Financial Statements 2019

Volksbank

Banca Popolare dell'Alto Adige
A Public Limited Company

Registered and head Office: Via del Macello, 55 – I-39100 Bolzano
Share Capital as at 31 December 2019 €201,993,752 fully paid up
Tax code, VAT No. and Companies Register No. 00129730214
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund
ABI 05856.0
www.bancapopolare.it – www.volksbank.it

2019

Das Geschäftsjahr 2019 war vom außerordentlichen buchhalterischen Effekt der Abwertung des Firmenwertes geprägt, den wir bereits in der Halbjahresbilanz ausgewiesen haben. Im zweiten Halbjahr ist es uns gelungen, noch einmal deutlich aufzuholen – dank der nachhaltigen und positiven Entwicklung des Kerngeschäfts.

Sehr geehrte Aktionäre

mit der heurigen Hauptversammlung scheide ich nach zehn Jahren als Volksbank-Präsident aus dem Amt aus. Daher ist es mir ein Anliegen, nicht nur das vergangene Jahr, sondern auch den Zeitraum meiner Präsidentschaft kurz revue passieren zu lassen.

Im zweiten Halbjahr 2019 haben wir deutlich aufgeholt. Nach Steuern haben wir in diesem Zeitraum 17 Millionen Euro erwirtschaftet. Somit beträgt das **Jahresergebnis**, das in erster Linie weiterhin vom außerordentlichen buchhalterischen Effekt der Abwertung des Firmenwertes geprägt ist, -84,4 Millionen Euro – nach einem Halbjahresergebnis von -101 Millionen Euro.

Dieses Aufholen war nur möglich, weil sich unser **Kerngeschäft weiterhin nachhaltig und positiv entwickelt** hat – und zwar quer über das gesamte Einzugsgebiet. Operativ ist und bleibt die Volksbank eine starke Bank, was sich auch in allen wichtigen Kennzahlen widerspiegelt.

- Die Bank wächst differenziert: die Gesamtvolumina sind im gesamten Einzugsgebiet angestiegen, sodass die Bilanzsumme mittlerweile auf 10,6 Mrd. Euro angewachsen ist.
- Beim Zinsertrag konnten wir eine weitere bedeutende Steigerung von 5,8% erzielen; im Kommissionsgeschäft konnten wir die Erträge weiter erhöhen (0,4%).

- Unsere NPL-Quote (Quote Problemkredite) liegt bei 7,3% - das ist der beste Brutto-Wert seit zehn Jahren. Dazu eine Anmerkung: Gegenüber 2018 (39 Mio. Euro) haben wir zum Jahresende 2019 insgesamt 75,9 Mio. Euro wertberichtigt – den Löwenanteil davon im ersten Halbjahr. Knapp die Hälfte der Positionen stammt aus der Zeit vor 2010.
- Die Soliditätskennzahlen der Bank sind signifikant gestiegen, die Eigenkapitalsituation hat sich weiter verbessert und die Liquiditätssituation hat sich sehr gut entwickelt.

Wie wir in den vergangenen Jahren erläutert haben, hängt die Ausschüttung von Dividenden gemäß den aufsichtsrechtlichen Bestimmungen wesentlich davon ab, ob ein positives Geschäftsergebnis vorliegt. Entsprechend lautet der Vorschlag des Verwaltungsrates an die Hauptversammlung, für 2019 **keine Dividende** auszuschütten.

Im **Zehn-Jahres-Zeitraum** hat die Volksbank sehr solide Fakten vorzuweisen, die die Richtigkeit der Entscheidungen der letzten Jahre untermauern:

- Die verwalteten Mittel wurden um 81% auf 19,1 Milliarden Euro (2019) gegenüber 10,5 Mrd. Euro (2010) gesteigert.
- Das operative Ergebnis der ordentlichen Geschäftstätigkeit (vor Wertberichtigungen) hat sich von 42,4 Mio. Euro auf 113,1 Mio. Euro um 164% verbessert.
- Die Nettoquote der notleidenden Kredite hat sich von 5,6% (2010) auf 3,6% (2019) verbessert.
- Die Gesamtkapitalquote ist um 25% von 11,8% (2010) auf nunmehr 15% (2019) angestiegen.

Dieses Wachstum war nur möglich, weil wir vor vielen Jahren die Entscheidung getroffen haben, auch außerhalb von Südtirol zu wachsen. Der Kauf der sechs Intesa-Filialen in der Provinz Venedig im Jahr 2008 und die Integration der Banca Popolare di Marostica im Jahr 2015 waren nicht nur richtige Entscheidungen, sondern Investitionen in die Zukunft. Mein Fazit: **Die Volksbank ist und bleibt eine starke Bank.**

Demgegenüber möchte ich festhalten, dass wir im Verwaltungsrat und im Management, ebenso wie viele unserer Aktionäre, mit der Entwicklung des Aktienkurses und der Liquidität auf der Plattform nicht zufrieden sind. Es besteht eine **allgemeine Unzufriedenheit der Aktionäre** aller 23 Banken, die auf Hi-MTF notieren, in Bezug auf die Funktionsweise der Plattform, da diese die Stärke der Regionalbanken nicht widerspiegelt. Wir schließen uns dem an und begrüßen jede mögliche Lösung, die im Interesse unserer Aktionäre ist.

Ein Ausblick auf das laufende Jahr ist angesichts der noch nicht abschätzbaren Auswirkungen des Corona-Virus auf Wirtschaft und Gesellschaft zu diesem Zeitpunkt nicht möglich. Ich möchte Ihnen an dieser Stelle jedoch versichern, dass die Volksbank in den letzten Wochen alles in ihrer Macht Stehende unternommen hat, um die Gesundheit von Mitarbeitern und Kunden zu schützen und um die Operativität der Bank aufrecht zu erhalten.

An dieser Stelle darf ich mich herzlich von Ihnen verabschieden. Die Zukunft der Volksbank liegt mir als Aktionär weiterhin am Herzen.

Mit freundlichen Grüßen,

Otmar Michaeler
Präsident des Verwaltungsrates
Südtiroler Volksbank AG

Der Firmenwert

Buchhalterisch ist der Firmenwert ein **immaterieller Vermögenswert**, der bei einer Firmenübernahme festgestellt wird. Bei einer Übernahme wird nicht nur der bloße Buchwert bezahlt. Auf den Punkt gebracht: Firmenwert = Kaufpreis – Substanzwert.

Für die Volksbank gilt: Die Ankäufe der 6 Filialen von Banca Intesa (2008 / 44,4 Mio. Euro) und der Kauf der Banca Popolare di Marostica (2015 / 59,2 Mio. Euro) haben der Volksbank den Eintritt in das Marktgebiet des Veneto ermöglicht. **Wir haben nicht nur Filialen und Kunden übernommen, sondern auch ein großes Marktpotential gewonnen**, das uns in den Jahren danach zusätzliche neue Geschäftsbeziehungen eröffnet hat.

Bilanztechnisch wird der Firmenwert jedes Jahr einem Test (**„Impairment Test“**) unterzogen, bei welchem in der **langfristigen Perspektive** geprüft wird, ob die Werthaltigkeit des Firmenwertes noch gegeben ist oder nicht. Die Werthaltigkeit muss dabei auf der Basis des Strategieplans der Bank durchgeführt und anschließend von unabhängigen Stellen bestätigt werden. Basis des Bewertungsverfahrens für unseren Firmenwert ist dabei das geplante Geschäftsergebnis im 5. Jahr des aktuell gültigen Strategieplans.

Dieser Test ist in den vergangenen Jahren immer positiv verlaufen, sodass wir den Wert in der Bilanz immer wieder bestätigen konnten. Doch zuletzt wurde die Zinsprognose für die langfristigen Zinsen nach unten korrigiert, die zu einer Verringerung der geplanten Margen für 2023 und damit des **Planergebnisses für 2023** (Ausgangsbasis für den Impairment-Test) geführt hatte, das die Werthaltigkeit des Firmenwerts in seiner Gesamtheit nicht mehr bestätigt hat.

In der Folge hat der Verwaltungsrat entschieden, den **Firmenwert vollständig vom buchhalterischen Eigenkapital auszubuchen**, um damit dieses Thema definitiv abzuschließen. Da für die Erstellung von Bankbilanzen verpflichtend die internationalen IFRS-Kriterien Anwendung finden – und nicht nationale Bilanzierungsregeln – war eine lineare Abschreibung des Firmenwertes über mehrere Jahre hinweg nicht zulässig.

Zumal der gesamte Firmenwert bereits 2008 bzw. 2015 vom aufsichtsrechtlichen Eigenkapital abgezogen wurde, hat dieser markante Schritt **keine weitere Auswirkung auf die Eigenkapital-Situation, unsere Solidität, Liquidität und Rentabilität. Insofern war die Abschreibung des Firmenwertes nur mehr eine rein bilanztechnische Korrektur.**

2019

The 2019 financial statements suffered the extraordinary accounting effect of goodwill being written-down in full, already reported in the half-year financial statements. In the second half of the year we managed to launch an important recovery process – thanks to the sustainable, positive growth of our core business.

