policies	-	-
c) write-backs	-	-
d) other	113	66
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	5
3. Decreases	**1,848**	**491**
3.1 Deferred tax assets derecognised during the period	1,848	476
a) reversals	1,848	476
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	**14,053**	**15,788**

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

	2020	2019
1. Opening balance	**10,524**	**10,519**
2. Increases	**-**	**5**
3. Decreases	**1,214**	**-**
3.1 Reversals	1,214	-
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	**9,310**	**10,524**

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

	2020	2019
1. Opening balance	**5,248**	**5,259**
2. Increases	**-**	**-**
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	-	-
3. Decreases	**412**	**11**
3.1 Deferred tax liabilities derecognised during the period	412	11
a) reversals	412	11
b) due to change in accounting policies	-	-
c) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Final balance	**4,836**	**5,248**

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

	2020	2019
1. Opening balance	**415**	**890**
2. Increases	**8**	**17**
2.1 Deferred tax assets recognised during the period	-	-
a) related to previous periods	-	-
b) due to change in accounting policies	-	-
c) others	8	17
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**220**	**492**
3.1 Deferred tax assets derecognised during the period	220	492
a) reversals	220	492
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	-	-
4. Final balance	**203**	**415**

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

	2020	2019
1. Opening balance	**119**	**69**
2. Increases	**1,052**	**50**
2.1 Deferred tax liabilities recognised during the period	-	-
a) related to previous periods	-	-
b) due to change in accounting policies	-	-
c) other [1]	1,052	50
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**22**	**0**
3.1 Deferred tax liabilities derecognised during the period	22	0
a) reversals	22	0
b) due to change in accounting policies	-	-
c) others	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Final balance	**1,149**	**119**

1 The amount refers to deferred tax liabilities on changes in fair value of financial assets measured at fair value through other comprehensive income.

10.7 Other information

The item "current tax assets" amounted to €1.655m and referred to advances paid to Tax Authorities for IRES and IRAP; in 2019, this receivable totalled €6 and referred to receivables due from the Tax Authorities for withholding taxes on bank interest. The item "current tax liabilities" is equal to zero; in 2019 it was €582 thousand 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 €9.3m, 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 so-called "*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

	2020	2019
Items in processing [1]	2,153	1,745
Tax assets (indirect taxes and substitute tax)	2,002	1,798
Illiquid assets	380	599
Accrued income and prepayments	237	287
Various prepayments and advances	236	249
Amounts due in relation to invoices – issued or not	43	80
Amounts due for unpaid commissions	14	74
Other liabilities	84	13
Total	**5,163**	**4,845**

1 The amount mainly refers to the payment of an amount subject to revocation, for which an appeal to the Court of Cassation 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	2020				2019			
	BV	FAIR VALUE			BV	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1. Amounts due to central banks	**471,722**				**275,538**			
2. Due to banks	**375,427**				**398,091**			
2.1 Current accounts and demand deposits	25,029				9,975			
2.2 Time deposits	35,122				20,107			
2.3 Loans	315,276				368,009			
2.3.1 Repurchase agreements	-				-			
2.3.2 Others	315,276				368,009			
2.4 Liabilities in respect of commitments to repurchase treasury shares	-				-			
2.5 Lease payables	-				-			
2.6 Other amounts due	-				-			
Total	**847,149**	**-**	**763,430**	**60,151**	**673,629**	**-**	**636,233**	**30,083**

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

Type of transaction/Amount	2020				2019			
	BV	FAIR VALUE			BV	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
1 Current accounts and demand deposits	183,089				143,220			
2 Time deposits	129,487				65,233			
3 Loans	58,730				42,277			
3.1 Repurchase agreements	-				-			
3.2 Others	58,730				42,277			
4 Liabilities in respect of commitments to repurchase treasury shares	-				-			
5 Lease payables	153				221			
6 Other amounts due	28,315				33,116			
Total	**399,774**	**-**	**58,060**	**341,044**	**284,067**	**-**	**42,017**	**241,790**

1 Item "Other amounts due" includes funds managed on behalf of third parties to the amount of €28,315 thousand in 2020 and €33,115 thousand in 2019, according to supervisory regulations.

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

Type of transaction/ Amounts	2020				2019			
	BV	FAIR VALUE			BV	FAIR VALUE		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. Bonds	271,847	-	272,962	-	295,792	-	296,767	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 others	271,847	-	272,962	-	295,792	-	296,767	-
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 others	-	-	-	-	-	-	-	-
Total	**271,847**	**-**	**272,962**	**-**	**295,792**	**-**	**296,767**	**-**

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	31/12/2020			31/12/2019		
	Minimum future payments	Present value of minimum future payments	Deferred financial income	Minimum future payments	Present value of minimum future payments	Deferred financial income
Within 1 year	66	65	1	69	67	2
1 - 5 years	89	88	1	152	150	2
Over 5 years	-	-	-	-	-	-
Total	**156**	**153**	**2**	**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	2020					2019				
	NV	FV			FV *	NV	FV			FV *
		Lev. 1	Lev. 2	Lev. 3			Lev. 1	Lev. 2	Lev. 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	**41,704**		**110**		**114**	**43,768**		**198**		**206**
1.1 Held for trading			110					198		
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			**110**		**114**			**198**		**206**
Total (A+B)			**110**		**114**			**198**		**206**

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	**198**
B. Increases	**26**
B1. Issues	-
B2. Sales	-
B3. Positive changes in fair value	26
B4. Other changes	-
C. Decreases	**115**
C1. Purchases	-
C2. Redemptions	-
C3. Negative changes in fair value	115
C4. Other changes	-
D. Closing balance	**110**

SECTION 6 – TAX LIABILITIES – ITEM 60

See section 10 of Assets

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 Other liabilities: breakdown

	2020	2019
Items in processing [1]	1,192	948
Withholdings made as tax collection agent	318	733
Amounts due to suppliers	953	627
Amounts due to third parties [2]	778	517
Commission fees to be paid	437	490
Withholdings on employee compensation	238	241
Accrued liabilities and deferred income	107	104
Other liabilities	1	15
Total	**4,039**	**3,675**

1 These refer to amounts to be charged to customer relations for €623 thousand (€160 thousand in 2019). Moreover, in 2019, they relate for €500 thousand 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 €268 thousand, to the amount due for the recognition of the extra time of managerial staff of €44 thousand and to the payable for 2020 company bonuses of €218 thousand.

SECTION 9 – PROVISION FOR SEVERANCE INDEMNITIES – ITEM 90

9.1 Provision for severance indemnities: annual changes

	2020	2019
A. Opening balance	**1,432**	**1,361**
B. Increases	**32**	**84**
B.1 Provisions for the period [1]	14	14
B.2 Other changes [2]	18	70
C. Decreases	**27**	**13**
C.1 Indemnities paid	24	9
C.2 Other changes [3]	3	4
D. Closing balance	**1,437**	**1,432**

1 The amount corresponds to the provisions shown in table 9.1 "Payroll: breakdown" of Part C "Information on the income statement".
2 This item includes the amount of the actuarial losses recognised as a contra-entry of the specific equity reserve.
3 This item includes the use to cover the substitute tax.

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	2020	2019
1. Provisions for credit risk related to commitments and financial guarantees issued	77	19
2. Provisions on other commitments and other guarantees issued	-	-
3. Post-retirement benefit obligations	-	-
4. Other provisions for risks and charges	2,211	2,237
4.1 legal disputes	1,500	1,564
4.2 personnel expenses	239	180
4.3 others	472	493
Total	**2,288**	**2,256**

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	**-**	**-**	**2,237**	**2,237**
B. Increases	**-**	**-**	**539**	**539**
B.1 Provisions for the period [1]	-	-	339	339
B.2 Changes over time	-	-	-	-
B.3 Changes due to discount rate adjustments	-	-	-	-
B.4 Other changes [2]	-	-	200	200
C. Decreases	**-**	**-**	**565**	**565**
C.1 Use during the period [3]	-	-	435	435
C.2 Changes due to discount rate adjustments	-	-	-	-
C.3 Other changes 4	-	-	130	130
D. Closing balance	**-**	**-**	**2,211**	**2,211**

1 This amount relates to the provision for the personnel incentive scheme of €239 thousand and to the provision for a legal dispute of €100 thousand.
2 This amount relates to the portion of the net income for 2019 allocated to the provision as per article 21 of the By-laws.
3 This amount is made up of €221 thousand for donations as for article 21 of the By-laws, of €180 thousand for payment of the performance bonus to personnel and of €34 thousand for the use of the provision for legal risks in relation to a dispute settled in favour of the counterparty.
4 The amount related to the write-back regarding the provision set aside in previous years for a legal dispute that was settled in favour of the Bank.

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	45	-	-	45
Financial guarantees issued	29	-	3	31
Total	**74**	**-**	**3**	**77**

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:	**85,296**		**83,044**	**80,389**
- Legal reserve undistributable [2]	11,697	B	-	-
- Available legal reserve	7,909	A-B-C	7,909	7,909
- Statutory reserves	53,544	A-B-C	53,544	53,544
- Reserve under Legislative Decree no. 38/2005	2,655	A-B	2,655	-
- Reserve pursuant to IFRS 9 FTA	(9,746)		-	-
- OCI option reserves on disposal	301			
- Unavailable reserve under article 6 Legislative Decree no. 38/2005	-		-	-
- Other reserves	18,936	A-B-C	18,936	18,936
Valuation reserves:	**7,010**		**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	3,149		-	-
- Reserve under Legislative Decree no. 38/2005: pension plans	(457)		-	-
Total	**122,147**		**117,203**	**110,230**

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

[1] According to article 2431 of the Italian 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 Italian Civil Code.

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

Proposal for the allocation of the net profit

The net profit for 2020 amounted to €3,252,388.43, entirely distributable.
That said, the Board of Directors proposes the following allocation of net profit:

Profit for the year	**3,252,388.43**
- non-distributable reserves under article 6, paragraph 2 of Legislative Decree no. 38/2005 freed during the year	-
- allocation to non-distributable reserves under article 6, paragraph 2 of Legislative Decree no. 38/2005	-
- 5% to the legal reserve	162,000.00
Distributable amount	**3,090,388.43**
- at the disposal of the Board of Directors for initiatives as per article 21 of the By-laws	160,000.00
- dividend to distribute to shareholders (€0,009 for the 112,470,400 shares, which correspond to 1.731% of their nominal value)	1,012,233.60
- further allocation to the extraordinary reserve	1,918,154.83

OTHER INFORMATION

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

Transactions	Notional value on commitments and financial guarantees issued			2020	2019
	Stage 1	Stage 2	Stage 3		
Commitments to disburse funds	**10,300**	**3,464**	**-**	**13,764**	**21,246**
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial corporations	6,280	-	-	6,280	4,773
e) Non-financial corporations	4,020	3,464	-	7,484	16,123
f) Families	-	-	-	-	351
Financial guarantees issued	**6,227**	**-**	**5**	**6,232**	**6,105**
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	1,034	-	-	1,034	1,034
d) Other financial corporations	-	-	-	-	-
e) Non-financial corporations	5,193	-	5	5,198	5,071
f) Families	-	-	-	-	-

3. Assets used to guarantee own liabilities and commitments

Portfolios	2020	2019
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	30,864	30,125
3. Financial assets measured at amortised cost	800,316	572,732
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 brokerage on behalf of third parties

Type of services	2020	2019
1. Trading of financial instruments on behalf of customers	**-**	**-**
a) Purchases	-	-
1. settled	-	-
2. not settled	-	-
b) Sales	-	-
1. settled	-	-
2. not settled	-	-
2. Portfolio management	-	-
a) individual	-	-
b) collective	-	-
3. Custody and administration of securities	**619,220**	**390,723**
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	39,026	40,015
1. securities issued by the Bank that prepares the financial statements	27,800	27,800
2. other securities	11,226	12,215
c) third-party securities on deposit with third parties	9,026	10,015
d) own securities on deposit with third parties 1	580,194	350,708
4. Other assets	**360**	**428**
of which: Transactions on behalf of the Autonomous Provinces	*99*	*167*
Risk provisions set up by various entities	*260*	*260*
Management of state contributions under Law no. 488/92	*1*	*1*

1 This item includes Senior and Junior securities originating from the securitisation operation and lodged with Cassa Centrale Banca S.p.A. or the Bank of Italy for the overall amount of €23,730 thousand in 2020 and €56,869 thousand in 2019.

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	FVTPL	OCI Option	HTCS	HTC	Total
	Debt securities	Investments in UCITS	Equity securities	Debt securities	Debt securities	
A. Opening balance	**-**	**12,399**	**16,584**	**97,835**	**199,702**	**326,520**
B. Increases	**1,585**	**1,349**	**32,712**	**240,042**	**596,601**	**872,289**
B1. Purchases	1,542	1,146	28,552	234,281	589,920	855,442
B2. Positive changes in fair value	-	203	3,836	3,346	-	7,385
B3. Write-backs due to impairment [1]	-	-	-	29	86	116
B4. Gains on sale:	-	-	-	2,175	6,275	8,774
- income statement [2]	-	-		2,175	6,275	8,450
- equity [3]			324			324
B5. Transfers from other portfolios	-	-	-	-	-	-
B6. Other changes [4]	43	-	-	211	320	573
C. Decreases	**31**	**1,517**	**3,769**	**234,369**	**334,009**	**573,694**
C1. Sales	-	-	3,326	193,985	288,590	485,901
C2. Redemptions	-	157	-	38,570	43,124	81,851
C3. Negative changes in fair value	31	1,360	443	154	-	1,988
C4. Adjustments due to impairment [1]	-	-	-	10	329	338
C5. Capital loss on sale:	-	-	*0*	*85*	*1,571*	*1,656*
- income statement	-	-		*85*	*1,571*	*1,656*
- in equity [5]			*0*			*0*
C5. Transfers to other portfolios	-	-	-	-	-	-
C6. Other changes [6]	-	-	-	1,565	395	1,959
D. Closing balance	**1,554**	**12,231**	**45,527**	**103,509**	**462,295**	**625,116**

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 gain arising from the sale of the investee Dedagroup Stealth SpA compared to the fair value measurement in the 2019 financial statements.