This year's Shareholders' Meeting marks the expiry date of my ten-year period in office as Chairman of Volksbank. So I would like to take the opportunity to look at not just the year gone by, but also my entire chairmanship.

The second half of 2019 confirms an important recovery in profitability: we generated net profit for €17 million in the second half of the year. The **net result for the year,** still conditioned by the extraordinary full write-down of goodwill, amounts to € -84.4million, up compared to € -101 million as at 30 June 2019.

This result was made possible by the growth in characteristic profitability which developed sustainably and positively in the entire user basin. Volksbank confirms its position as a solid bank and this is reflected in the main capital and income aggregates.

- The bank grows in a diversified way: total volumes have increased all over its area of reference; total assets have risen to €10.6 billion.
- The interest margin has grown by 5.8% and net commission by 0.4%.
- Our gross NPL ratio (quota of non-performing loans) is 7.3% – the best gross value of the last ten years. Compared to 2018 (€ 39 million), at the end of 2019 we wrote down a total of €75,9 million – the main part in the first half of the year. About half the positions existing as at 31 December 2019 date to before 2010.

- The financial solidity indicators increased significantly.The Bank's capitalisation improved and its liquidity is solid.

As illustrated in past years, distribution of dividends, in compliance with Supervisory Authority indications, essentially depends on a positive net result. Consequently, the Board of Directors will propose that the Shareholders' Meeting **should not distribute any dividends** for 2019.

The positive results achieved by Volksbank **in the last ten years** prove the correctness of choices made by the Bank:

- Assets administered have increased by 81%, recording a total of €19.1 billion in 2019 against €10.5 billion in 2010.
- The operating income (net of value adjustments) has increased by164%, going from €42.4 million to €113.1 million.
- The NPL net ratio has improved from 5.6% (2010) to 3.6% (2019).
- The treasury share total has increased by 25%, from 11.8% (2010) to 15% (2019).

This development was only made possible by the decision taken many years ago, to grow outside Alto Adige too. The purchase of six Banca Intesa branches in the province of Venice in 2008 and the incorporation of Banca Popolare di Marostica in 2014 were not only the right decisions to make; they also represented an important investment for the Bank's future. To conclude: **Volksbank is and remains a strong bank**.

I would like to point out that the Board of Directors, management and several shareholders are not satisfied with the development of the BPAA share price and its limited liquidity. That also goes for the **shareholders** of another 23 banks operating on Hi-MTF. We are all **dissatisfied** with how the platform works, seeing and considering that it cannot adequately reflect the many strong points of regional banks. We will favourably welcome any solution that is in the interests of our shareholders.

We cannot currently make any forecasts for the current year as the effects on the economy of the corona-virus pandemic are still unforeseeable. I take this occasion to assure you that, in the last few weeks, Volksbank has done everything possible to protect the health of its collaborators and customers and keep the bank operational.

So I hereby take my leave of you. As a Volksbank shareholder, the Bank's future will always be important for me.

Kind regards,

Otmar Michaeler
Chairman of the Board of Directors Banca Popolare dell'Alto Adige Spa

Goodwill

For accounting purposes, goodwill is **an intangible asset,** identified at the time of a company acquisition. In an acquisition, you do not just pay the book value. In brief: goodwill = purchase price - book value.
For Volksbank the following is valid: the purchase of the 6 Banca Intesa branches (2008 / €44.4 million) and the purchase of Banca Popolare di Marostica (2015 / €59.2 million) enabled Volksbank to enter the Veneto market. **We not only took over branches and customers, we also acquired important market potential,** enabling commercial growth in the following years.
For accounting purposes, goodwill is audited every year (**"for impairment"**) to ascertain whether its value can be recovered long term. The assessment considers the business plan and was audited by independent experts. Profits expected beyond the planning period (5th year) take on a relevant weight for audit purposes.
The impairment test has always been positive so the relative value has always been confirmed in the financial statements. Recently, however, the forecast related to long term interest rates on capital markets has been lowered, producing a reduction in**margins planned for 2023,**hence the result planned for 2023 (base for the impairment test). The adjusted result did not confirm the capacity to keep the goodwill value.
Consequently, the Board of Directors decided **for the full reversal of the goodwill value of net book capital,** in order to finalise the matter. Given that IFRS standards, not national accounting standards, are used for Bank financial statement drafting purposes – the linear amortisation of goodwill over several years is not permitted.
The goodwill value had already been deducted in full from supervisory capital in 2008 and in 2015. The recent accounting adjustment **does not have any impact on capitalisation, on solidity, liquidity and the Bank's income capacity. This was a mere accounting adjustment.**

ANNUAL FIANCIAL REPORT
YEAR 2019

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VOLKSBANK
THE TERRITORIAL NETWORK

BANCA POPOLARE DELL'ALTO ADIGE
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Listed in the Bolzano Companies Register at No.00129730214
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Mason Vicentino Via Marconi 85	tel. 0424-596000
Monticello Vigardolo Via Spine 3B	tel. 0444-577090
Mussolente Via Vittoria 47	tel. 0424-596050
Nove Via Molini 2	tel. 0424-596110
Romano D'Ezzelino Via Roma 62	tel. 0424-596140
Rosa' Via Dei Tigli 7	tel. 0424-596150
Sandrigo Via Roma 34	tel. 0444-577040
Sarcedo Via Schio 34	tel. 0445-617010
Schiavon Via Roma 120	tel. 0444-577050

PROVINCE OF VICENZA	
Schio Via Cementi 8	tel. 0445-617090
Tezze sul Brenta Via Risorgimento 23	tel. 0424-596180
Thiene Viale Bassani 26/28	tel. 0445-617110
Vicenza Laghetto Via dei Laghi 135	tel. 0444-577060
Vicenza Porta Castello Viale Roma 10	tel. 0444-577070
Villaverla Via S. Antonio, 43	tel. 0445-617130
Zane' Via Trieste 110	tel. 0445-617140

CORPORATE POSITIONS AND AUDITING FIRMS

BOARD OF DIRECTORS

Chairman
Otmar MICHAELER

Vice-Chairpersons
Maria Giovanna CABION
Lorenzo SALVÀ (2)

Directors
Lorenzo BERTACCO (1) (3)
David COVI (1) (3)
Philip FROSCHMAYR
Lukas LADURNER (2)
Alessandro MARZOLA
(1) until 21.07.2019 - (3) until 21.07.2019 - (2) since 22.07.2019
Giuseppe PADOVAN (2)
Margit TAUBER (1) (3)
Gregor WIERER (3)

GENERAL MANAGEMENT

General Manager
Johannes SCHNEEBACHER

Deputy General Manager
Stefan SCHMIDHAMMER
Martin SCHWEITZER (4)

THE FINANCIAL REPORTING OFFICER

Alberto CALTRONI

INDEPENDENT AUDITING FIRM

KPMG S.p.A.

BOARD OF STATUTORY AUDITORS

Chairwoman
Astrid KOFLER

Standing auditors
Georg HESSE
Emilio LORENZON

Alternate auditors
Nadia DAPOZ
Markus WISTHALER

(1) Members of the independent directors' Committee
(2) Members of the credit Committee
(3) Members of the risks Committee
(4) as of 13 February 2020

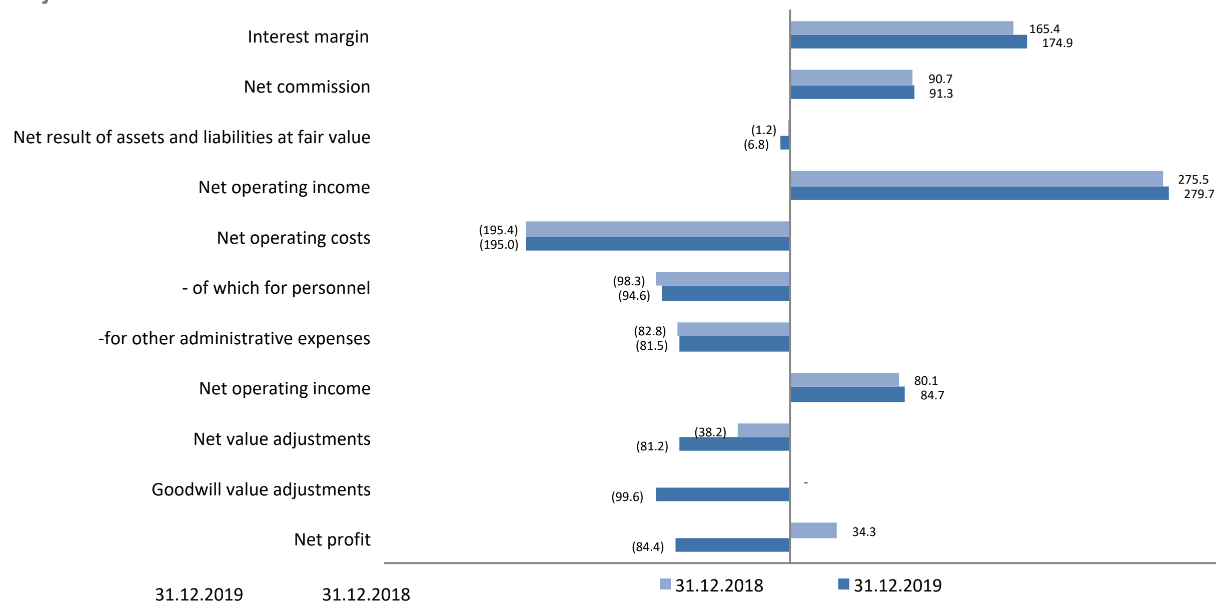
COMPANY REPORTS AND FINANCIAL STATEMENTS

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

SUMMARY DATA AND ALTERNATIVE PERFORMANCE INDICATORS

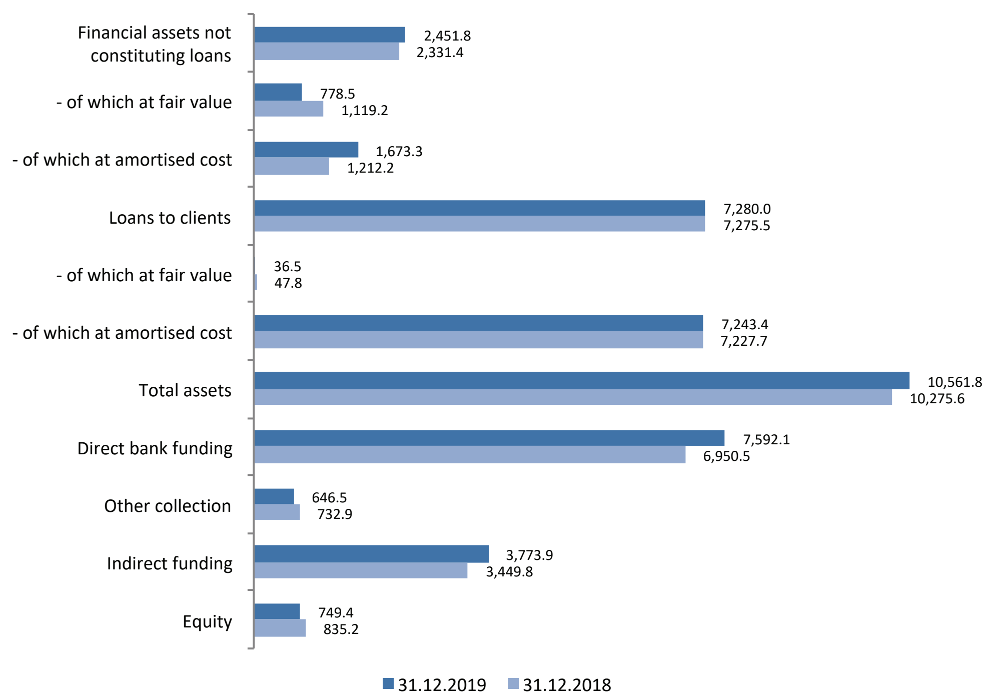
The following table shows a summary of the Bank's key figures and indicators, calculated on the basis of the financial statements.

Key economic data



Economic data	31.12.2019	31.12.2018	Changes	
(€million)			**Ass.**	**%**
Interest revenue	174.9	165.4	9.5	5.7%
Net commission	91.3	90.7	0.6	0.7%
Net result of assets and liabilities at *fair value*	7.1	4.2	2.9	69.0%
Net operating income	293.9	281.2	12.7	4.5%
Net operating costs	(180.7)	(182.9)	2.2	-1.2%
- of which for personnel	(94.6)	(98.3)	3.7	-3.8%
-for other administrative expenses	(72.7)	(70.4)	(2.3)	3.3%
Net operating income	113.1	98.4	14.7	14.9%
Net value adjustments	(97.5)	(43.8)	(53.7)	122.6%
Goodwill value adjustments	(99.6)	-	(99.6)	n.a.
Net profit	(84.4)	34.3	(118.7)	-346.1%

Key balance sheet data



Balance Sheet data	31.12.2019	01.01.2019	Changes	
(€million)			**Ass.**	**%**
Financial assets not constituting loans	2,451.8	2,331.4	120.4	5.16%
- of which at fair value	778.5	1,119.2	(340.6)	-30.44%
- of which at amortised cost	1,673.3	1,212.2	461.0	38.03%
Loans to clients	7,280.0	7,275.5	4.5	0.06%
- of which at fair value	36.5	47.8	(11.3)	-23.58%
- of which at amortised cost	7,243.4	7,227.7	15.8	0.22%
Total assets	10,561.8	10,275.6	286.2	2.79%
Direct bank funding	7,592.1	6,950.5	641.6	9.23%
Other funding	646.5	732.9	(86.4)	-11.78%
Indirect funding	3,773.9	3,449.8	324.1	9.39%
Equity	749.4	835.2	(85.8)	-10.28%

Main indicators

Economic, financial indicators and other information	31.12.2019	31.12.2018
Financial indicators		
Structural indicators		
Financial assets / Total assets	94.0%	93.5%
Gross loans to clients / Direct funding from clients (retail)	100.9%	110.1%
Fixed assets / Total assets	1.6%	2.5%
Total risk-weighted assets (RWA) / Total assets	55.9%	63.0%
Goodwill / Total assets	0.0%	1.0%
Number of employees	1,278	1,327
Number of branches	160	170
Profitability indicators		
ROE (Net profit / Shareholders' equity)	-10.3%	4.2%
ROTE (Net profit / Tangible equity)	-12.0%	4.9%
ROA (Net profit / Total assets)	-0.8%	0.4%
Cost to income ratio (Operating costs/Operating net income) ([1])	61.5%	65.0%
Basic EPS (earnings per share)	-1.72	0.70
Diluted EPS (earnings per share)	-1.72	0.70
Risk ratios		
Net non-performing loans / Net loans to clients	3.6%	5.1%
Gross non-performing loans / Gross loans to clients	7.3%	8.7%
Texas ratio (Net non-performing loans / Tangible equity)	35.5%	51.8%
% coverage of bad debts	61.3%	55.5%
% coverage of non-performing loans	53.2%	44.0%
% coverage of performing loans	0.8%	0.9%
Supervisory capital (€ thousands) and capital ratios		
Class 1 Primary Capital (CET 1)	752,785	727,860
Total treasury stock	882,785	857,860
Total risk-weighted assets (RWA)	5,908,557	6,471,938
CET 1 Ratio - Primary Tier 1 capital (transitional)	12.7%	11.2%
Total Capital Ratio - Total treasury stock (transitional)	14.9%	13.3%
CET 1 Ratio - Primary Tier 1 capital (fully phased)	11.9%	10.4%
Total Capital Ratio - Total treasury stock (fully phased)	14.1%	12.4%
Non-Financial indicators		
Productivity Indices (in Euro)		
Direct Collection per Employee	5,940,607	5,790,067
Loans to clients per employee	5,696,382	5,482,643
Assets under custody - third-party products, per employee	2,066,705	1,754,194
Assets under custody - third party securities and own shares issued, per employee	886,293	845,524
Intermediation margin per employee	201,030	193,829

([1]) for the amount of operating Costs and net operating Income please refer to the reclassified Profit and Loss account in paragraph 1.4.1 of the Report on Operations

REPORT ON OPERATIONS

REPORT ON OPERATIONS

1.1 ECONOMIC ENVIRONMENT AND MARKETS ([1])

1.1.1 THE MACROECONOMIC SCENARIO

International economy

Global growth decelerated considerably in 2019, with increasing weakness in global trade and investments. This widespread weakness affected both advanced economies, especially the Euro area, emerging markets and developing economies. Some of the main economic activity indicators showed a marked decline, reaching the lowest level since the financial crisis. Specially, global trade contracted considerably for a significant part of 2019, while production slowed down decidedly during the year. Recent trends show stabilised production activities at weaker levels than at the start of the year. Services activities also recorded a moderate trend. Most global economies recorded weak growth: almost 90% of the advanced economies and 60% of the developing economies recorded a deceleration.
The bilateral negotiations between the United States and China since mid October led to an agreement – including a partial reduction in the tariffs set – which helped reduce commercial tensions. This at the end of a prolonged period of commercial tension between the two countries, raising political uncertainty, and with a negative impact on global trade, trust and investments. Due to the increase in tariffs between the two countries in the last two years, an essentially higher share of global trade has suffered protectionist measures.
The sentiment of financial markets improved noticeably towards the end of the year, and commercial tensions lightened. However, it remained fragile for most of 2019.
In 2019, worries over growth prospects triggered a widespread loosening of the monetary policies of the main central banks, and an aversion to risk which oriented flows towards the advanced economy bond markets.
In a highly contained inflation contest, returns dropped at global level; some advanced economies even remained negative for most of 2019. The increased aversion to risk helped block the capital flows towards emerging and developing economies, also due to the renewed pressure on the prices of currencies and shares for some of these countries.
Limited growth prospects led to a drop in most of raw material prices, which are expected to remain close to current levels in the foreseeable future.
At international level, global growth weakened, based on estimates, to 2.4% in 2019, the lowest expansion rate since the global financial crisis. In particular, global trade went from 4% in 2018 to 1.4% in 2019, the weakest rhythm since the global financial crisis.
In the United States, the growth slowdown is due to the investments and exports segment. Despite the recent commercial agreement with China, higher tariffs increased commercial costs, and political uncertainties weighed on investments and trust.
In the United States the manufacturing sector was very weak during 2019. Despite these penalising factors, the labour market remained strong benefiting from the growth in employment. Unemployment is close to the minimum of the last five years. Salary growth was low but solid, favoured by fuel consumption that remained stable despite the increased uncertainty framework. Worries for global prospects and inflation remaining under the objective level led the Federal Reserve to reduce reference rates by 75 base points from mid 2019.