4 This item includes:
- with regard to FVTPL debt securities, the change in amortised cost.
- with regard to HTCS debt securities, in addition to the aforementioned effect of adjustments due to impairment (€10 thousand), the change in amortised cost (€115 thousand) and the reversal of the negative reserve following the sale of government securities (€86 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 Formazione-Lavoro ScpA (€112 thousand) compared to the fair value measurement from the 2019 financial statements.

6 This item includes:
- with regard to HTCS debt securities, in addition to the aforementioned effect of write-backs due to impairment (€29 thousand), the change in amortised cost (€1.521m) and the reversal of the positive reserve following the sale of government securities (€14 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 2020	Total 2019
1. Financial assets measured at fair value through profit or loss	43	-	-	43	-
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	43	-	-	43	-
2. Financial assets measured at fair value through other comprehensive income	754	-		754	658
3. Financial assets measured at amortised cost	4,102	23,724	-	27,826	26,192
3.1 Loans and advances to banks	429	-		429	109
3.2 Loans and advances to customers	3,673	23,724		27,397	26,087
4. Hedging derivatives			-	-	-
5. Other assets			1	1	0
6. Financial liabilities[2]				1,671	1,281
Total	**4,899**	**23,724**	**1**	**30,295**	**28,132**
of which: interest income on impaired assets	13	2,248	-	2,261	2,270
of which: interest income on finance leases	-	2,319	-	2,319	1,913

Changes in connection with interest income – with respect to the results of the period of comparison (2019) – 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:
- coupons collected on a subordinated bond issued by an insurance counterparty (item Other financial assets mandatorily measured at fair value) purchased by the Bank with the aim of financing the issuer, which did not pass the SPPI test;
- 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.

Their balances are shown on tables 2.5, 3.1, 4.1 and 4.2 of Part B – Section 2, 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 TLTRO III 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 2020 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 €362 thousand (€911 thousand in 2019).

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets denominated in currency

	2020	2019
Interest income from financial assets denominated in currency	-	3

1.3 Interest expense and similar charges: breakdown

Items/Technical Forms	Amounts due	Securities1	Other Transactions	Total 2020	Total 2019
1. Financial liabilities measured at amortised cost	5,831	4,882	-	10,713	8,940
1.1 Due to central banks	-			-	-
1.2 Due to banks	3,740			3,740	4,600
1.3 Due to customers	2,091			2,091	1,246
1.4 Debt securities in issue		4,882		4,882	3,093
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions			23	23	36
5. Hedging derivatives			-	-	-
6. Financial assets [2]				64	72
Total	**5,831**	**4,882**	**23**	**10,800**	**9,047**
of which: interest expense related to lease payables			2	2	3

Changes in connection with interest expense – with respect to the results of the period of comparison (2019) - 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

	2020	2019
Interest expense on liabilities denominated in currency	-	1

SECTION 2 - FEES & COMMISSIONS – ITEMS 40 & 50

2.1 Commission income: breakdown

Type of service/Amounts	2020	2019
a) guarantees issued	48	42
b) credit derivatives		
c) management, brokerage and consultancy services:	7	2
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	7	2
8.1 investments		
8.2 structured finance	7	2
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	1	0
e) securitisation servicing		
f) services for factoring transactions		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		0
j) other services [1]	1,850	2,340
Total	**1,906**	**2,384**

Changes of single items with respect to the data for the period of comparison (2019) are illustrated and explained 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 €1.245m and of commissions for corporate finance activities for €606 thousands.

2.3 Commission expense: breakdown

Services/Amounts	2020	2019
a) guarantees received	82	96
b) credit derivatives		
c) management and brokerage services:	26	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	26	20
5. placement of financial instruments		
6. door-to-door distribution of financial instruments, products and services		
d) collection and payment services	1	1
e) other services1	354	311
Total	**463**	**428**

Changes of single items with respect to the data for the period of comparison (2019) 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 €83 thousand is for the processing of funding applications and €267 thousand for commissions to guarantee fund.

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

Items/Income	2020		2019	
	Dividends	Similar	Dividends	Similar
A. Financial assets held for trading	-	-	-	-
B. Financial assets mandatorily measured at fair value	-	-	-	-
C. Financial assets measured at fair value through other comprehensive income[1]	1,370	-	382	-
D. Equity investments	-		-	
Total	**1,370**	**-**	**382**	**-**

Changes of single items with respect to the data for the period of comparison (2019) are illustrated and explained in the Report on Operations in the section "Income statement dynamics", to which reference should be made.

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					**-**
4. Derivatives	**152**	**51**	**166**	**36**	**1**
4.1 Financial derivatives:	152	51	166	36	1
- On debt securities and interest rates	142	51	146	36	10
- On equity securities and share indices	10	-	20	-	(9)
- On currencies and gold					
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges related to the fair value option					-
Total	**152**	**51**	**166**	**36**	**1**

1 The item "Capital gains" includes negative fair value changes on Cap options sold to customers for €115 thousand, positive fair value changes on Cap options purchased from banks for €28 thousand and the positive fair value change on the Guala Closured warrant of €10 thousand.
2 The item "Trading profits" includes premiums received in relation to Cap options sold to customers for €50 thousand.
3 The item "Capital losses" includes negative fair value changes on Cap options purchased from banks for €120 thousand, positive fair value changes on Cap options sold to customers for €26 thousand and the negative fair value changes on Aquafil warrants for €3 thousand and Fine Foods & Pharmaceuticals for €16 thousand.
4 The item "Trading losses" includes premiums paid in relation to Cap options purchased from banks for €36 thousand.

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

6.1 Gains (losses) on disposal or repurchase: breakdown

Items/Income components	2020		
	Gains	Losses	Net result
A. Financial assets	9,248	3,155	6,093
1. Financial assets measured at amortised cost:	7,073	3,070	4,003
1.1 Loans and advances to banks	-	-	-
1.2 Loans and advances to customers [1]	7,073	3,070	4,003
2. Financial assets measured at fair value through other comprehensive income	2,175	85	2,090
2.1 Debt securities[2]	2,175	85	2,090
2.2 Loans	-	-	-
Total assets	**9,248**	**3,155**	**6,093**
B. Financial liabilities measured at amortised cost	16	-	16
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Debt securities in issue	16	-	16
Total liabilities	**16**	**-**	**16**

1 The amounts relate to the capital loss resulting from the sale of doubtful loans of €0.7m and to the capital gain resulting from the sale of government securities of €4.7m.
2 The amounts relate to the capital gains realised on the sale of government securities.

Items/Income components	2019 Gains	2019 Losses	2019 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.

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)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**203**	**-**	**1,391**	**-**	**(1,188)**
1.1 Debt securities	-	-	31[2]	-	31
1.2 Equity securities	-	-	-	-	-
1.3 Investments in UCITS	203	-	1,360[3]	-	(1,157)
1.4 Loans	-	-	-	-	-
2. Other financial assets and liabilities: exchange differences					**-**
Total	**203**	**-**	**1,391**	**-**	**(1,188)**

1 The amount refers to the positive change in fair value on the units of the Hat Technology & Innovation Fund for €18 thousand and on the units of the Finint Fenice Fund for €185 thousand.
2 The amount refers to the negative change in fair value of the mezzanine and junior securities of the Buonconsiglio 3 securitisation.
3 The amounts refer to the negative change in fair value of the units of the Assietta Private Equity III Fund (€961 thousand), the Clesio Fund (€250 thousand), the Industry 4.0 SICAV Fund (€117 thousand), the Assietta Private Equity IV Fund (€30 thousand) and the PMI Italia II Fund (€2 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 2020	Total 2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Loans and advances to banks	(1)	-	-	-	-	(1)	34
- loans	(1)	-	-	-	-	(1)	43
- debt securities	(0)	-	-	-	-	(0)	(9)
of which: acquired or originated impaired loans	-	-	-	-	-	-	
B. Loans and advances to customers	(4,834)	(443)	(9,156)	86	3,550	(10,797)	(5,255)
- loans	(4,506)	(443)	(9,156)	-	3,550	(10,555)	(5,335)
- debt securities	(328)	-	-	86	-	(242)	80
of which: acquired or originated impaired loans	-	-	-	-	-	-	
Total [1]	**(4,835)**	**(443)**	**(9,156)**	**86**	**3,550**	**(10,798)**	**(5,221)**

1 The total of €10.798m of adjustments coincides, net of write-backs due to time-reversal (€1.124m) which are included in the financial statement item "10. Interest income", with the item "Value adjustments on HTC loans and advances" (€9.715m of adjustments) in the table summarising the valuation of assets in the financial statements shown in the Report on Operations, net of losses from amendments to contract (€42 thousand), which in the financial statements are included in item "140. Profits/losses from contractual changes without derecognitions".

8.1a Net adjustments due to credit risk relating to loans measured at amortised cost, subject to Covid-19 support measures: breakdown

	Net value adjustments			Total 2020
	Stage 1 and 2	Stage 3		
		Write-off	Other	
1. Loans subject to concession in compliance with the GL	1,618	-	151	1,769
2. Loans subject to other forbearance measures	37	-	102	139
3. New loans	179	-	-	179
Total [1]	**1,834**	**-**	**253**	**2,087**

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 2020	Total 2019
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-off	Other				
A. Debt securities	(10)	-	-	31	-	21	173
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: acquired or originated impaired loans	-	-	-	-	-	-	-
Total [1]	**(10)**	**-**	**-**	**31**	**-**	**21**	**173**

1 The total of €21 thousand in write-backs coincides with the item "Value adjustments on HTCS debt securities" in the table summarising the measurement of assets in the financial statements shown in the Report on Operations.

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

The Bank has no loans measured at fair value through other comprehensive income in its portfolio.

SECTION 9 - PROFITS/LOSSES FROM CONTRACTUAL CHANGES WITHOUT DERECOGNITIONS - ITEM 140

9.1 Profits (losses) from contractual changes: breakdown

	Value adjustments	Write-backs	Total 2020	Total 2019
Loans and advances to customers	(42)	1	(42)	-

SECTION 10 – ADMINISTRATIVE COSTS – ITEMS 160

10.1 Payroll: breakdown

Type of expenses/Amounts	Total 2020	Total 2019
1) Employees	6,792	6,603
a) wages and salaries	4,711	4,600
b) social insurance	1,268	1,230
c) severance indemnities [1]	271	258
d) social security contributions	-	-
e) provision for severance indemnities	14	14
f) provision for post-retirement benefits and other obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	173	158
- defined contribution [2]	173	158
- defined benefit	-	-
h) costs deriving from payment agreements based on own capital instruments	-	-
i) other employee benefits	356	343
2) Other personnel currently employed	-	-
3) Directors and Auditors	490	483
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	**7,283**	**7,086**

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]

	2020	2019
Employees:	**75**	**73**
a) executives	6	6
b) managerial staff	38	37
c) remaining employees	31	30
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.

	2020	2019
Employees:	**79.0**	**76.7**
a) executives	6.0	5.6
b) managerial staff	39.1	38.3
c) remaining employees	33.9	32.3
Other personnel	-	-

10.4 Other employee benefits

	2020	2019
Insurance policies	153	147
Training	49	46
Lunch vouchers	91	80
Costs for early termination of employment	-	3
Benefits in kind	18	18
Other short-term benefits	45	49
Total	**356**	**343**

10.5 Other administrative costs: breakdown

	2020	2019
1. IT costs	**862**	**896**
- outsourcing costs	609	591
- other EDP (Electronic Data Processing) costs	253	305
2. Property related expenses	**281**	**349**
a) rental expenses	17	43
- property rental expenses	*17*	*43*
b) other expenses	264	306
- Covid 19 - sanitation and PPE	16	-
- office cleaning	*46*	*70*
- building service charges	*39*	*43*
- maintenance and repair costs	*50*	*45*
- electricity, heating, water	*55*	*69*
- motor vehicles maintenance	*58*	*79*
3. Purchase of non-professional goods and services	**220**	**285**
- books, magazines, subscriptions	20	21
- information and cadastral services	38	51
- stationery, printing supplies, storage media	4	7
- surveillance	93	112
- databases and value-added networks	43	73
- post and telephones	22	21
4. Purchase of professional services	**605**	**698**
- legal and procedural costs	268	313
- professional fees	337	385
5. Insurance premiums	**17**	**19**
- other insurance policies	17	19
6. Advertising expenses	**491**	**162**
- advertising and sponsorships	477	143
- entertainment and gifts	14	19
7. Indirect taxes and duties	**230**	**228**
- substitute tax	54	74
- registration tax and dues	25	35
- tax on real estate	31	53
- other taxes and duties (advertising, tosap - tax on occupation of public property - stamp duty)	120	66
8. Other	**1,005**	**1,018**
- contributions to the banking crisis resolution fund	821	757
- membership fees[1]	133	126
- other expenses	51	135
Total	**3,711**	**3,655**

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)).