([1]) Processed by Volksbank on data from ABI, International Monetary Fund, World Economic Forum, European Central Bank, Bank of Italy, Istat, chambers of commerce, news and daily financial newspapers.

The Eurozone and Italy

The economic sentiment indicators for the Euro area and the EU stabilised in the fourth quarter, placing a still uncertain stop on the persistent downward trend that had continued since the start of 2018. From a sector point of view, levels of trust in EU industry and retail remained more or less unvaried. Improvements were recorded in the sentiment for constructions, services and consumers. The trust levels for retail, building and amongst consumers remain perspectively well above the average long term levels, whereas those of the industrial sector are at their minimum historical levels.
With reference to the seven main EU economies, sentiment in the fourth quarter 2019 got worse in Poland, the Netherlands and Spain, and did not change much during the quarter in the United Kingdom, France and Germany. Italy stood out for an improvement. Industry trust highlighted a timid stop in the ongoing drop in indicators since 2018. Both the indicators stabilised under their long term averages.
In the fourth quarter, the Eurozone GDP grew +0.4%. Within the Area, France recorded an annualised quarterly change of -0.3%, Germany a +0.1% At December 2019, the OECD anticipator indicator for the Euro Area was 99.3, down compared to 99.9 twelve months earlier.
Inflation rose to +1.3% (+1.5% at end 2018) with the “core” component, cleansed of its more volatile components, stable at +1.4% (+1.1% at end 2018).
The EU area unemployment rate is 9.8% (it was 10.4% twelve months earlier). Youth unemployment (age range 15 - 24) is 28.9% against 31.9% a year earlier. At December 2019, the harmonised consumer prices indicator was +0.4 whereas “core” inflation – calculated net of the more volatile components - remained stable at +0.7%.
The latest information available suggests that economic activity in Italy, up slightly in the third quarter of last year, would remain more or less stable in the fourth still suffering from weakness in the manufacturing sector. Surveys carried out by Istat and the Bank of Italy show that companies express assessments that are just a bit more favourable on orders and foreign demand, but still consider uncertainty and trade tensions as factors that block activities.
During 2019, the current account surplus remained considerable.Italy’s net foreign position is close to being balanced.
In the third quarter, employment figures increased slightly, especially in the services sector. Figures available indicate an expansion in the last months of the year. Salary growth is positive (0.7 per cent on the previous year) though decreasing, reflecting the fact that important economic sectors are still waiting for contracts to be renewed. Inflation is low (0.5 per cent in December). Services contribute especially to price dynamics, whereas the growth in the price of industrial goods is still low. Basic inflation strengthened slightly in the autumn months, at 0.7 per cent. More recent surveys showed that the inflation expectations of companies dropped slightly.
Since mid October, the returns from Government bonds and Italian share prices have increased, reflecting a trend common to other Euro area countries, and following publication of some more favourable economic figures than expected for the area.
The cost of credit has dropped, significantly for families. For the latter, the growth in loans remains solid, but is negative for companies, especially reflecting - based on surveys - the weak demand for loans. Measures adopted in September by the ECB Governing Council should support an improvement in credit conditions.
Preliminary information available for 2019 indicates a slight drop in the net indebtedness of Public Administrations related to GDP and an increase in the debt/product ratio. The budget manoeuvre for the 2020 - 2022 three-year period, approved by Parliament last December, increases the deficit by 0.7 percent of GDP on the yearly average compared to trend values. In Government programs, the incidence on the product of net indebtedness and the debt, after stabilising in 2020, would drop in the following two-year period.

Monetary Policy

In the European Central Bank meeting of 12 December 2019, the Governing Council decided not to change interest rates on the main refinancing transactions, on the marginal refinancing transactions and on deposits with the central bank, respectively at 0.00%, 0.25% and -0.50%.
The Governing Council expects the key ECB interest rates to remain at levels equal to or lower than current ones until it sees inflation prospects converge firmly at a level that is sufficiently close to but less than 2% in its projection horizon and that convergence does not reflect consistently on the basic inflation dynamics.
On 1 November, net purchases started again as part of the Governing Council's asset purchasing plan, at a monthly rhythm of €20 billion. The Governing Council expects repurchases to continue for the time needed to strengthen the impact of interest rate accommodation and that they will end just before the ECB key rates are raised. The Governing Council intends to continue to fully reinvest the principal repaid on maturing securities as part of the repurchase program for an extended period of time after the date on which it starts to raise the key ECB interest rates; in any case as long as it is necessary to maintain favourable liquidity conditions and a broad degree of monetary accommodation.
As was expected by operators, in its meeting of 11 December 2019 the Federal Reserve confirmed the interest rates, after 3 consecutive cuts. During the Federal Open Market Committee meeting, board members confirmed the reference rate which was set in a range between 1.5% and 1.75%.
The Committee believes that "the labour market remains strong and economic activity has increased at a moderate rate. Occupational gains have, on average, been solid in recent months and the unemployment rate has remained low. Though household expenditure has increased at a sustained rate, the fixed investments of companies and exports are weak. On a 12 month basis, inflation and total inflation for items other than food and energy are below 2%. Inflation compensation measures based on the market remain low. measures based on the survey of more long term inflation expectations have changed very little".
The Euribor rate at three months in the December 2019 average has remained stable at -0.40% of the previous month. In the average of the first days of 2020 it dropped to -0.39%. In December 2019, the rate on 10 year interest rate swap contracts rose to +0.13% from +0.08% in November 2019.
In December 2019, the difference between the 10 year swap rate and the 3 month Euribor rate was, on average, 53 base points (116 b.p at December 2018).

1.1.2 THE FINANCIAL MARKETS

The benchmark rate on the 10 year expiry date was, in the December average, 1.86% in the USA (1.82% in the previous month), -0.27% in Germany (-0.33% in the previous month) and 1.29% in Italy (1.18% in the previous month and 2.95% twelve months earlier). The spread between the ten-year return of Italian and German State bonds was 156 basis points in the same month.
The financial bonds, based on indications provided by the Merrill Lynch indicator, showed a December return average of 0.63% in the Euro Area and 2.75% in the USA.
Bonds by issuer category showed the following dynamics in Italy in October 2019:

- for government bonds, gross issues amounted to €49.1 billion (36.3 billion in the same month of the previous year, 372 billion in the first ten months of 2019), while net issues amounted to +7.9 billion (+5.3 billion in the same month of the previous year; +68.3 billion in the first ten months of 2019);
- with reference to corporate bonds, gross issues totalled €14.6 billion (2.5 billion in the same month of the previous year; 82.1 billion in the first months of 2019), while net issues totalled +3.7 billion (-2.9 billion in the same month of the previous year; -2.4 billion in the first ten months of 2019).

- lastly, for bank bonds, gross issues amounted to €7.1 billion (5.6 billion in the same month of the previous year, 80.8 billion in the first ten months of 2019), while net issues amounted to -1 billion (-4.2 billion in the same month of the previous year; +2.2 billion in the first ten months of 2019);

In December 2019, the international share prices behaved as follows: the Dow Jones Euro Stoxx (the index of the 100 main Eurozone securities by capitalisation) grew by 19.8%, the Nikkei 225 grew by +13% and the Standard & Poor's 500 grew by +24%, on a year-on-year basis. The price/ earning figure for the Dow Jones Euro Stoxx in the same month averaged 18.9.

In December, the main European stock market indices highlighted the following average changes, year-on-year: the Cac40 (French index) grew by +23.9%; the London Ftse100 grew by +9.5%, the Dax30 (German index) by +22.4%, the FTSE MIB (Milan Stock Exchange) grew by +25.3%.

Still in December, the main New Economy markets were as follows: the TecDax (German technological index) grew +21.8%, the CAC Tech (French technological index) grew by +29.5% and Nasdaq by +29.2%.

With reference to the main international bank indicators, the annual changes were as follows: S&P 500 Banks grew by +30.3%, the Dow Jones Euro Stoxx Banks by +6.5% and the FTSE Banks by +20.3%.

In December 2019, the capitalisation of the Eurozone equity market grew by +20.4% year-on-year. In absolute terms, total capitalisation stood at €7,305 billion.