	2020	2019
Costs related to short-term leases	**7**	**28**
- buildings	7	28
- vehicles	-	-
Costs related to low-value leases	-	-
Variable lease payments not included in the measurement of lease liabilities	**31**	**30**
- buildings	-	-
- vehicles	31	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 2020	Total 2019
Provision for guarantees issued	(16)	(8)
Provision for commitments	(42)	(3)
Total	**(58)**	**(11)**

11.3 Net provisions for risks and charges: breakdown

	Total 2020	Total 2019
Provision for personnel incentive schemes	(239)	(132)
Net provisions for legal disputes underway	30	1
Total	**(209)**	**(131)**

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	(524)			(524)
1 For operational use	(524)			(524)
- Owned	(453)			(453)
- Rights-of-use acquired under leases	(71)			(71)
2 Held for investment purposes	-			-
- Owned	-			-
- Rights-of-use acquired under leases	-			-
3 Inventory				-
Total	**(524)**			**(524)**

SECTION 13 – NET ADJUSTMENTS TO INTANGIBLE ASSETS – ITEM 190

13.1 Net adjustments to intangible assets: breakdown

Assets/Income items	Depreciation (a)	Impairment adjustments (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets	(41)			(41)
A.1 Owned	(41)			(41)
- Generated internally by the company				
- Others	(41)			(41)
A.2 Rights-of-use acquired under leases				
Total	**(41)**			**(41)**

SECTION 14 – OTHER OPERATING CHARGES/INCOME – ITEM 200

14.1 Other operating charges: breakdown

	Total 2020	Total 2019
Self-securitisation costs refunded to the SPV	(55)	(113)
SPV ongoing operating expenses	(104)	(102)
Sundry operating expenses	(0)	(3)
Total	**(159)**	**(218)**

14.2 Other operating income: breakdown

	Total 2020	Total 2019
Recovery of procedural expenses	274	390
Servicer commission income in relation to self-securitisation	55	113
Tax refund/recovery[1]	166	173
Sundry operating income	68	61
Total	**563**	**737**

1 The amount includes the recovery of stamp duty on current accounts for €118 thousand in 2020 and €66 thousand in 2019.

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

15.1 Profit (loss) from equity investments: breakdown

Income items/Amounts	2020	2019
A. Income	**-**	**-**
1. Write-ups	-	-
2. Gain on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Charges	**(470)**	**(370)**
1. Write-downs[1]	(470)	(370)
2. Adjustments due to impairment	-	-
3. Loss on disposal	-	-
4. Other charges	-	-
Net result	**(470)**	**(370)**

1 Charges deriving from the application of the equity method to the valuation of equity investments in the portfolio 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	2020	2019
A. Buildings	-	-
- Gains on disposal	-	-
- Losses on disposal	-	-
B. Other assets	(2)	3
- Gains on disposal [1]	0	3
- Losses on disposal[2]	(2)	-
Net result	**(2)**	**3**

1 This item relates to gains on the sale of fully depreciated property, plant and equipment of €28 in 2020 and €3 thousand in 2019.
2 In 2020, these are losses deriving from the sale of assets that have not been fully depreciated.

SECTION 19 – INCOME TAXES ON CURRENT OPERATIONS – ITEM 270

19.1 Income taxes on current operations: breakdown

	Items/Amounts	Total 2020	Total 2019
1.	Current taxes (-)		(1,730)
2.	Change in current taxes of previous periods (+/-)		
3.	Decrease in current taxes of the period(+)	+58	
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]	-1,735	-420
5.	Change in deferred tax liabilities (+/-)[2]	+412	+11
6.	**Income taxes for the period (-)** (-1+/-2+3+3*bis*+/-4+/-5)	**(1,265)**	**(2,140)**

[1] The amount shown under the item "change in deferred tax assets" (-€1.735m) 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" (€113 thousand) and "3. Decreases" (€1.848m).

[2] The amount shown under the item "change in deferred tax liabilities" (+€412 thousand) corresponds to what was shown in table 10.4 "Change in deferred tax liabilities (with contra-entry to the income statement)" in item "3. Decreases" (€412 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)		**4,518**		
Corporate income tax (IRES) – theoretical values:			**(1,242)**	**27.5**
IRES variation due to decreases in the taxable income		(8,003)	2,201	27.5
IRES variation due to increases in the taxable income		2,530	(696)	27.5
Tax loss - 2020		**(955)**	**-**	
Other components			42	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)			**42**	
Increases in deferred tax assets			98	27.5
Decreases in deferred tax assets			(1,571)	27.5
Increases in deferred tax liabilities			-	27.5
Decreases in deferred tax liabilities			412	27.5
B. Total effect of deferred corporate income tax (IRES)			**(1,061)**	**27.5**
C. Total actual IRES charge (A+B)			**(1,019)**	**22.6**
Regional tax on industrial activities IRAP – application of nominal tax rate **(difference between net interest and other banking income and deductible expenses)**		**27,229**	**(1,517)**	**5.57**
IRAP variation due to a decrease in production value		(27,538)	1,534	5.57
IRAP variation due to an increase in production value		782	(44)	5.57
Net value of production - 2020		**473**	**(26)**	**5.57**
Other components			42	
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)			**16**	
Increases in deferred tax assets			14	5.57
Decreases in deferred tax assets			(277)	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)			**(263)**	**5.57**
F. Total actual IRAP charge	**(D+E)**		**(247)**	**5.45**
Total current IRES/IRAP taxes (item 270 IS)	**(A+D)**		**58**	
Total actual IRES/IRAP tax charges (item 260 IS)	**(C+F)**		**(1,266)**	**28.0**

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 at the Bank of Italy. 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 31/12/2020 of €8.5m) 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 buildings, 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 2020, there was no dilution of Mediocredito's share capital as neither the number of its ordinary 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 €3.252m, the profit per share is €0.0289.

	2020	2019
Earnings (loss) per share	0.0289	0.0358
Diluted earnings (loss) per share	0.0289	0.0358

PART D COMPREHENSIVE INCOME

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

	Items	2020	2019
10.	**Net income (loss) for the year**	**3,252**	**4,028**
	Other income components without reversal to income statement	**+3,174**	**+138**
20.	Equity securities designated at fair value through other comprehensive income:	+3,393	+198
	a) Fair value change	+3,393	+198
	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	(18)	(70)
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	+201	+10
	Other income components with reversal to income statement	**+2,190**	**+1,106**
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:	+3,229	+1,631
	a) fair value changes	+3,151	+461
	b) reversal to income statement	+78	+1,170
	- net adjustments to credit risk	+21	+173
	- capital gains/losses	+57	+997
	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	**(1,039)**	**(525)**
190.	**Total other income components**	**+5,364**	**+1,244**
200.	**Comprehensive income (10+190)**	**8,617**	**5,272**

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 2020, 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/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.

Impacts deriving from the Covid-19 pandemic

In terms of credit risk, the Risk Management Department carried out an in-depth analysis of the portfolio in terms of risk by segment, focusing on the Bank's lending operations in the sectors most exposed to the consequences of the Covid-19 pandemic, identified - in consideration of the area of operation of the Bank and the economy of the reference territories - in the sectors related to tourist flows, first of all that of Hospitality and that of Cableways, in addition to an appropriate review of the accounts subject to Covid-19 moratoria. This activity was carried out with the aim of providing the Management and the Board of Directors with a snapshot of the scope and the current composition of the portfolios under analysis, showing the *breakdown* in terms of customers' operating segments, geographical location, degree of risk and presence of collateral guarantees; some monitoring indicators were also used (such as, for example, the Rating classes of the IFRS 9 Impairment Model) with the aim of identifying transactions with potential critical areas to be included in a possible monitoring watch list. No particular risk phenomena emerged from the analyses.

In relation to the disclosure required by the "*Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis*" published by the EBA (EBA/GL/2020/07), please refer to the public disclosure ("Third Pillar"), published on the Bank's website (www.mediocredito.it).

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 lines;
- 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 granting 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 Departments 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.
Therefore, 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 Allitude/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 Allitude system and on the basis of expected macroeconomic scenarios (forward looking approach).
During 2019, the Allitude/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 Allitude development sample but by replicating the distinctive characteristics of the business of Mediocredito. In particular, a re-estimation, on the entire Allitude sample - thus guaranteeing the statistical robustness of the model - of the integration function was envisaged, replacing the internal performance module, with 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, Allitude carried out rating scale optimisation works for all banks in order to resolve the anomalies encountered by customer banks.

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 Allitude 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.

Changes due to Covid-19

Assessment of significant increase in credit risk (SICR)

With regard to the assessment of the significant increase in credit risk, it should be noted that the collective impairment calculation model during the first half of 2020 was the subject of fine-tuning interventions, by Allitude/CRIF with the advice of Prometeia, to manage the effects deriving from the Covid-19 health emergency.
The implementations concerned in particular the relationships subject to moratorium and resulted in the deactivation of the "delta PD" criterion and the freezing of the rating in February 2020.

Subsequently, for the year-end valuation, it was decided to adopt a prudential approach induced by the persistence of the pandemic crisis, which resulted in the following actions:
- defrosting of the rating class (and therefore of the relative PD) relating to the exposures that benefit from the moratoria, due to the growing uncertainties regarding the prospective confirmation of the same and the economic/financial sustainability (in terms of objective capacity to honour its obligations) of the exit from this status by companies and small economic operators;
- application of a penalty in terms of rating classes to individuals and exposures belonging to economic sectors which, on the basis of a targeted forward-looking analysis, are expected to be more inclined to negatively factor the effects of the economic crisis caused by the Covid-19 pandemic. This choice is based on the use of macroeconomic forecasts published by one of the main specialised market operators.

In particular:
- exposures to individuals + 1 class;
- exposures to Companies, Small Businesses and POE in the selected economic sectors and geographical areas:

+ 1 class if the initial rating class is less than or equal to 4;
+ 2 classes if the initial rating class is equal to or greater than 5.

Added to this is the fact that the CRIF/Allitude model, not being able to assign a rating to exposures to public entities, applied to them the same increase in terms of PD applied to exposures to companies. Considering that due to the riskiness of the public administration sector, no evidence of a significant prospective impairment was obtained, the collective write-down of exposures to public entities was determined by maintaining the PD calculated in March 2020.

Measuring expected losses

With regard to the measurement of expected losses, in addition to the aforementioned freezing of the rating of February 2020 for the positions subject to moratorium, the collective impairment calculation model was affected in 2020 by an update of the scenario integrating the effects of the Covid-19 health emergency, as indicated by the *regulators*.
In particular, reference was made to the letter sent by the ECB to the banks in which it emphasised the need to mitigate the volatility of regulatory capital and of the financial statements deriving from the implementation of IFRS 9 in the context of COVID-19. In particular, it was recommended to use the forecasts relating to the growth prospects of the Eurozone countries prepared by the ECB (together with the individual Central Banks, including the Bank of Italy) and, since these forecasts cover a time horizon of 3 years, to limit the volatility inherent in short-term forecasts, to favour the use of long-term macroeconomic forecasts obtained from reliable sources.
This resulted in the adoption by Allitude/CRIF of the macroeconomic projections published by the European Central Bank, extending the scenarios reported therein to the variables, not directly projected by the authority, but present in the satellite models of PD and

LGS, under three different assumptions: baseline (included in the model with 90% weight), adverse (with 5% weight) and best (with 5% weight).
Lastly, in order to meet the need to assign differentiated weights to short and medium/long-term scenarios, favouring medium/long-term scenarios over time (as reported in the ECB indications, mentioned above), the external provider adopted a mechanism of weighting between the short-term and the medium/long-term forecast component to favour a convergence towards the long-term average.

In relation to the relationships subject to *analytical impairment*, on the other hand, based on the results of the analyses conducted by the Risk Management department, particular attention was paid to the assessment of the expected recovery values of the individual positions that led, at times, to an increase in *coverage*.

2.4 Credit risk mitigation techniques

In accordance with the Bank's specific fields of operation, Credit Risk Mitigation (CRM) 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 €36.3m (€137.8m in 2019).
As at 31 December 2020, the incidence of these transactions on total loans (excluding doubtful loans) was reduced to 19.2%, thus configuring an incidence within the overall tolerance limits set for the year (28%) as well as within the specific limits per rating category.
In addition to this portfolio, there are operations in the energy sector: disbursements amounted to €15.1m, with the stock as a percentage of total loans (excluding doubtful loans) amounting to 12.6% below the RAF limit of 15.0%.
As a whole, transactions at full risk account for 31.8% of total loans compared with a RAF limit of 43.0%.

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", two loans are reported as at 31 December 2020: one of which with central governments, for Italian government debt securities and one with a supervised credit intermediary.

3. IMPAIRED CREDIT EXPOSURES

3.1 Management strategies and policies

Objectives and strategies

In 2020, the Bank has approved the "Multi-annual plan for the management of NPLs" for the 2020-2022 time horizon.
The following table summarises the main objectives of the plan for 2020 compared with the final results:

Operational objectives	Target 2020	Situation as at 31/12/2020	Gap
New net impaired	14,697	2,461	12,236
Impaired credit exposures (gross values)	83,087	65,897	17,190
Impaired credit exposures (net values)	44,852	32,760	12,092
Gross NPL ratio	7.5%	5.9%	1.6%
Net NPL ratio	4.2%	3.1%	1.1%
Total coverage ratio of impaired loans	46.0%	50.3%	4.3%
Coverage ratio of doubtful loans	56.0%	54.5%	1.5%
Coverage ratio of unlikely to pay loans	31.0%	44.2%	13.2%
Coverage ratio of past due loans	5.0%	7.5%	2.5%

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 "Unlikely to pay";
- Positions not past due but "potentially critical".