In the Eurozone, Italy's capitalisation was 8.6% of the total, France's 33.3% and Germany's 25.8% (at the end of 2007 the figures were 12%, 22.4% and 28.9%, respectively).

In Italy, in December, the total capitalisation of the equity market was €630 billion, up by €89 billion compared to the previous year. Capitalisation of the Italian banking sector in November grew to 101 billion (+18.9 billion year-on-year). So the incidence of the banking sector on total capitalisation in December 2019 was 17.9% (it was 28.3% in September 2008, at the start of the financial crisis).

1.2 THE BANKING SYSTEM ([2])

1.2.1 BANK FUNDING

According to initial estimates, in December 2019, customer deposits in all banks in Italy, consisting of deposits of resident customers and bonds grew by +4.8% compared to the previous year. More specifically, bank funding from resident customers was €1,815 billion broken down as follows: 1,024.5 billion in customer deposits and 524.5 billion in bonds.

In detail, deposits from resident customers rose by +5.6% in December 2019, with an increase of €83 billion in absolute terms on an annual basis. Total deposits reached €1,572 billion in December 2019. There was no annual change in bonds. The total figure for bonds stood at approximately €243 billion.

Deposits from abroad increased in November 2019. In particular, deposits in Italian banks amounted to approximately €335.1 billion, 5.8% up on the previous year. The proportion of deposits from abroad in total funding stood at 13.2%, (13.3% a year earlier). The net flow of funds from abroad between November 2018 and November 2019 was positive for approximately €18.3 billion.

In November 2019, net inflows from abroad amounted to approximately €99.4 billion, an upward trend of +7.6%.

The average bank funding rate from customers identified by the harmonised statistics of the European central banks' System was 0.58% in December 2019. The Euro deposit rate applied to households and non-financial companies was 0.37%, whereas existing bonds were 2.15% and repurchase agreements 1.40%.

On the secondary market for government securities, the Rendistato, i.e. the figure for the sample of securities with a residual maturity of more than one year traded on the Italian Stock Exchange (MOT), stood at 0.90% in December 2019, much lower than the 2.19% of December 2018. Gross return on the CCT secondary market was 0.48% in November 2019 (2.12% in November 2018). The average BTP yield was 1.30% (3.06% a year earlier). Finally, the annualised gross annual return of the BOT went between November 2018 and November 2019 from +0.20% to -0.22%.

([2]) Source: ABI Monthly Outlook

1.2.2 LOANS

Based on initial estimates, total loans to Italian residents at December 2019 stood at €1,681 billion, with an almost null annual change. Loans to private sector residents in Italy were €1,416 billion in December 2019, stable with the end of 2018. Loans to households and non-financial companies stood at €1,274 billion at end 2019.
Estimates based on data published by the Bank of Italy show that the annual variation in loans to households and businesses was a +0.3%. According to official Bank of Italy data, lending to non-financial companies dropped by -1.9% in November 2019.
Total loans to households rose by +2.3%. The dynamics of loans to households remained solid, both in terms of mortgages for house purchase (+2.5% year-on-year) and consumer credit.
More specifically, in the third quarter 2019, the share of purchases financed through a mortgage dropped to values like those recorded at the start of 2016, at 73.6% from 79.6%, whereas the ratio between loan and building value increased by two percent (76.2%).
Analysis of the distribution of bank lending by sector of economic activity shows that in November 2019 manufacturing, mineral extraction and services accounted for approximately 56.7% of the total, whereas manufacturing activity alone accounted for 25.9%. Financing for trade and for the accommodation and catering business accounted for about 21.7% of the total, the construction sector for 11.4% and agriculture represented 5.6%. The residual sectors represented approximately 4.5%.
Credit dynamics are still influenced by the trend of investments and economic cycle, still modest. More specifically, on placing the real value of fixed gross investments in the first quarter 2008 at 100, in the third quarter 2019 the indicator was 81.7 with an overall loss of 18.3 points.
Based on Cerved data, in the first 9 months of 2019, economic slowdown signs were reflecting on company closure figures. After fifteen positive quarters, the number of bankruptcies began to grow. The figure is accompanied by a further increase in non-bankruptcy insolvency proceedings and voluntary liquidations, which had already worsened in the previous months. In detail, between July and September, 2,291 companies went bankrupt, an increase of +4.2% on an annual basis.
The number of insolvency proceedings also increased considerably. In the third quarter they went from 271 to 335 (+23.6%), taking the total number of cases opened between January and September up to 1,047 (+3.7% on an annual basis). This worse situation is due to a significant increase in arrangements with creditors which, after reaching a minimum, grew +13.7% on an annual basis.
For the fourth consecutive quarter, the number of entrepreneurs deciding to close their *performing* activities voluntarily also increased: based on estimates, about 12 thousand companies started voluntary liquidation in the third quarter 2019, 6.2% more than the same period of 2018. Overall, 42 thousand voluntary liquidations were started between January and September, up by +4.1% on an annual basis.
Based on the results of the last quarterly survey on bank loans ( ), in the third quarter 2019 offer criteria on loans to both companies and households to buy houses were eased slightly. For the quarter in progress, brokers are not expecting any change to offer policies for mortgages to households and a slight easing for those to companies. The demand for loans by companies contracted moderately, mainly due to lower needs to finance fixed expenses and expenditure for stock and working capital. The demand for loans made by households to buy homes increased slightly, sustained by the positive contribution from residential building market prospects and low interest rates. The demand for loans by companies should remain perspectively unvaried, whereas those from households should continue to grow.

([3]) Bank Lending Survey –October 2019

In December 2019, ABI ( ) reports that the rate for loans in Euro to households for house purchases - which summarises the performance of fixed and variable rates and is also influenced by the change in loan composition according to the type of loan - stood at 1.47%. Of total new loan disbursements, 84% are fixed-rate loans: in the last month the share of the flow of fixed-rate loans was 84.3%. The average rate on new Euro loans to non-financial companies dropped to 1.27%. Finally, the weighted average rate of total loans to households and non-financial companies stood at 2.48% in December 2019.

1.2.3 INTEREST RATE EVOLUTION

The spread between the average lending rate and the average borrowing rate to households and non-financial companies was 190 basis points in December 2019. Before the financial crisis started, that spread exceeded 300 points.
When considering the margins on bank loans to companies and households in the main European countries (calculated as a difference between bank interest rates for new loans and an average weighted rate of new deposits of households and non-financial companies) December 2019 recorded a margin of 64 basis points for companies in Italy, a lower value than the 139 bps of Germany, 121 bps of France and 127 bps of Spain. The household segment recorded a margin of 71 basis points in Italy, lower than the 139 bps of Germany, 102 bps of France and 152 bps of Spain.
The difference between the average rate on interest-bearing assets denominated in Euro vis-a-vis households and non-financial companies and the average rate in Euro on customer deposits represented by households and non-financial companies stood at 1.35 percentage points in January 2020.
Related to interest rates applied to new loan transactions with non-financial companies of up to one million Euro in the Euro Area, the latest December 2019 figures available indicate a value of 1.84% (1.96% at December 2018), a value compared with 1.85% applied in Italy (1.95% at December 2018).
Rates applied to new company loan transactions exceeding one million Euro were 1.27% on average in the Euro Area in December 2019 (1.32% in December 2018), a value compared with 1.06% applied by Italian banks (1.13% a year earlier).
Last of all, in December 2019 the rate for active current accounts and revolving loans to households was 4.16% in Italy (4.57% a year earlier), a level compared to 5.63% of the Euro Area (5.93% a year earlier).

1.2.4 ASSETS UNDER ADMINISTRATION AND MANAGEMENT

The latest figures available for December 2019 on the total of securities held by Italian banks (both managed and held directly by customers) show a balance of approximately €1,142 billion (about 24 billion less than a year ago and -2.0%). Approximately 21.6% is held directly by consumer households (-10.8% the annual change), 23.7% by financial institutions (+4.5% the annual change), 46.1% by insurance companies (+3.2% the annual change), 4.3% by non-financial companies (-24.5%) and about 2.8% is held by public Administrations and manufacturing families. The securities of non-residents, about 1.5% of the total recorded a year-on-year change of -17.4%.
In the third quarter 2019, bank asset managements amounted to about €115.1 billion, recording an annual trend of -5.7%.
Overall, the individual portfolio asset management of banks, investment firms and UCITS management companies in Italy amounted to approximately €967 billion in September 2019, an annual trend increase of +15.5%. Assets managed by 'SIM' investment firms, amounting to approximately €12.6 billion, recorded an annual increase of +0.5%, while those of 'SGR' asset management companies, amounting to €839.3 billion, recorded an annual increase of +19.4%.
In December 2019, the assets of open-ended Italian and foreign funds increased slightly (+0.7%) compared to the previous month, to about €1,062 billion.