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), constantly taking into account the minimum regulatory requirements related to applying the so-called "*calendar provisioning*", adequately implemented by internal policies and procedures. 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 system levels, reaching 0.1% at the end of the year compared to 1.0% 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 €1.6m.

Financial assets which, although entirely written down during the year, are still subject to execution

As at 31 December 2020, the Bank held €0.508m of doubtful loans in its portfolio, written down entirely, broken down by seniority as follows:

Year of classification as doubtful loan	No. of customers	Amount (millions of Euro)
2010	1	0.297
2012	1	0.211

3.3 Acquired or originated impaired financial assets

The Bank does not hold acquired or originated impaired 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.

Moratoria granted by law and in application of industry agreements to deal with the effects of the Covid-19 pandemic

Based on the indications provided by the European Banking Authority in the document "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis*" of 4 April 2020 (EBA/GL/2020/02) and subsequent *amendment*, the moratoria granted to customers *pursuant to law* (mainly Law Decree 18 of 17 March 2020) and in application of the industry agreements (ABI Agreements)[33], were not considered as an expression of the debtor's financial difficulty. Therefore, the aforementioned positions were not classified as *forborne* exposures.

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	2020	Tot.
Forborne performing	-	-	-	-	-	969	5,028	1,464	2,657	5,195	4,254	**3,410**	**22,977**
Forborne non-performing	57	-	-	-	3,320	2,124	6,058	6,931	3,171	3,054	10,099	**572**	**35,384**
Total	**57**	**-**	**-**	**-**	**3,320**	**3,093**	**11,086**	**8,395**	**5,828**	**8,249**	**14,353**	**3,982**	**58,362**

Gross forborne loans by number of forbearance (in thousands)

	1 forbearance measure	more than one forbearance measure
Forborne performing	10,922	12,055
Forborne non-performing	22,265	13,119
Total	**33,187**	**25,175**

Effectiveness of the forbearance measures (in thousands)

	2019	2020
Flow analysis		
Forborne performing classified as forborne non-performing	-	151
Forborne performing classified as performing non forborne	4,830	3,101
Forborne non performing classified as forborne performing	54	-
Stock analysis		

33 Mediocredito Trentino-Alto Adige, at the end of an analysis carried out internally and subject to the positive opinion of the Compliance function, considered that the moratoria granted on the basis of the "Ripresa Trentino" protocols (signed between the Autonomous Province of Trento, Cassa del Trentino SpA and banks, financial intermediaries and the Confidi of the province of Trento) and "Alto Adige Riparte" (signed between the Autonomous Province of Bolzano, Confidi, Garfidi and banking institutions with headquarters or branches in South Tyrol) meet the requirements of the EBA Guidelines (EBA/GL/2020/02) and therefore fall within the scope of application of the provisions contained therein.

Forborne performing without arrears / total forborne performing	88%	93%
Forborne non performing without arrears / total forborne non-performing	39%	56%

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	18,433	13,954	373	3,052	1,486,047	**1,521,859**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	103,509	**103,509**
3. Financial assets designated at fair value	-	-	-	-	-	**-**
4. Other financial assets mandatorily measured at fair value	-	-	-	-	1,278	**1,278**
5. Financial assets to be sold	-	-	-	-	-	**-**
Total 2020	**18,433**	**13,954**	**373**	**3,052**	**1,590,834**	**1,626,646**
Total 2019	**36,270**	**20,515**	**986**	**10,553**	**1,314,372**	**1,382,696**

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)	7,456	10,842	137	1,117	19,967	**39,519**

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	65,897	33,137	32,760	26	1,498,937	9,838	1,489,099	**1,521,859**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	103,509	-	103,509	**103,509**
3. Financial assets designated at fair value	-	-	-	-			-	**-**
4. Other financial assets mandatorily measured at fair value	-	-	-	-			1,278	**1,278**
5. Financial assets to be sold	-	-	-	-	-	-	-	**-**
Total 2020	**65,897**	**33,137**	**32,760**	**26**	**1,602,446**	**9,838**	**1,592,608**	**1,626,646**
Total 2019	**113,269**	**55,498**	**57,771**	**26**	**1,318,620**	**5,135**	**1,313,485**	**1,382,696**

	Assets of clearly low credit quality		Other assets
	Accumulated losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	189
2. Hedging derivatives	-	-	-
Total 2020	**-**	**-**	**189**
Total 2019	**-**	**-**	**291**

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	657	-	-	748	1,631	17	-	1,738	19,670
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets to be sold	-	-	-	-	-	-	-	-	-
TOTAL 2020	**657**	**-**	**-**	**748**	**1,631**	**17**	**-**	**1,738**	**19,670**
TOTAL 2019	**671**	**1,172**	**-**	**3,138**	**5,572**	**-**	**-**	**2,453**	**39,119**

of which past due:

TOTAL 2020	0	-	-	-	88	0
TOTAL 2019	61	19	-	1,598	204	-

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	1,941	59	-	2,000	3,193	-	-	3,193	55,498	-	55,498	0	-	16	-	3	60,710
Increases from acquired or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	(21,538)	-	(21,538)	-	-	-	-	-	(21,538)
Net adjustments due to credit risk (+/-)	2,956	(22)	-	2,934	1,845	-	-	1,845	3,925	-	3,925	-	-	58	-	0	8,762
Amendments to contracts without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	(46)	-	-	(46)	-	-	-	-	(4,748)	-	(4,748)	-	-	-	-	-	(4,794)
Other changes	(51)	(13)	-	(64)	-	-	-	-	-	-	-	-	-	-	-	-	(64)
Closing balance	4,800	24	-	4,824	5,038	-	-	5,038	33,137	-	33,137	-	-	74	-	3	43,076
Recoveries from collections on financial assets subject to write-off	-	-	-	-	-	-	-	-	282	-	-	-	-	-	-	-	282
Write-offs recognised directly in the income statement	0	-	-	0	-	-	-	-	1,942	-	-	-	-	-	-	-	1,942

For assets at amortised cost other than stage 1 and 2 securities, value adjustments are determined collectively using software provided by the company Allitude, which uses a calculation model developed together with CRIF, also adopted by the newly formed Cassa Centrale Banca national 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 Allitude 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 adjustment provisions for assets measured at amortised cost falling under the first and second stage, it should be noted that the significant value adjustments (€3.0m and €1.8m, respectively) are attributable to the worsening of the forecasts on the evolution of the macroeconomic context due to the Covid-19 pandemic.
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	84,715	18,912	1,119	774	631	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-
TOTAL	**84,715**	**18,912**	**1,119**	**774**	**631**	**-**

Transfers "*to stage 3*" and "*from stage 3*", amounting to €1.750m and €0.774m, 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 €3.264m and €0.803m, 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/from the non-performing status.

A.1.5a Loans subject to Covid-19 support measures: transfers between different stages of credit risk (gross 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
A. Loans measured at amortised cost	**32,581**	**5,988**	**-**	**674**	**631**	**-**
1. Subject to concession in compliance with the GL	26,243	5,988	-	-	631	-
2. Subject to other forbearance measures	-	-	-	674	-	-
3. New loans	6,338	-	-	-	-	-
B. Loans measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
1. Subject to concession in compliance with the GL	-	-	-	-	-	-
2. Subject to other forbearance measures	-	-	-	-	-	-
3. New loans	-	-	-	-	-	-
TOTAL	**32,581**	**5,988**	**-**	**674**	**631**	**-**

A.1.6 Balance sheet and off-balance sheet credit exposures to banks: gross and net values

Type of exposure/Amounts	Gross exposure		Total 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]		56,051	18	56,033	-
- of which exposures subject to forbearance measures		-	-	-	-
TOTAL A	**-**	**56,051**	**18**	**56,033**	**-**
B. OFF-BALANCE SHEET EXPOSURES					
a) Impaired	-		-	-	-
b) Performing		1,149	2	1,147	-
of which Derivatives		*114*	-	*114*	-
Commitments		-	-	-	-
Guarantees issued		*1,034*	*2*	*1,033*	-
TOTAL B	**-**	**1,149**	**2**	**1,147**	**-**
TOTAL A+B	**-**	**57,200**	**20**	**57,180**	**-**

1 Other performing exposures include €34.4m in bank bonds that satisfy the requirements for eligibility for ECB refinancing, classified for €11.1m under "Financial assets measured at fair value through other comprehensive income" and for €23.3m 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 adjustments and total provisions	Net exposure	Total partial write-offs
	Impaired assets	Performing assets			
A. BALANCE SHEET EXPOSURES					
a) Doubtful loans	40,491		22,059	18,433	26
- of which exposures subject to forbearance measures	16,121		8,665	7,456	-
b) Unlikely to pay	25,002		11,048	13,954	-
- of which exposures subject to forbearance measures	19,111		8,269	10,842	-
c) Impaired past due exposures	403		30	373	-
- of which exposures subject to forbearance measures	152		15	137	-
d) Performing past due exposures		3,436	384	3,052	-
- of which exposures subject to forbearance measures		1,423	305	1,117	-
e) Other performing exposures [1]		1,545,791	9,436	1,536,355	-
- of which exposures subject to forbearance measures		21,555	1,587	19,967	-
TOTAL A	**65,897**	**1,549,227**	**42,957**	**1,572,167**	**26**
B. OFF-BALANCE SHEET EXPOSURES					
a) Impaired	5		3	2	-
of which Guarantees	5		3	2	-
Commitments	-		-	-	-
b) Performing		12,792	73	12,719	-
of which Derivatives		*114*	-	*114*	-
Commitments		*7,484*	*45*	*7,439*	-
Guarantees issued		*5,193*	*27*	*5,166*	-
TOTAL B	**5**	**12,792**	**75**	**12,721**	**-**
TOTAL A+B	**65,902**	**1,562,019**	**43,032**	**1,584,888**	**26**

1 Other performing exposures include €502.0m in securities issued by the Italian government that satisfy the requirements for eligibility for ECB refinancing, classified for €92.4m under "Financial assets measured at fair value through other comprehensive income" and for €409.6m under "Financial assets measured at amortised cost". There are also €1.6m of securities that did not pass

the SPPI test relating to a subordinated bond issued by an insurance counterparty for €1.5m and to the mezzanine and junior tranches issued by the Buonconsiglio 3 securitisation for €12 thousand. 3. For further information, please refer to the Report on Operations in the section "Securities portfolio". Finally, there are €1.3m of receivables for *cash reserve* relating to a securitisation that did not pass the SPPI test.

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

Type of exposure/Amounts	Gross exposure	Total adjustments and total provisions	Net exposure	Total partial write-offs
A. Doubtful loans	**10**	**0**	**10**	**-**
1. Subject to concession in compliance with the GL	-	-	-	-
2. Subject to other forbearance measures	10	0	10	-
3. New loans	-	-	-	-
B. Unlikely to pay loans	**1,734**	**409**	**1,325**	**-**
1. Subject to concession in compliance with the GL	631	152	479	-
2. Subject to other forbearance measures	1,103	257	846	-
3. New loans	-	-	-	-
C. Impaired past due loans	**-**	**-**	**-**	**-**
1. Subject to concession in compliance with the GL	-	-	-	-
2. Subject to other forbearance measures	-	-	-	-
3. New loans	-	-	-	-
D. Other performing past due loans	**694**	**58**	**636**	**-**
1. Subject to concession in compliance with the GL	694	58	636	-
2. Subject to other forbearance measures	-	-	-	-
3. New loans	-	-	-	-
E. Other performing loans	**345,892**	**3,181**	**342,711**	**-**
1. Subject to concession in compliance with the GL	249,643	2,918	246,725	-
2. Subject to other forbearance measures	1,565	84	1,481	-
3. New loans	94,684	179	94,506	-
TOTAL (A+B+C+D+E)	**348,330**	**3,648**	**344,682**	**-**

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	**82,000**	**30,208**	**1,061**
- of which: exposures sold and not derecognised	-	-	-
B. Increases	**4,286**	**4,245**	**342**
B.1 transfers from performing exposures	-	2,989	275
B.2 transfers from acquired or originated impaired financial assets	-	-	-
B.3 transfers from other categories of impaired exposures	2,877	48	-
B.4 amendments to contracts without derecognitions	-	-	-
B.5 other increases[1]	1,409	1,207	67
C. Decreases	**45,795**	**9,450**	**1,000**
C.1 transfers to performing exposures	-	-	803
C.2 write-off	4,957	235	-
C.3 collections[1]	10,440	5,249	149
C.4 sale proceeds	7,895	556	-
C.5 losses on disposal	22,503	533	-
C.6 transfers to other categories of impaired exposures	-	2,877	48
C.7 amendments to contracts without derecognitions	-	-	-
C.8 other decreases	-	0	0
D. Closing balance	**40,491**	**25,002**	**403**
- of which: exposures sold and not derecognised	-	-	-

1 The column doubtful loans also includes €282 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.1.9bis 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**	**52,627**	**25,798**
	- of which: exposures sold and not derecognised	-	-
B. Increases		**1,973**	**4,208**
B.1	transfers from performing exposures not subject to forbearance measures	42	3,533
B.2	transfers from performing exposures subject to forbearance measures	151	
B.3 transfers from impaired loans subject to forbearance measures			-
B.4 transfers from impaired loans not subject to forbearance measures		619	-
B.3	other increases	1,161	675
C.	**Decreases**	**19,217**	**7,030**
C.1	transfers to performing exposures not subject to forbearance measures		3,101
C.2.	transfers to performing exposures subject to forbearance measures	-	
C.3	transfers to impaired loans subject to forbearance measures		151
C.4	write-off	439	-
C.5	collections	5,620	3,777
C.6	sale proceeds	3,012	-
C.7	losses on disposal	10,145	-
C.8	other decreases	0	-
D.	**Closing balance**	**35,384**	**22,977**
	- 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.	**Opening balance**	**45,731**	**14,212**	**9,692**	**7,355**	**75**	**-**	**5,118**
	- of which: exposures sold and not derecognised	-	-	-	-	-	-	-
B.	**Increases**	**8,022**	**5,958**	**5,604**	**4,759**	**19**	**15**	**4,834**
B.1	value adjustments from acquired or originated impaired financial assets	-		5,601		-		-
B.2	other value adjustments	3,978	2,988	-	4,727	19	15	-
B.3	losses on disposal	1,499	781	-	-	-	-	-
B.4	transfers from other categories of impaired exposures	2,264	2,190	-	-	-	-	-
B.5	amendments to contracts without derecognitions	-		-		-		-
B.6	other increases[1]	282[1]	-	-	33[4]	-	-	-
C.	**Decreases**	**31,695**	**11,505**	**4,245**	**3,845**	**64**	**-**	**132**
C.1	write-backs from valuation	2,741	1,290	825	550	6	-	35
C.2	write-backs from collection[1]	927	67	169	338	58	-	-
C.3	gains on disposal	567	332	219	-	-	-	51[5]
C.4	write-off	4,957	204	235	235	-	-	46
C.5	transfers to other categories of impaired exposures	-	-	2,264	2,190	-	-	-
C.6	amendments to contracts without derecognitions	-		-		-		-
C.7	other decreases	22,503[2]	9,613	533[3]	533	-	-	-
D.	**Closing balance**	**22,059**	**8,665**	**11,048**	**8,269**	**30**	**15**	**9,820**
Losses due to below market rates		-		-		-		-

Total net credit adjustments	**311**	**4,607**	**(45)**	**4,798**	**9,672**[6]
Net loss on disposal	**932**	**(219)**	**-**	**(51)**	**661**[7]

1 The column doubtful loans includes €282 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 €22.503m relating to losses on disposal, of which €21.005m are covered by the allowance for doubtful accounts and €1.499m 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 €0.533m relating to losses on 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 2019 relating to doubtful loans and unlikely to pay that benefited from forbearance measures during 2020.
5 The amount relates to the 2019 impairment of HTC securities sold during the year.
6 The amount corresponds to that shown in table 8.1 Part C item "Total B – Loans and advances to customers" (€10.796m) net of write-backs due to *time-reversal* allocated in item 10. Interest income (€1.124m).
7 The amount resulting from the sum of items B.2 and C.3 corresponds to the value in table 6.1 Part C item "Loans and advances to customers – Net result" (€4.003m) net of the capital gain on the sale of HTC government securities (€4.715m), decreased by the amount in note 5.

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	**-**	**-**	**432,860**	**-**	**-**	**-**	**1,131,974**	**1,564,834**
Stage 1	-	-	432,860	-	-	-	951,257	1,384,117
Stage 2	-	-	-	-	-	-	114,820	114,820
Stage 3	-	-	-	-	-	-	65,897	65,897
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**103,509**	**-**	**-**	**-**	**-**	**103,509**
Stage 1	-	-	103,509	-	-	-	-	103,509
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
C. Financial assets to be sold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 1	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-
TOTAL (A+B+C)	**-**	**-**	**536,369**	**-**	**-**	**-**	**1,131,974**	**1,668,343**
of which: acquired or originated impaired financial assets	-	-	-	-	-	-	-	-
D. Commitments to disburse funds and financial guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**13,716**	**13,716**
Stage 1	-	-	-	-	-	-	13,711	13,711
Stage 2	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	5	5
TOTAL D	**-**	**-**	**-**	**-**	**-**	**-**	**13,716**	**13,716**
TOTAL (A+B+C+D)	**-**	**-**	**536,369**	**-**	**-**	**-**	**1,145,690**	**1,682,059**

Reconciliation between the "External rating classes" and the ratings of the main agencies

Rating class	Standard & Poor's	Moody's	Fitch
AAA/AA-	AAA AA+ AA AA-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-
A+/A-	A+ A A-	A1 A2 A3	A+ A A-
BBB+/BBB-	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-
BB+/BB-	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-
B+/B-	B+ B B-	B1 B2 B3	B+ B 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, it is noted that the overall notional amount is €41.7m and is distributed as follows: €41.4m 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

	Gross exposure	Net exposure	Collaterals (1)				Personal guarantees (2)										Total (1)+(2)
							Credit derivatives					Endorsement loans					
								Other derivatives									
			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		
1. Secured balance sheet credit exposures	*855,320*	*817,819*	*282,520*	*78,359*	*3,117*	*15,793*	-	-	-	-	-	*3,228*	*211,483*	*2,768*	*79,728*	676,996	
1.1 fully secured	460,419	431,259	260,049	78,359	3,014	10,052	-	-	-	-	-	2,720	22,053	285	54,727	431,259	
- of which impaired	49,440	26,443	24,950	1,142	31	-	-	-	-	-	-	1	71	-	248	26,443	
1.2 partially secured	394,901	386,560	22,471	-	103	5,741	-	-	-	-	-	508	189,430	2,483	25,001	245,737	
- of which impaired	9,639	3,208	2,517	-	-	-	-	-	-	-	-	35	419	-	-	2,971	
2. Secured off-balance sheet credit exposures	*5,437*	*5,392*	*1,605*	-	-	-	-	-	-	-	-	-	-	-	*1,118*	2,723	
2.1 fully secured	1,319	1,318	1,194	-	-	-	-	-	-	-	-	-	-	-	124	1,318	
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.2 partially secured	4,118	4,074	411	-	-	-	-	-	-	-	-	-	-	-	994	1,405	
- 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	-	-	-	-	-	-	16,232	20,800	2,200	1,259
of which exposures subject to forbearance measures	-	-	-	-	-	-	5,966	7,896	1,490	770
A.2 Unlikely to pay	-	-	4,784	4,693	-	-	7,678	6,171	1,492	184
of which exposures subject to forbearance measures	-	-	4,784	4,693	-	-	4,968	3,482	1,089	94
A.3 Impaired past due exposures	-	-	-	-	-	-	162	11	211	19
of which exposures subject to forbearance measures	-	-	-	-	-	-	-	-	137	15
A.4 Performing exposures	562,314	272	34,890	120	1,543	-	902,356	9,213	39,848	215
of which exposures subject to forbearance measures	-	-	4,441	4	-	-	15,992	1,868	651	21
Total A	**562,314**	**272**	**39,674**	**4,813**	**1,543**	**-**	**925,428**	**36,195**	**43,751**	**1,677**
B. Off-balance sheet exposures										
B.1 Impaired loans	-	-	-	-	-	-	2	3	-	-
B.2 Performing exposures	-	-	-	-	-	-	12,719	73	-	-

Total B	**-**	**-**	**-**	**-**	**-**	**-**	**12,721**	**75**	**-**	**-**
Total (A+B) (2020)	**562,314**	**272**	**39,674**	**4,813**	**1,543**	**-**	**939,149**	**36,270**	**43,751**	**1,677**
Total (A+B) (2019)	**299,352**	**254**	**68,802**	**3,008**	**-**	**-**	**916,425**	**55,587**	**49,608**	**1,817**

B.2 Breakdown of balance-sheet and off-balance-sheet credit exposures to customers by area[34]

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	18,433	22,059	*13,247*	*16,921*	*5,185*	*5,137*	-	-
A.2 Unlikely to pay	13,954	10,773	*7,577*	*4,427*	*5,965*	*6,346*	-	-
A.3 Impaired past due exposures	373	30	*373*	*30*	-	-	-	-
A.4 Performing exposures	1,539,407	10,095	*839,910*	*7,976*	*699,910*	*2,119*	-	-
Total A	**1,572,167**	**42,957**	***861,107***	***29,355***	***711,060***	***13,602***	**-**	**-**
B. Off-balance sheet exposures								
B.1 Impaired loans	2	3	*2*	*3*	-	-	-	-
B.2 Performing exposures	12,719	72	*12,151*	*73*	*568*	*0*	-	-
Total B	**12,721**	**75**	***12,153***	***75***	***568***	***0***	**-**	**-**
Total (A+B) 2020	**1,584,888**	**43,032**	***873,261***	***29,431***	***711,628***	***13,602***	**-**	**-**
Total (A+B) 2019	**1,334,188**	**60,633**	***887,923***	***45,315***	***446,265***	***15,317***	**-**	**-**

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	56,033	18	-	-	-	-	-	-	-	-
Total A	**56,033**	**18**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet exposures										
B.1 Impaired loans	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,147	2	-	-	-	-	-	-	-	-
Total B	**1,147**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 2020	**57,180**	**20**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 2019	**71,363**	**18**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.4 Significant Exposures

	2020	2019
a) Amount (book value)	539,902	268,451
b) Amount (weighted value)	37,923	36,923
c) Number	2	2

34 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.

It should be noted that the transaction denominated "Cassa Centrale Finance 3" was closed during the year.

***

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 the Italian Stock Exchange, 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).

***

In December 2020, a multi-originator securitisation of doubtful exposures was finalised, for which the guarantee on the securitisation of the doubtful loans (GACS) was requested, which involved the sale of a portfolio of the gross book value of €21.095m (equal to 3.50% of the total portfolio sold by the participants in the transaction) at the time of the securitisation.

At regional level, the portfolio was broken down as follows:

	2020	%
Trentino	1,484	7.0
South Tyrol	-	-
Veneto	8,355	39.6
Emilia Romagna	8,411	39.9
Lombardy	2,433	11.5
Other Regions	412	2.0
Total	**21,095**	**100.0**

The breakdown by economic segment is shown below:

	2020	%
Non-financial corporations	**21,095**	**100.0**
Real Estate	9,738	46.2
Building industry	6,645	31.5
Manufacturing	4,712	22.3
Total	**21,095**	**100.0**

The consideration for the sale of the portfolio summarised above was quantified at €5.661m and, upon payment of the same, Mediocredito received the following securities:

ISIN	Description	Nominal	Loss on disposal and valuation	Final actual price	Expiry	Yield	Rating
IT000542813	BUONCONSIGLIO3 TV% 20/41 EUR SENIOR CL A	4,939	-	4,939	2041	EUR6M + 0.5% (floorzero)	BBB
IT000542814	BUONCONSIGLIO3 TV% 20/41 EUR MEZZAN CL B	674	446	228	2041	EUR6M + 9.5% (floorzero)	Absent
IT000542815	BUONCONSIGLIO3 TV% 20/41 EUR JUNIOR CL J	138[35]	138	0	2041	EUR6M + 15.0% (floorzero)	Absent
	TOTAL BONDS	**5,751**	**584**	**5,167**			

35 Amount including the over-issue of Junior notes paid in cash of €90 thousand (amount equal to the up front costs of the transaction).

Subsequently, 95% of the mezzanine notes (€640 thousand) and junior notes (€130 thousand) were sold to the CRC FC (LUX) S.à.rl Fund for a total consideration of €217 thousand, recording a loss of €553 thousand; therefore, the Bank kept the senior notes (Class A) and 5% of the mezzanine and junior notes in the portfolio, whose fair value measurement led to a further loss of €30 thousand.

Considering that the portfolio sold, net of value adjustments recorded as at 31 December 2019, amounted to €5.960m, the effects of the securitisation on the income statement can be summarised as follows:

	IS Effect
Loss on disposal of loans	299
Loss on sale of 95% mezzanine and junior securities	553
Negative change in fair value of 5% mezzanine and junior securities	30
Overall effect on the income statement	**883**

The Bank also granted a liquidity line (limited recourse loan) to the SPV Buonconsiglio 3 Srl for €0.213m, maturing in January 2041 and remuneration at a fixed rate of 1%.

In relation to the internal systems for measuring and controlling securitisation risk, the following applies:
- the Bank does not carry out *servicing* activities;
- in relation to disclosure to customers, the SPV company has published an Assignment Notice on the Insertion Sheet of the Official Gazette - Second part - no. 143 of 5 December 2020;
- with regard to the law on the protection of personal data, the Bank has fulfilled its disclosure obligations.