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(4) ABI Monthly Outlook - Economy and Financial - Credit Markets, February 2020 - Summary

23.1% of these assets are Italian funds and the remaining 76.9% are foreign funds. Compared to December 2018, there was a +11.2% increase in assets due to: a 38.2 billion increase in share funds, 27.6 billion in balanced funds, 35.7 billion in bond funds and 6.9 billion in flexible funds against a reduction of 704 million in hedge funds and 528 million in monetary funds. With particular regard to the composition of assets by fund type, please note that in the last year, the share of balanced funds rose from 10.3% in December 2018 to 11.9% in December 2019, share funds rose from 20.7% to 22.2%, bond funds fell from 39.3% to 38.7%, flexible funds from 25.8% to 23.8%, money funds from 3.6% to 3.2%, and hedge funds from 0.4% to 0.3%.

1.2.5 HOUSEHOLD FINANCIAL ASSETS

An analysis of the latest available data on household financial assets in Italy shows that this aggregate stood at €4,396 billion in the third quarter of 2019, up by 2.6% on an annual basis. The main trends of its components can be summarised as follows. On the rise:

- the trend in banknotes, coins and bank deposits (both on demand and time deposits) showed an upward trend of +4.2%. The share of this aggregate in total household financial assets was 32.9% (stable compared to 32.4% a year earlier);
- life insurance, pension funds and employee severance indemnities rose by +10.4%. The share of this aggregate was 24.7% (22.9% in the same period a year earlier);
- bonds, with a +1.1%, trend shared by the public component (+12.6%), but not by the bank one which is down by -7.1%. This aggregate's share of total household financial assets was 6.3% (6.4% in the previous year).
- mutual fund shares increased by +0.6% year-on-year and accounted for 10.9% of household financial assets (down slightly from 11.2% in the same period of the previous year).

In decline:

- shares and equity investments, down -5.2% year-on-year, make up 21.4% of total financial assets (down from 23.2% a year earlier).

1.3 SIGNIFICANT EVENTS DURING THE YEAR

Shareholders' Meeting

On 30 March 2019, the Shareholders' Meeting approved the Financial Statements for year 2018, allocation of period profit and distribution of dividends to shareholders and, for the ordinary part, also approved a treasury purchase and disposal plan pursuant to arts. 2357 and 2357-ter of the Italian Civil Code, subordinate to obtaining Bank of Italy authorisation.

The authorisation is to purchase treasury shares, once or several times, up to a maximum of 420,000 (four hundred and twenty thousand) ordinary shares – calculated on the average weighted price of the weekly auctions of the last 3 months (€11.90) - excluding treasury shares already in portfolio; in any case, if lower, up to the maximum number of shares permitted by law in force pro tempore, in any case for a maximum countervalue of €5 million.

Authorisation is granted for a maximum of eighteen months from the shareholders' meeting authorisation resolution date permitted by art. 2357, paragraph 2, Italian Civil Code.

The authorisation to sell, dispose of and/or use treasury shares is requested with no time limits, considering there are no regulatory constraints on this point, and to have maximum flexibility, also in time period terms, to possibly sell them.

Purchases will be made on the Hi-MTF regulated market, applying operating methods established in that market's organisation and management regulations.

The shareholders' Meeting also elected the Board of Statutory Auditors for the 2019 – 2021 three-year period by slate vote, as regulated by the articles of association, arts. 32 and 33:

Astrid Kofler 03.04.1978 – Accountant and Auditor	President of the Board of Statutory Auditors
Georg Hesse 24.08.1973 – Chartered Accountant and Auditor	Standing Auditor
Emilio Lorenzon 17.06.1962 – Chartered Accountant and Auditor	Standing Auditor
Nadia Dapoz 13.11.1980 – Chartered Accountant and Auditor	Alternate Auditor
Markus Wisthaler 24.10.1969 – Chartered Accountant and Auditor	Alternate Auditor

The Shareholders' Meeting also decided the fees to be paid to the standing auditors appointed for the 2019 – 2021 three-year period as follows:
- €96,000 per annum for the office of Chairman of the Board of Statutory Auditors;
- €64,000 per annum for the office of Standing Auditor;
- €250 a day for taking part in the meetings of the Board of Directors and the Board committees. The attendance fee is also extended to the meetings of the Board of Statutory Auditors.

The attendance fee is not accumulated for multiple meetings held on the same day. Gross and attendance fees decided by the Shareholders' Meeting remain unvaried to those paid the outgoing 2016 - 2018 Board.
On approving the financial statements closed as at 31 December, the nine-year appointment of the Auditing Firm BDO Italia S.p.A. also terminated, with no possible renewal.
The Shareholders' Meeting therefore granted a new appointment to the auditing firm KPMG S.p.A. pursuant to art. 13 of Legislative Decree 39/2010 based on the explanatory Board of Directors' Report accompanied by the Board of Statutory Auditors' Recommendation, and established the fee to be paid for the appointment duration and any criteria for adjusting the amount during the mandate period.
The independent auditing assignment to KPMG S.p.A. was decided for the 2019 - 2027 nine-year period in compliance with provisions and procedure applicable pursuant to and for the purposes of articles 13, paragraph 1, and 17, paragraph 1, of Legislative Decree 39 of 27 January 2010 as amended, respectively by arts.16 and 18 of Legislative Decree 135 of 17 July 2016, by art.16 of (EU) Regulation 537/2014 of the European Parliament and Council of 16 April 2014.

Covered Bond

In the second half of 2019, the Company launched a Covered Bond Issue Program to make funding even more efficient; Covered Bonds are bonds issued by banks that stand out for being, mainly, covered by a double guarantee:
a) the guarantee of a repayment commitment by the issuing bank, and
b) the specific guarantee represented by a portfolio of primary quality loans, transferred by the issuing bank (and by any transferring banks) in favour of a special purpose vehicle which, in turn, issues a personal, primary, unconditional and irrevocable guarantee, in favour of those subscribing the Covered Bonds and of third parties taking part in the Program.
The Company transferred, by signing specific agreements stipulated on 1 October 2019, a portfolio of residential mortgage loans allocated to natural persons.
The transfer was made to the special purpose vehicle VOBA CB S.r.l., created solely to support the Program controlled by the Bank.
The transfer of the mortgage loans, as part of their ordinary management, does not involve any change for the contract holders, as the accounts will still be managed by the reference branch, and in no way modifies the conditions and characteristics of the mortgage loan itself.
As part of the program, on 17 October 2019 the Bank placed a seven-year covered bond on the international market for a nominal value of 300 million and a nominal interest rate of 0.25%.
The issuing price was 99.53. The issue was given an AA rating by Fitch.

The transaction arrangers were the Banca Finint Group, UniCredit and Société Générale. The bank was assisted by Securitisation Services S.p.A. a Banca Finint Group company, by RCCD Legal Firm and Orrick Advisory. The placement consortium includes UniCredit, Société Générale and Erste Bank.

Assignment of non-performing loans

During the year, Volksbank completed the transfer without recourse of several non-performing positions denominated in Euro.

Assignment of non-performing loan portfolio	**2019**
No. Non-performing positions transferred	478
Gross value (€)	101,188,983
Default interest (€)	6,396,390
Total (€)	**107,585,373**

The transfer provides no transferor guarantee of the solvency of the transferred debtors, or of any guarantors thereof, on any grounds, hence provides no guarantee of the total or partial collection of the transferred receivables. As a result of the transfer, the receivables have been de-recognised from the financial statements as of the date of execution. The price paid by the buyers was €25.0 million.

General Manager

On 13 February 2020, the Board of Directors of Volksbank chose Alberto Naef as its new General Manager. He replaces Johannes Schneebacher. Alberto Naef boasts managerial experience and top level, banking sector competences, even international. The new General Manager will be flanked by the Deputy Managers Stefan Schmidhammer, already in office and Martin Schweitzer, appointed Deputy General Manager. Johannes Schneebacher will be leaving the Bank on 31 March 2020.

Supervisory Body Audits

From 18 February to 14 June 2019 the Bank was subjected to audits pursuant to art. 54 Legislative Decree 385 of 1.9.93. The assessment mainly concerned the strategic risk, the corporate governance system, loan policies, the relative loan management and assessment processes and, lastly, the information system. On 30 August 2019, the Bank of Italy delivered its report containing findings that emerged during the audit. On receiving the findings, the Bank started implementing suitable remedial actions. On 25 October 2019, the Board of Directors approved and sent Bank of Italy a plan of actions addressed at the single areas where the Supervisory Authority indicated findings.