The following subjects were involved in their respective roles:
- *Arranger*: Centrale Crediti Solutions Srl and Banca Intesa Sanpaolo S.p.A.;
- *Vehicle Company:* Buonconsiglio 3 Srl, a limited liability company established pursuant to Law no. 130 of 30 April 1999, with registered office in Via Vittorio Betteloni, no. 2, 20131 Milan, Italy, entered in the list of special purpose vehicles held by the Bank of Italy pursuant to the provision of the Bank of Italy no. 35745.9 of 7 June 2017; it is confirmed that the Bank does not hold any interests, nor do its employees hold any corporate positions in the SPV Buonconsiglio3 S.r.l., whose shares are entirely held by the company Special Purpose Entity Management 2 S.r.l.;
- *Master Servicer*: Zenith Service S.p.A.;
- *Special Servicer*: Guber Banca S.p.A.;
- *Representative of the noteholders*: Zenith Service S.p.A.;
- *Agent Bank*: BNP Paribas Securities Services, Milan Branch
- *Rating* agencies: Moody's Investors Service, Scope and DBRS Rating
- *Cap Counterparty*: Banco Santander

The Bank carried out the necessary checks to determine whether the conditions for the derecognition of the transferred loans were met; on the basis of the checks carried out, the Bank does not hold control of the Special Purpose Vehicle pursuant to IFRS 10. Until the date of settlement of the sale of 95% of the mezzanine and junior notes, the securitisation transaction analysed is similar to a self-securitisation transaction and, until that moment, the loans remained recorded in the Bank's financial statements. Following the settlement of the sale on 18 December 2020, the Bank will be exposed to a limited extent to the variability of the results of the Special Purpose Vehicle, having sold 95% of the Mezzanine and Junior Notes and having largely passed the test on the variability withheld. Therefore, starting from 18 December 2020, the loans transferred were eliminated from the financial statements of the Bank since, in addition to the rights to the cash flows, the associated "substantiality of the risks and benefits" was also transferred to the Special Purpose Vehicle.
The checks carried out were summarised in a "technical note" sent to the independent auditors KPMG, which issued the certification required by article 7, paragraph 1, letter e) of the MEF Decree of 3 August 2016, relating to the Guarantee on the Securitisation of the doubtful loans (GACS).

QUALITATIVE INFORMATION

The following tables C.1 and C.2 show the values relating to the "Buonconsiglio 3" *multi-originator* securitisation. Since this is a *multi-originator* securitisation, in compliance with the provisions of Bank of Italy Circular no. 262/2005, table C.1 shows the values relating to the portions of securities held, in proportion to the weight that the assets sold by the Bank have on the total of the assets subject to securitisation whereas, on the contrary, table C.2 shows the values relating to the portions of securities held in proportion to the weight that the assets sold by the other banks participating in the transaction have on the total assets subject to securitisation.

C.1 Exposures deriving from the main "own" securitisation transactions broken down by type of securitised asset and type of exposure

Type of securitised assets/Exposures	Balance sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs
A. Subject to full derecognition from the financial statements	173	0	0	-	0	-												
- doubtful	173	0	0	-	0	-												
B. Subject to partial derecognition from the financial statements																		
C. Not derecognised from the financial statements																		

C.2 Exposures deriving from the main "third party" securitisation transactions broken down by type of securitised asset and type of exposure

Type of securitised assets/Exposures	Balance sheet exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs
A. Subject to full derecognition from the financial statements	4,765	1	11	-	0	-												
- doubtful	4,765	1	11	-	0	-												
B. Subject to partial derecognition from the financial statements																		
C. Not derecognised from the financial statements																		

C.3 Securitisation vehicles

C.4 Non-consolidated securitisation vehicles

The Bank does not hold any interests, nor do its employees hold any corporate positions in the SPV Buonconsiglio3 S.r.l., whose shares are entirely held by the company Special Purpose Entity Management 2 S.r.l.

C.5 Servicer activities - own securitisations; collections of securitised loans and redemptions of securities issued by the securitisation vehicle

For the "Buonconsiglio 3" securitisation, the role of servicer is performed by third parties with respect to the Bank.

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, seven *single name* sales were made of non-performing loans with a gross book value of €10.5m at the time of the sale, already written down as at 31 December 2019 by €7.3m. Given these values, the transferees paid to the Bank an amount of €3.4m that led the Bank to a gross loss of €7.1m. 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 €0.2m, the result of losses on disposal of €0.1m and gains on disposal of €0.3m.

Among these, a sale took the form of a debt to equity swap transaction described in detail in the next paragraph.

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 [36]

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 guarantees of any kind, the requirements for the derecognition of the loans transferred from the Bank's assets were deemed to be 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 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 as at 31 December 2020 at €429,957.234 each compared to an initial book value of €500,297.473 (see Report on Operations, Business Review, Equity investment activities).

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In December 2020, the Bank transferred without recourse a relationship, classified as unlikely to pay, to the Value Italy Credit 3 fund managed by Value Italy Sgr S.p.A., as part of a transaction pursuant to Law 130/99.
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 guarantees of any kind, the requirements for the derecognition of the loans transferred from the Bank's assets were deemed to be met.
The relationship transferred had a gross book value, at the time of the sale, of €1m, already written down as at 31 December 2019 for €0.7m. Against these values, the Bank received 10 units of the VIC3 fund for a value of €50 thousand each for a total value of €0.5m. The transaction entailed the recording of a gross loss of €0.5m which, net of pre-existing write-down provisions, led to the recognition of a gain on disposal of €0.2m.
As at the date of these financial statements, the Bank is the owner of 10 units of the Value Italy Credit 3 fund, valued as at 31 December 2020 at a fair value equal to the acquisition value (see Report on Operations, Business Review, Equity investment activities)

36 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".

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 50 cap options on interest rates, of which 25 contracts with ordinary customers and 25 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.

Impacts deriving from the Covid-19 pandemic

The pandemic did not produce significant impacts with respect to the assumption of interest rate and price risk on the banking book.

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)

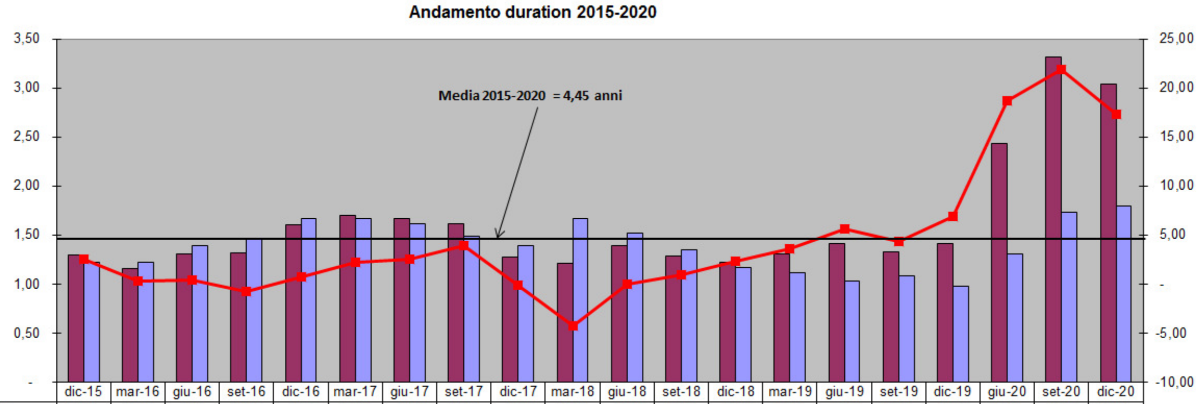
Instantaneous and parallel shift in the interest rate yield curve	+100 bp	-100 bp
Net interest income change	+1,888	-1,888
Net income change	+1,354	-1,354

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 (+2,217 in 2019), volatility was however reduced slightly due to the maturing funding tranches falling within the reference period, which contribute to balancing the assets subject to repricing. Therefore, the turnover of liabilities, and the relevant repricing, is close when compared with that of fixed rate mortgages.

With regard to 2020 operations, it should be noted that the significant increase in the fixed-rate securities portfolio and the new medium and long-term fixed-rate funding achieved during the year (in particular TLTROIII, EIB and CDP), which are offset in terms of volumes but not in terms of duration, have no effect on the volatility of the net interest income under development, measured by the *maturity gap*, as all the new items repricing outside the annual time interval considered. The effect is instead clearly visible in the calculation of the *duration gap*.

To calculate the volatility of the market value of the assets, the duration gap methodology is applied, which 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 2015-2020 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	giu-20	set-20	dic-20
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	2,43	3,31	3,04
Passivo	1,22	1,22	1,39	1,46	1,67	1,67	1,61	1,49	1,39	1,67	1,52	1,35	1,17	1,12	1,03	1,08	0,98	1,31	1,73	1,80
Patrimonio	2,57	0,30	0,38	-0,74	0,73	2,21	2,58	3,94	-0,16	-4,31	-0,05	0,90	2,30	3,63	5,62	4,32	6,89	18,68	21,88	17,29

The processing of the *Duration Gap* model as at 31 December 2020 recorded a marked increase in the synthetic volatility indicator, which stood at a level of 17.29 (years), significantly higher than the five-year average (4.45) and the data of 31 December 2019 (6.89). The increase in the indicator is mainly due to the increase in the volume and duration of the securities portfolio, which brought the total *duration* of the assets to approximately 3 years compared to the figure of December 2019 of 1.4 years.
The trend of the securities portfolio, which in December 2019 amounted to approximately €280m (1.15 *duration* and 4.62 average duration), also followed a trend characterised by a maximum peak in volume and volatility recorded in August (€565m, 6.52 duration and 8.41 average duration) followed by a gradual reduction from September to December that brought the final portfolio to around €535m with a duration of 5.97 and an average duration of 7.23 years. This decline is part of a precise and targeted strategy to reduce interest rate risk, undertaken by the Bank in the second half of the year, which acted on two fronts: reduction in the volume and *duration* of the securities portfolio and extension of the *duration* of liabilities (in particular with the aforementioned TLTROIII, CDP and EIB transactions), which rose from 0.98 at the end of 2019 to 1.80 at the end of 2020 (+86%). The combined effect made it possible to bring the indicator back to levels that, though remaining high compared to historical data, are sustainable, given the Bank's high capital base. The interest rate risk reduction strategy also continued in the first part of 2021 through the sale of longer-term securities and may continue depending on the objectives that will be indicated in the *Risk Appetite Framework*.

The stress test of +/-100 bp shows an increase in the effect on equity, which fell from -/+ €6.4m in December 2019 to -/+ €22.0m in December 2020, therefore representing a significant increase in the 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	-22,015	+22,015

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 is equal to about 3% 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 31/12/2020	6.243
Minimum (22/01/2020)	2.138
Maximum (26/03/2020)	32.935
Average	11.919
10-day VaR 99% (in percentage)	1.1%

The data in the table show a riskiness of the securities portfolio that underwent a sudden and massive increase in March, coinciding with the beginning of the Covid-19 pandemic crisis and then gradually reducing, so much so that, at percentage level, the VaR as at 31 December 2020 stood at 1.1%, a level just above 0.9% in 2019.

2.3 EXCHANGE RISK

Qualitative information

During the year, the Bank had no asset and/or liability exposures in the financial statements expressed in currencies other than the Euro.

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	2020				2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Clearing House	Without Clearing House: With offset agreements	Without Clearing House: Without offset agreements		Clearing House	Without Clearing House: With offset agreements	Without Clearing House: Without offset agreements	
1. Debt securities and interest rates			**83,408**				**87,537**	
a) Options[1]			83,408				87,537	
b) Swaps								
c) Forwards								
d) Futures								
e) Others								
2. Equity securities and stock indexes								
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. Others								
Total			**83,408**				**87,537**	

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	2020				2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Clearing House	Without Clearing House: With offset agreements	Without Clearing House: Without offset agreements		Clearing House	Without Clearing House: With offset agreements	Without Clearing House: Without offset agreements	
1. Positive Fair value			114	75			206	84
a) Options [1]			114	75			206	84
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards								
f) Futures								
g) Others								
Total			**114**	**75**			**206**	**84**
1. Negative fair value			110				198	
a) Options[2]			110				198	
b) Interest rate swaps								
c) Cross currency swaps								
d) Equity swaps								
e) Forwards								
f) Futures								
g) Others								
Total			**110**				**198**	

1 These relate for €114 thousand to OTC *cap options* purchased from bank counterparties to counter-hedge corresponding options sold to ordinary customers and for €75 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		41,704		41,704
- positive fair value		114		
- negative fair value				110
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 derivatives on debt securities and interest rates	9,304	47,697	26,406	83,408
A.2 Financial derivatives on equity securities and share indices				
A.3 Financial derivatives on exchange rates and gold				
A.4 Financial derivatives on commodities				
A.5 Financial derivatives on other values				
Total 2020	**9,304**	**47,697**	**26,406**	**83,408**
Total 2019	**7,129**	**44,841**	**35,557**	**87,537**

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 Plan*);
- 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:
- the objectives for the 2020 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 related 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). Furthermore, following the pandemic crisis, during which measures were adopted to extend the maturities of the loans, stress scenarios were developed that envisaged the non-collection of instalments on extended loans for the whole of 2020, also assuming that 10% of expected cash flows on other loans had been 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 need for 2020 was guaranteed in particular by bond issues for €150m over 3/5 years, deposits from Cooperative Credit Banks of €133m over 18/24 months, ECB funds of €472m (new TLTRO-III), EIB funds for €40m, targeted funding from Cassa Depositi e Prestiti of €31m and deposits from corporate and retail customers of €129m, of which €92m are time deposits. The total exposure to the ECB as at 31 December 2020 amounted to €472m (€279m in December 2019) and consisted entirely of TLTRO III.

To cover liquidity risk, throughout 2020, the Bank maintained wide margins of residual available liquidity, averaging around €350m, a marked increase compared to the average figure for 2019 (€200m equal to +75%). As at 31 December 2020, the total eligible collateral amounted to €934m, up (+77%) compared to 31 December 2019 (€529m) thanks to the increase in collateralised assets (ABACO), which rose from €260m at the end of 2019 to €415m (+60%) thanks to the expansionary policies introduced by the ECB in the ACC segment and the optimisation of contributions, and the increase in the volume of securities eligible in the portfolio. At the end of 2020, the residual available liquidity from the ECB, net of the internal prudential buffer of 10% of the used amount (-€49m), amounted to approximately €394m. The availability of collaterals envisaged for 2021, net of any sales of securities in the portfolio, assuming the reinvestment of maturing securities and in accordance with the measures aimed at increasing the Abaco collateral, is expected to be substantially stable.
With respect to the liquidity requirement (LCR) pursuant to Delegated Regulation (EU) 2015/61, the Bank recorded an indicator of 219% as at 31 December 2020, well above the minimum envisaged (100%); the NSFR indicator also stands at safe levels of 117%, compared to the regulatory limit of 100% that will become binding as of 30 June 2021.

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 wholesale funds and towards a lower number of fund providers. During the first few months of 2020, the "Conto Rifugio" project became fully operational and allowed deposits of around €33m at the end of 2020 (€60m in mid-March 2021). The deposit collection channel on the foreign market is also being activated through the Raisin platform, which will further expand the pool of funding channels potentially able to guarantee good liquidity flows in contingency conditions, also given the marked elasticity to conditions offered.

Coverage of the 2021 requirement, estimated at around €200m, is assumed to be guaranteed by retail funding of approximately €100m, short-term interbank deposit liabilities, stable at approximately €20m at negative rates, new corporate deposits of approximately €30m and medium-term deposits of around €50m from the cooperative credit system.
In addition to the usual ECB refinancing channel, the use of short-term collateralised deposits with banking counterparties, in the presence of a large margin of available liquid assets, will allow for a better management of the treasury balances and will act as a buffer to easily absorb sudden liquidity needs.

In 2021 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 summary and 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, the policies for the diversification of sources 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.

Impacts deriving from the Covid-19 pandemic

Despite the widespread granting of moratoria to customers linked to the Covid-19 pandemic, which reduced the flow of repayment on the Bank's credit assets, there were no significant impacts on the management of liquidity risk and on the supply capacity.

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. The operation called Cassa Centrale Finance 3 was concluded in April 2020.

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 sale operation is not of a "non-recourse" nature for accounting purposes (so-called no derecognition), with the Bank essentially 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, and, consequently, the operation takes the form of a "self-securitisation".
The overall 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 rate
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 (ISE). 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, each inflow of funds to the SPV collateral portfolio 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 immediately 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 (*Senior cost* and interest for Class A notes).
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 specific 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 provisions of the Servicing Contract, each securitisation portfolio is constantly monitored to draft 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 disclosure to customers, the SPV company has published an Assignment Notice on the Official Gazette - Announcement Sheet - no. 144 of 15 December 2009;
- in relation to the personal data protection 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 limited liability company incorporated under Law no. 130/99 on Securitisation, with its registered office in Rome, Largo Chigi 5; the company is registered with the Business Register of Rome under no. 05652970962 and enrolled in the general register pursuant to art. 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 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 Milan
- *Corporate Servicer Provider*: FIS Spa, Rome
- *Rating* agencies: Moody's Investors Service and DBRS Ratings
- Law Firm: Orrick, Herrington & Sutcliffe – Rome
- Portfolio Auditors: Reconta - Ernst & Young Spa.
- Independent Auditors of the SPV: Deloitte and Touche Spa

The transaction was completed in April 2020.

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 sale operation is not of a "non-recourse" nature for accounting purposes (so-called no derecognition), with the Bank essentially 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, and, consequently, the operation takes the form of a "self-securitisation".
The overall 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 note (Class B), which was reduced to €205.8m (of which €10.6m relating to the Bank) against the issue of a Class A2 note 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 rate
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 (ISE). 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, each inflow of funds to the SPV collateral portfolio 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 immediately 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 (*Senior cost* and interest for Class A notes).
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 a 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 specific 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 provisions of the Servicing Contract, each securitisation portfolio is constantly monitored to draft 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 disclosure to customers, the SPV company has published an Assignment Notice on the Official Gazette - Announcement Sheet - no. 93 of 9 August 2012;
- in relation to the personal data protection 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, Largo Chigi 5; the company is registered with the Business register of Rome under no. 06646750965 and 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 positions in the SPV BCC SME Finance 1 S.r.l., whose shares 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 Ratings
- Law Firm:	Orrick, Herrington & Sutcliffe – Rome
- Portfolio Auditors:	Reconta - Ernst & Young Spa.
- Independent Auditors of the SPV:	Crowe Horwath AS S.r.l.

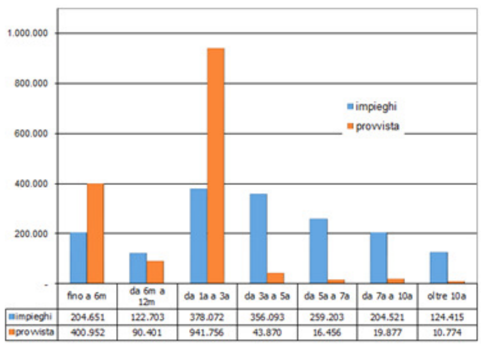
Quantitative information

1. Time distribution by residual contractual duration of financial assets and liabilities

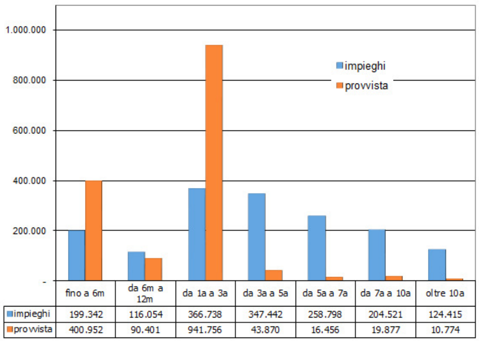
Items/Maturities	on demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Beyond 5 years	Undetermined duration
Cash assets	**60,292**	**10,115**	**13,228**	**2,669**	**29,803**	**88,544**	**122,703**	**734,165**	**585,715**	**2,425**
A.1 Government securities	-	-	837	-	1,392	16,862	3,813	139,972	318,500	-
A.2 Other debt securities	-	-	6,242	77	5,353	1,932	2,379	36,379	14,489	-
A.3 Investments in UCITS	12,231	-	-	-	-	-	-	-	-	-
A.4 Loans	48,061	10,115	6,149	2,592	23,058	69,750	116,511	557,814	252,726	2,425
- banks	19,227	-	-	-	-	-	-	-	-	2,425
- customers	28,834	10,115	6,149	2,592	23,058	69,750	116,511	557,814	252,726	-
Cash liabilities	**209,455**	**31,864**	**20,011**	**51,317**	**57,492**	**30,812**	**90,401**	**985,626**	**47,106**	**-**
B.1 Deposits and current accounts	208,250	31,864	20,011	158	12,722	16,206	17,410	66,214	-	-
- banks	25,154	15,000	19,996	-	-	-	-	-	-	-
- customers	183,096	16,864	15	158	12,722	16,206	17,410	66,214	-	-
B.2 Debt securities	-	-	-	158	-	1,967	2,497	269,883	-	-
B.3 Other liabilities	1,205	-	-	51,001	44,770	12,639	70,494	649,529	47,106	-
Off-balance sheet transactions	**12,047**	**-**	**-**	**-**	**-**	**407**	**0**	**34**	**3,593**	**-**
C.1 Physically settled financial derivatives	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Cash settled credit derivatives	-	-	-	-	-	0	0	9	69	-
- long positions	-	-	-	-	-	0	0	5	35	-
- short positions	-	-	-	-	-	0	0	5	35	-
C.3 Deposits to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	11,013	-	-	-	-	407	-	25	3,523	-
- long positions	3,529	-	-	-	-	407	-	25	3,523	-
- short positions	7,484	-	-	-	-	-	-	-	-	-
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 €196m in the short-term bracket (up to 6 months), due for €183m to the presence of customer current accounts and demand deposits;
- a positive gap of about €32m in the "up to 1 year" band;



- a negative gap in the "1 to 3 year" band of about €564m (€575m net of estimated flows of NPLs) characterised by the maturity of bonds issued for €264m and the presence of expiring TLTRO operations of €472m;
- a positive gap in the "3 to 5 year" band of €312m (€304m net of estimated 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[37]

Technical forms	Pledged		Not Pledged		Total 2020	Total 2019
	Book value	Fair value	Book value	Fair value		
1. Cash and cash equivalents	-		42		4	2
2. Debt securities	202,297	207,699	341,773	347	544,069	284,482
3. Equity securities	-	-	45,527	45,527	45,527	16,584
4. Loans [1]	634,255		449,876		1,084,131	1,086,774
5. Other financial assets	-		12,420		12,420	24,129
6. Non-financial assets	-		9,288		9,288	9,052
Total 2020	**836,552**	**207,699**	**858,887**	**392,123**	**1,695,439**	
Total 2019	**615,475**	**58,281**	**805,549**	**241,573**		**1,421,024**

1 In addition to the loans pledged as guarantees for liabilities, loans also include assets sold to the SPVs and not derecognised from the financial statements of €5.4m (€12.6m in 2019).

Disclosure on off-balance sheet own assets pledged as a guarantee

Technical forms	Pledged	Not Pledged	Total 2020	Total 2019
1. Financial assets	8,142	10,607	18,749	56,869
- Securities	8,142	10,607	18,749	56,869
- Others	-	-	-	-
2. Non-financial assets	-	-	-	-
Total 2020	**8,142**	**10,607**	**18,749**	
Total 2019	**22,941**	**33,928**		**56,869**

Eurosystem credit operations

The Bank has entered into two liability-funding operations with ECB for a face value of €472,2m[38] guaranteed by securities classified in HTC and HTCS portfolios, in addition to other securities not reported under assets and other assets as specified below, of which:
- €243.2m for a transaction concluded on 24/06/2020 (expiry 28/06/2023);
- €229.1m for a transaction concluded on 30/09/2020 (expiry 27/09/2023);

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.

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

At year-end, the Bank deposited a nominal €8.1m 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 €472,2m financing (see paragraph "Eurosystem credit operations" for details).

Loans and advances to customers to guarantee borrowings

37 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)

38 These transactions are those of the targeted refinancing operations (TLTRO-III).

At year-end, the Bank tied with the Bank of Italy, through the ABACO procedure, a loan portfolio with a book value of €557.2m, in part as a guarantee for the €472.2m 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 totalled €7.6m in relation to the contract signed on 28 November 2005 and to €25.7m 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 madeby 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 guarantee amounted to €15.6m;
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 €23.0m;
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 credit facility of €50m drawn down for €49.9m.
According to the requirements of IFRS 7 paragraph 14, we state that:

a. the book value of the financial assets pledged as guarantee totalled €54.6m;
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 madeby 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 €38.7m had been granted as at 31 December 2020.
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 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.

Impacts deriving from the Covid-19 pandemic

The limited size of the Bank, characterised by a territorial structure limited to 6 territorial offices and not dedicated to current activities with *retail* customers, made it possible to contain operational risk through widespread use of agile work. In this context, it is noted that no decrease in productivity was recorded. The management of logistics and health facilities in contrast to the spread of the infection were entrusted to the Operational Continuity Committee - required by the regulations - which met constantly during the year to coordinate the activities and operational interventions as well as communications to internal and external collaborators.

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 €1.359m. 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.

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	2020	2019
1. Share capital	58,485	58,485
2. Additional paid-in capital	29,841	29,841
3. Reserves	85,296	81,301
- profit	85,296	81,301
a) legal	19,606	19,405
b) statutory	53,544	50,051
c) treasury shares	-	-
d) other	12,146	11,845
- others	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	7,010	1,512
- Equity securities designated at fair value through other comprehensive income	1,259	(2,062)
- 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	1,890	(300)
- 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	(457)	(445)
- Valuation reserves from investments accounted for using the equity method		
- Special revaluation laws	4,318	4,318
7. Profit (loss) for the year	3,252	4,028
Total	**183,884**	**175,166**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amount	2020		2019	
	Positive reserve	Positive reserve	Negative reserve	Negative reserve
1. Debt securities	1,890	-	161	461
2. Equity securities	3,709	2,450	432	2,493
3. Loans	-	-	-	-

Total	**5,599**	**2,450**	**592**	**2,954**

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	**(300)**	**(2,062)**	**-**
2. Positive changes	**2,331**	**3,745**	**-**
2.1 Fair value increases	2,269	3,607	-
2.2 Net adjustments to credit risk	6		-
2.3 Reclassification through profit or loss of negative reserves following disposal	56		-
2.4 Transfers to other shareholders' equity components (equity securities)	-	138	-
2.5 Other increases	-	-	-
3. Negative changes	**(141)**	**(424)**	**-**
3.1 Fair value decreases	(104)	(420)	-
3.2 Write-backs for credit risk	(21)		-
3.3 Reclassification through profit or loss of positive reserves following disposal	(16)		-
3.4 Transfers to other shareholders' equity components (equity securities)	-	(4)	-
3.5 Other changes	-	-	-
4. Closing balance	**1,890**	**1,259**	**-**

B.4 Valuation reserves relating to defined benefit plans: annual changes

	2020	2019
A. Opening balance	**(445)**	**(394)**
B. Increases	**(13)**	**(51)**
B.1 Actuarial losses	(13)	(51)
C. Decreases	**-**	**-**
C.1 Actuarial gains	-	-
D. Closing balance	**(457)**	**(445)**

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	646,524	30,438	29,164
Statutory Auditors	124,342		

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	-	19,864	2,663	286,421	266	3
Subsidiary companies	-	7,941	-	-	-	-
Affiliated companies	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-
Managers with strategic responsibilities	-	-	-	33	-	-
Other related parties	-	-	-	-	-	-
Total	**-**	**27,805**	**2,663**	**286,454**	**266**	**3**

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 €13.6m of cash on current accounts and for €6.2m of loans and advances granted to companies functional 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 €2.6m.