1.4 OPERATING PERFORMANCE

1.4.1 RISULTATO ECONOMICO

Presentation of economic results

A reclassified income statement is presented below to facilitate reading of the results for the year. As provided in Consob communication No. DEM/6064293 of 28 July 2006, a description of the reclassifications and aggregations made is provided below:

- the item "Dividends and gains (losses) from investments valued at equity" consists of the income statement item "Dividends and similar income" and the item "Gains (losses) on equity investments";
- the item "Net result of financial assets and liabilities at *fair value*" includes the "Net result of trading activities", the "Gains (Losses) on the disposal or repurchase of financial assets measured valued at *fair value* with an impact on comprehensive income" and the "Net result of the other financial assets measured at *fair value* with impact on Profit and Loss" and "Net result of the other financial assets and liabilities obligatorily measured at *fair value* with impact on Profit and Loss" the latter related solely to the components referable to financial assets that are not loans;
- the item "Other operating income/expenses" includes "Gains (losses) on the disposal or repurchase of financial liabilities" and "Other operating income/expenses";
- the item "Administrative expenses" shows the balance of item 160 b) of Profit and Loss net of taxes and charges relating to the banking system, which are included in a specific item of the reclassified income statement;
- the item "Value adjustments to tangible and intangible assets" includes the income statement items "Adjustments/ write-backs on impairment of tangible assets" and "Adjustments/write-backs on impairment of intangible assets";
- the item "Net adjustments to loans and other financial transactions" includes the "Gains (Losses) on sale or repurchase of of financial assets measured at amortised cost", the "Net result of the other financial assets and liabilities obligatorily measured at *fair value* with impact on Profit and Loss" related solely to components referable to financial assets constituting loans, the "Net adjustments/write-backs on credit risk of financial assets measured at amortised cost" limited to components referable to financial assets constituting loans and the "Net allocations to provisions for risks and charges from credit risk related to commitments and guarantees issued";
- The item "Net adjustments to other assets" includes "Gains (losses) on the sale or repurchase of financial assets valued at amortised cost" and "Net adjustments/write-backs on credit risk of financial assets valued at *fair value* with an impact on overall profitability", both limited to components relating to financial assets that do not constitute loans and "Gains/losses from contractual amendments without write-downs".
- the item "Net allocations to provisions for risks and charges" displays the balance of item 170 b) in the Profit and Loss Account.

Overall trend in results

Reclassified income statement	31.12.2019	31.12.2018	Change	
(thousands of €)			Ass.	%
Net interest	174,927	165,373	9,554	5.8%
Dividends and profits (losses) of investments measured at Equity	2,417	3,147	(730)	-23.2%
Financial margin	**177,344**	**168,520**	**8,824**	**5.2%**
Net commission	91,344	90,735	609	0.7%
Net result of financial assets and liabilities at FV	7,112	4,249	2,863	67.4%
Other operating charges/revenue	18,082	17,744	338	1.9%
Other operating income	**116,538**	**112,728**	**3,810**	**3.4%**
Net operating income	**293,882**	**281,248**	**12,634**	**4.5%**
Personnel expenses	(94,559)	(98,331)	3,772	-3.8%
Administrative expenses	(72,702)	(70,362)	(2,340)	3.3%
Value adjustments to tangible and intangible assets	(13,480)	(14,195)	715	-5.0%
Operating costs	**(180,741)**	**(182,888)**	**2,147**	**-1.2%**
Operating income	**113,141**	**98,360**	**14,781**	**15.0%**
Net adjustments to loans and other financial transactions	(97,472)	(43,789)	(53,683)	122.6%
Net adjustments to other assets	3,953	735	3,218	437.8%
Net provisions for risks and charges	(7,205)	(5,063)	(2,142)	42.3%
Gains (losses) on disposal of equity investments	1,306	2,176	(870)	-40.0%
Gross profit (loss) from current operations	**13,723**	**52,419**	**(38,696)**	**-73.8%**
Income taxes on current operations	(4,308)	(12,112)	7,804	-64.4%
Levies and charges relating to the banking system net of taxes	(6,409)	(6,050)	(359)	5.9%
Gain (Loss) for the year (prior to goodwill adjustment)	**3,006**	**34,257**	**(31,251)**	**-91.2%**
Adjustments to the goodwill value net of taxes	(87,378)	-	(87,378)	n.a.
Gain (Loss) for the year (after goodwill adjustment)	**(84,372)**	**34,257**	**(118,629)**	**-346.3%**

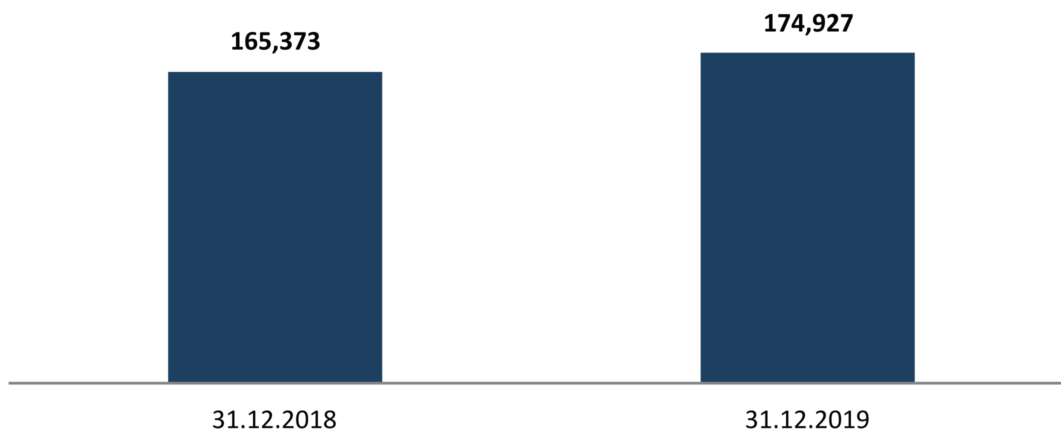
The Company closed 2019 with a net loss of €84.4 million. Considering a still somewhat complex operational context, the financial statements for 2019 were drafted prudently when measuring assets. This involved the full adjustment - for 100 million - of the goodwill value, mainly generated by integration of the Banca Popolare di Marostica Group and, to a lesser extent, by the purchase of branch of branches in 2008. A write-down which has no repercussion on liquidity and capital ratios.

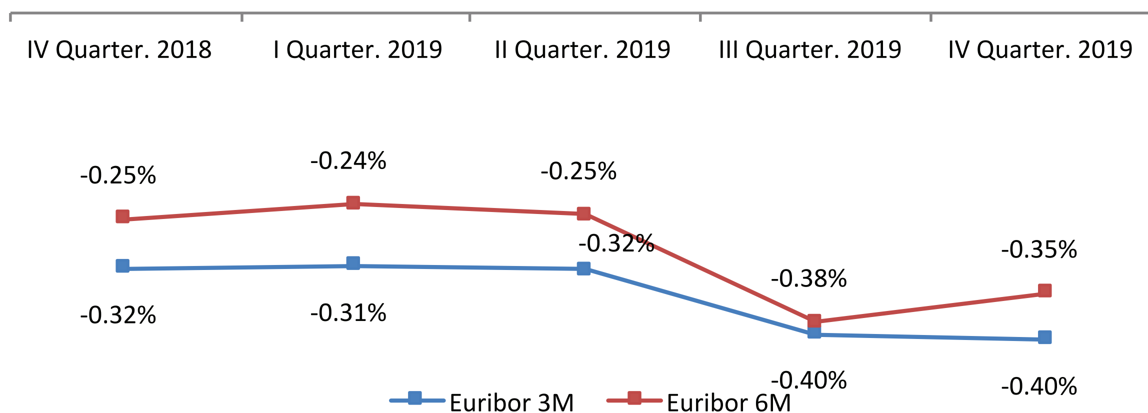
Not considering that write-down, operations still generated a positive result, despite the prudence adopted when measuring the loans portfolio. In a complex market context like the one last year, the operating income increased 15.0% compared to 2018.

More specifically, net operating income rose +4.5% to 293.9 million. The operating income, as we said up +15.0%, was 113.1 million.

Net interest was €174.9 million in 2019, with net commissions of €91.3 million. Dividends and profits from equity investments valued at equity amounted to €2.4 million, net financial profit to €7.1 million and other operating income/expenses stood at €18.1 million.

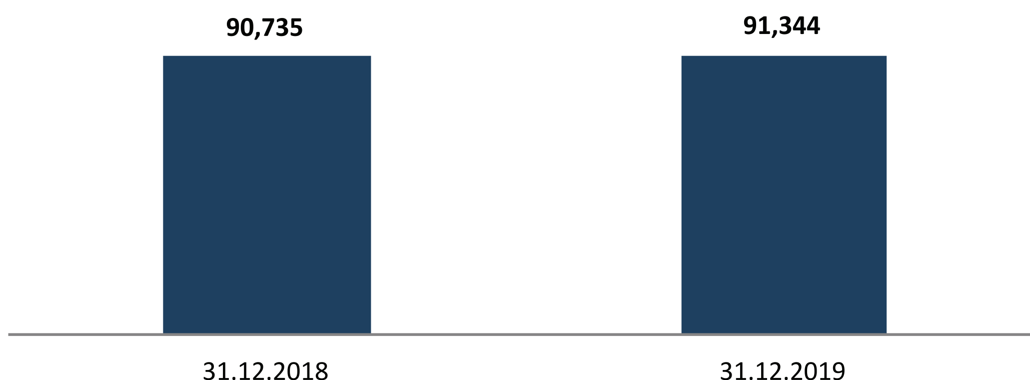
Interest was conditioned by the persistence of historically low interest rates, associated with a still fragile business cycle. In this context, lending volumes grew to a limited extent, despite significantly monitoring the risk assumption. Interest income from customers stood at €160.1 million, while interest paid on loans to customers and outstanding securities in issue stood at €22.2 million.