Financial liabilities measured at amortised cost

These are made up for €141.0m of deposits with counterparty Cassa Centrale Banca cooperative group (including exposures to individual BCCs that joined the Group on 1 January 2019), for €51.0m of deposits with counterparty Cassa Centrale Raiffeisen, for €65.9m of deposits from companies functional to the Autonomous Province of Trento and for €28.5m of funds from companies functional to the two Autonomous Provinces under administration.

Derivatives

These relate to a cap contract booked to the financial statements for a positive fair value of €19.

Other liabilities

This is a payable for brokerage commissions for financing applications.

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	221	0	1	3,363	99	630
Subsidiary companies	1	4	-	-	-	-
Affiliated companies	-	-	-	-	-	-
Joint ventures	-	-	-	-	-	-
Managers with strategic responsibilities	-	-	-	0	-	-
Other related parties	-	-	-	-	-	-
Total	**222**	**4**	**1**	**3,363**	**99**	**630**

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.
The Bank also provides two sureties in the interest of Paradisidue Srl for a total of €0.841m for a commission of 0.50% per annum.
The Autonomous Region of Trentino-South Tyrol provides further surety on behalf of the Bank in favour of the EIB for €18.8m; 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 - also when including 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 the risk is concentrated mostly in the securities sector.

PRIMARY SEGMENT REPORTING BASIS

A.1 Distribution by geographical area of activity: income statement data in 2020

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/ Head office	Overall amount
Net interest income	**1,815**	**2,641**	**2,359**	**1,089**	**1,310**	**9,159**	**18,373**
Net commissions	238	158	222	162	183	479	**1,442**
Dividends and other trading and hedging gains						8,192	***8,192***
Net interest and other banking income	**2,053**	**2,799**	**2,581**	**1,251**	**1,493**	**17,830**	**28,007**
Write-backs/Adjustments to fin. assets	(1,656)	(5,224)	(1,325)	(1,615)	(266)	(2,006)	**(12,092)**
Net income from financial activities	**397**	**(2,425)**	**1,256**	**(364)**	**1,227**	**15,824**	**15,915**
Total operating costs	(1,040)	(770)	(1,359)	(662)	(721)	(6,845)	**(11,397)**
Profit before income taxes	**(643)**	**(3,195)**	**(103)**	**(1,026)**	**506**	**8,979**	**4,518**

A.1 Distribution by geographical area of activity: income statement data in 2019

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/ Head office	Overall 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.2 Distribution by geographical area of activity: statement of financial position data Dec. 2020

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/Head office	Overall amount

Lending operations	217,772	236,905	226,659	126,585	124,133	634,058	**1,566,112**
Borrowing operations							**1,518,770**

A.2 Distribution by geographical area of activity: statement of financial position data Dec. 2019

	Trentino	South Tyrol	Veneto	Lombardy	Emilia	Structure/Head office	Overall amount
Lending operations	217,814	258,932	222,585	129,887	119,998	396,277	**1,345,494**
Borrowing operations							**1,253,487**

SECONDARY SEGMENT REPORTING BASIS

B.1 Distribution by economic sector: income statement data in 2020

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other assets	Total
Net interest income	**8,473**	**620**	**950**	**680**	**7,648**	**18,373**
Net commissions	*1,170*	*42*	*88*	*13*	*130*	***1,442***
Dividends and similar income					8,192	**8,192**
Net interest and other banking income	**9,643**	**662**	**1,038**	**693**	**15,971**	**28,007**
Write-backs/Adjustments to fin. assets	(5,845)	(1,821)	(2,164)	(312)	(1,949)	**(12,092)**
Net income from financial activities	**3,798**	**(1,159)**	**(1,126)**	**381**	**14,021**	**15,915**

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.2 Distribution by economic sector: statement of financial position data Dec. 2020

	Securities	Building	Leasing	Agricultural, discounts and facilitated loans	Other assets	Total
Lending operations	832,576	28,422	103,871	103,163	498,080	**1,566,112**
Borrowing operations						**1,518,770**

B.2 Distribution by economic sector: statement of financial position data 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**

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.

Contractual changes resulting from COVID-19

Amendment to IFRS 16

According to Regulation (EU) no. 1434/2020 the lessee may, in the presence of concessions on rentals that are a direct consequence of the Covid-19 pandemic and that meet certain conditions, make use of the practical expedient of not assessing whether a concession is a modification of the lease, accounting for any change in the payments due for the lease in the same way it would account for the change if it did not constitute a change in the lease.
The Bank has neither requested nor benefited, with respect to the lease agreements in which it is involved as a lessee, from changes in the fees that are a direct consequence of the Covid-19 pandemic and, therefore, has not exercised the right to adopt the practical expedient envisaged by Regulation (EU) no. 1434/2020.

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	(71)			(71)
Buildings	(40)			(40)
Vehicles	(31)			(31)
Total	**(71)**			**(71)**

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, since 2019, capital goods leases.
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	2020 Lease payments to be received	2019 Lease payments to be received
Past due lease payments	985	1,503
Up to 1 year	13,078	11,136
From 1 to 2 years	12,710	11,482
From 2 to 3 years	9,758	10,877
From 3 to 4 years	8,386	7,776
From 4 to 5 years	7,931	6,545
Over 5 years	45,849	43,920
Total lease payments to be received	**98,697**	**93,239**
RECONCILIATION WITH FINANCING	**12,225**	**12,086**
Financial income not accrued (-) [1]	12,225	12,086
Residual unsecured value (-) [2]	-	-
Lease financing	**86,472**	**81,152**

	Gross	Adjust.	Net	Gross	Adjust.	Net
Receivables in the statement of financial position	86,472	3,840	**82,631**	81,152	2,280	**78,872**

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 of each year, 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 finance leased assets.

ANNEXES

Annexe 1 – Country by Country Reporting in accordance with art. 89 of Directive no. 2013/36/EU ("CRD IV")

Annexe 2 – Financial statements of the subsidiary company Paradisidue S.r.l.

Annexe 3 – Glossary of ratios

ANNEX 1
COUNTRY BY COUNTRY REPORTING

(in accordance with art. 89 of Directive no. 2013/36/EU ("CRD IV")

Reference date for information	31 December 2020
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)	Euro 27,229,472
Number of employees (full-time equivalent)	79.0
Profit before taxes	Euro 4,517,546
Taxes on profit	Euro (1,265,158)
Public contributions received	Euro 8,286

ANNEX 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	31/12/2020	31/12/2019
B. FIXED ASSETS		
I. Intangible assets	**-**	**-**
II. Property, plant and equipment	**1,198,695**	**3,601**
III. Financial assets	**-**	**-**
C. CURRENT ASSETS	**7,273,906**	**7,552,196**
I. Stocks	6,424,614	7,297,714
II. Receivables payable within one year	703,492	190,108
III. Financial assets - current assets	-	-
IV. Cash and cash equivalents	145,800	64,374
D. ACCRUED LIABILITIES AND DEFERRED INCOME	**21,745**	**29,265**
TOTAL ASSETS	**8,494,346**	**7,585,062**

EQUITY AND LIABILITIES	31/12/2020	31/12/2019
A. CAPITAL AND RESERVES	**356,499**	**(175,094)**
I. Capital stock	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	813,359	183,184
VIII. Losses carried forward	-	-
IX. Income (Loss) for the year	(468,407)	(369,825)
B. PROVISIONS FOR RISKS AND CHARGES	**-**	**-**
C. PROVISION FOR SEVERANCE INDEMNITIES	**-**	**-**
D. CREDITORS	**8,135,977**	**7,760,156**
Payables due within one year	**8,104,729**	**7,697,527**
Payables due after one year	**31,248**	**62,630**
E. ACCRUED LIABILITIES AND DEFERRED INCOME		
TOTAL EQUITY AND LIABILITIES	**8,494,346**	**7,585,062**

GUARANTEES AND COMMITMENTS

(in Euro)

GUARANTEES AND COMMITMENTS	31/12/2020	31/12/2019
Personal guarantees issued/received	-	-
TOTAL GUARANTEES AND COMMITMENTS	**-**	**-**

INCOME STATEMENT

(in Euro)

INCOME STATEMENT		31/12/2020	31/12/2019
A.	**PRODUCTION VALUE**	**601,086**	**293,837**
	1) Revenues from sales and services	599,482	291,934
	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	1,604	1,903
B.	**PRODUCTION COSTS**	**1,063,887**	**653,191**
	6) Raw materials, subsidiary materials, consumables and goods	-	413,938
	7) Services	125,172	94,968
	8) Use of third parties' assets	-	-
	9) Payroll	-	-
	10) Amortisation, depreciation and write-downs	33,839	720
	a) amortisation of intangible assets	-	-
	b) depreciation of property, plant and equipment	*25,031*	*720*
	c) write-down of receivables included under current assets and cash and cash equivalents	*8,808*	-
	11) Variation in stocks of raw materials, subsidiary materials, consumables and goods	873,100	113,062
	12) Provision for risks	-	-
	13) Other provisions	-	-
	14) Other operating charges	31,776	30,503
	DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	*(462,801)*	*(359,354)*
C.	**FINANCIAL INCOME AND CHARGES**	**(5,606)**	**(10,471)**
	15) Income from equity investments	-	-
	16) Other financial income	-	-
	17) Interest and other financial charges	5,606	10,471
D.	**VALUE ADJUSTMENTS IN RESPECT OF FINANCIAL ASSETS**	-	-
	18) Revaluations	-	-
	19) Write-downs	-	-
E.	**EXTRAORDINARY INCOME AND CHARGES**	-	-
	20) Extraordinary income	-	-
	21) Extraordinary charges	-	-
	RESULT BEFORE TAXES	*(468,407)*	*(369,825)*
INCOME TAXES		-	-
	NET INCOME (LOSS) FOR THE YEAR	**(468,407)**	**(369,825)**

ANNEX 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" (€11.397m) corresponds to the amount shown in item 210. of the income statement (€11.422m), augmented by the net losses on the sale of investments for €2 thousand (see item 250. of the income statement), interest expense on the payable to lessees of €2 thousand, write-backs on provisions for legal risks relating to disputes on loans of €30 thousand and net provisions for risks and charges for commitments and guarantees issued of €58 thousand.
Net interest and other banking income is calculated in the amount of €28.007m, equal to the amount shown in the financial statements (€27.229m) net of losses on disposal of loans (€0.712m), and the *time reversal* write-backs on NPLs (€1.124m), the Net result of financial assets and liabilities mandatorily measured at fair value (€1.188m, item 110.b) and interest expense on the payable to lessees for €2 thousand.

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 under section "Equity and the state of affairs of the Company" (€180.377m and €782.908m, 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 €40.491m and €1,111.506m, 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 €18.433m and €1,068.634m, 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, under section "Impaired loans" and comes to €40.491m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations under section "Equity and the state of affairs of the Company" and comes to €180.377m.

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, under section "Impaired loans" and comes to €18.433m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations under section "Equity and the state of affairs of the Company" and comes to €180.377m.

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 €65.897m and €1,111.506m, 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 €32.760m and €1,068.634m, 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, under section "Impaired loans" and comes to €65.897m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations under section "Equity and the state of affairs of the Company" and comes to €180.377m.

NET IMPAIRED LOANS TO OWN FUNDS

net impaired loans

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, under section "Impaired loans" and comes to €32.760m. The amount relating to Own Funds used in the calculation of the ratio is shown in the Report on Operations under section "Equity and the state of affairs of the Company" and comes to €180.377m.

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, under section "Impaired loans" and comes to €65.897m. 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 (€5.887m) 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 under section "Equity and the state of affairs of the Company" and comes to €180.377m.
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, under section "Impaired loans" and comes to €33.137m.

PAYROLL TO NET INTEREST AND OTHER BANKING INCOME

$$\frac{\textit{payroll}}{\textit{net interest and other banking income}}$$

The amount of payroll (€7.283m) used for the calculation of the ratio shown in the Report on Operations in section "Income statement dynamics" correspond to the amount shown in the Income statement in item 160.a (€7.283m).
Net interest and other banking income is calculated in the amount of €28.007m, equal to the amount shown in the financial statements (€27.229m) net of losses on disposal of loans (€0.712m), and the time reversal write-backs on NPLs (€1.124m), the Net result of financial assets and liabilities mandatorily measured at fair value (€1.188m, item 110.b) and interest expense on the payable to lessees for €2 thousand.

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 €6.792m 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 (79.0) 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 is calculated in the amount of €28.007m, equal to the amount shown in the financial statements (€27.229m) net of losses on disposal of loans (€0.712m), and the time reversal write-backs on NPLs (€1.124m), the Net result of financial assets and liabilities mandatorily measured at fair value (€1.188m, item 110.b) and interest expense on the payable to lessees for €2 thousand.
The average number of employees (79.0) 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 €1,716.512m, as shown in the financial statements of the Company. The average number of employees (79.0) 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 €3.252m, as shown in item 300. of the Income Statement. Equity (excluding net income for the year) amounts to €180.632m and is the sum of items 110. "Valuation reserves", 140. "Reserves", 150. "Additional paid-in capital" and 160. "Share capital" of Statement of Financial Position liabilities.

RESOLUTION OF THE SHAREHOLDERS' MEETING

With the presence of 68.405.200 shares of 112,470,400 shares that make up the Company's share capital, the ordinary Shareholders' Meeting of 26 April 2021 unanimously

approved

– the report on operations presented by the Board of Directors for the year ended as at 31 December 2020;
– the financial statements for the year ended as at 31 December 2020 (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.