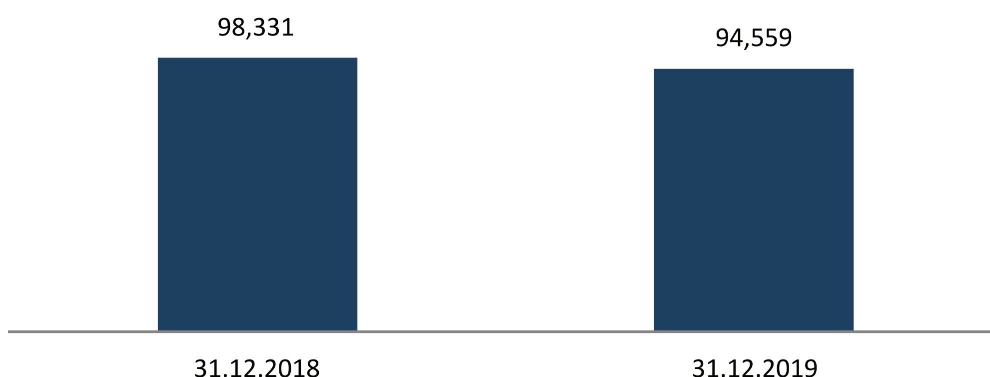


The item gains (losses) on equity investments measured at equity included, besides dividends decided in the year, the operating result of subsidiaries. Dividends received from equity investments and non-consolidated equity investments and profits/losses from equity investments measured at equity totalled €2.4 million.

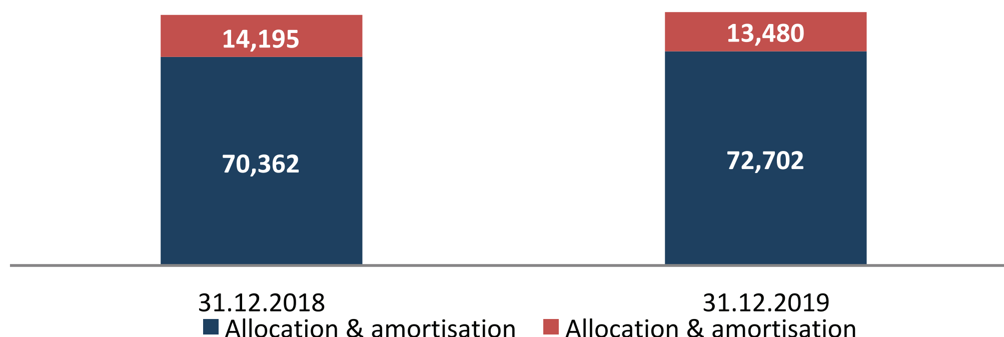
Net commissions of €91.3 million in the year represent 31.1% of net operating income. The most significant components include management, brokerage and consultancy services amounting to €26.1 million, income from collection and payment services,amounting to€10.6 million, income from maintenance and management of current accounts (€42.8 million) and net commission on other services (€8.8 million).



The net result of financial assets and liabilities measured at *fair value* was negative at -7.1 million. In particular, trading activity had a positive net result of €4.0 million,the sale of instruments measured at *fair value* had an impact on overall profitability of +7.3 million, and the negative result of the measurement of instruments at *fair value* had a negative impact on the income statement for -18.4 million.This was due almost entirely to the measurement of non-performing loans classified at *fair value* with a balancing entry in the income statement.
With specific reference to the proprietary portfolio, please note the increased operations on financial assets, with the Treasury focussed on managing the liquidity portfolio and the essential concentration of the other portfolios in Portfolio Management in order to grasp market opportunities by an increase in exposure on maturities after short term, thus structurally increasing the total contribution of securities portfolio management to Company revenue, including the positive effects from interest income.
The diversification of the bond portfolio and investment inequity-based funds were further balanced with alternative investment products in order to optimise the risk/return profile.
The "other operating income/expenses" item was €18.1 million, benefiting in particular from fast processing fees and recoveries of expenses from third parties.
The other operating income totalled €116.5 million. Operating income stood at €293.9 million.
Operating costs amounted to €180.7 million and included personnel costs of €94.6 million, a decrease compared to the previous year.



Other administrative expenses amounted to €72.7 million, mainly consisting of IT service charges payable to the SEC consortium amounting to €14.7 million,professional fees for€8.5 million, maintenance costs for €6.3 million.



Value adjustments to tangible and intangible assets came to €13.5 million. These include, inter alia, €4.0 million relating to the amortisation of properties, €3.5 million relating to the depreciation of movable and immovable property and plants, and €1.0 million relating to the amortisation of the client relationship recorded in the accounting of the merger with Banca Popolare di Marostica.
By introducing IFRS 16, rental costs become amortisation of rights of use entered in assets; they amounted to €4.1 million in 2019 (4.4 million in the previous year).
Net impairment losses on loans and other financial transactions amounted to €97.4 million. The amount recorded during the year is mainly attributable to adjustments to non-performing loans. The continual control of correct credit risk measurement, in an ongoing economic stagnation, saw the Bank carry on strengthening controls, taking bad debt hedging to levels indicated by European supervisions for significant banks.
Total provisions for impairment accounted for 4.7% of gross lending (stable compared to the previous year). The bad debts hedging rate rose to 61.3%, against 55.5% at 31 December 2018. The coverage of probable defaults reached 37.8%, compared to 26.1% a year earlier. For past due loans the coverage rate was 23.4% compared to 7.9% twelve months earlier, while for *performing* loans the write-down percentage was stable at 0.83%, compared to 0.89% at the end of 2018.

Coverage of non-performing loans	**31.12.2019**	**31.12.2018**
Coverage of Bad Debts	61.32%	55.54%
Coverage of unlikely to pay	37.78%	26.09%
Coverage of exposures past due	23.37%	7.90%
Coverage of performing exposures	0.83%	0.89%

Net value adjustments on other assets, amounting to +4.0 million, mainly concern the result from the sale of financial assets measured at amortised cost different to loans an the component due to the change in credit risk due to the change in the *fair value* of financial assets at *fair value*, with an impact on overall profitability.
Net provisions for risks and charges amounted to -7.2 million. Profits from the sale of investments amounted to €1.3 million.
The tax item was positive for 10.3 million.
The charges relating to ordinary contributions provided for in Directives 2014/59/EU - Recovery and Resolution of Credit Institutions and Investment Firms and 2014/49/EU - Deposit Guarantee Schemes ("DGS") and the Bank Recovery and Resolution Directive (BRRD) amounted to €6.4 million net of taxes.
The net loss for the year amounted to -84.4 million.

1.4.2 STATEMENT OF FINANCIAL POSITION

Statement of financial position

The reclassified Balance Sheet was adjusted to apply the new accounting categories introduced by IFRS 16, as adopted by the 6th update to Bank of Italy Circular no. 262.

To facilitate reading the balance sheet, the reclassified statement of financial position is shown below. Reclassification only involved the aggregation of Balance Sheet items. In particular, note as follows:

- Cash and cash equivalents are included in the residual item Other asset items;
- financial assets constituting loans to banks and loans to customers, are entered separately regardless of the respective accounting portfolios they are allocated to;
- financial assets that do not constitute loans are entered separately, distinguishing between financial assets measured at amortised cost, financial assets measured at *fair value* with impact on the Income Statement, financial assets measured at *fair value*fair value with an impact on overall profitability, net of the reclassification to Loans to banks and Loans to customers;
- tangible and intangible assets are aggregated into a single item;
- separate indication of assets and liabilities for Right of use as established in IFRS 16;
- payables to banks at amortised cost are entered separately;
- the total sums due to customers at amortised cost and of outstanding securities are aggregated into a single item;
- "Provisions for risks and charges" groups funds designated for a specific use (employee severance benefits, provisions for risks and charges, provisions for commitments and financial guarantees issued) into a single item;
- reserves are indicated in an aggregated manner, net of any own shares.

Reclassified asset items	**31.12.2019**	**01.01.2019**	**Change**	
(thousands of €)			**Ass.**	**%**
Loans to banks	232,763	48,929	183,834	375.7%
Loans to customers	7,279,977	7,275,467	4,510	0.1%
- at amortised cost	*7,243,438*	*7,227,655*	*15,783*	*0.2%*
- at fair value with an impact on the income statement	*36,539*	*47,812*	*(11,273)*	*-23.6%*
- at fair value with an impact on overall profitability	*-*	*-*	*-*	*n.a.*
Financial assets measured at amortised cost not loans	1,673,265	1,212,245	461,020	38.0%
Financial assets at fair value with impact on profit and loss	112,683	242,210	(129,527)	-53.5%
Financial assets at fair value with impact on overall profitability	629,298	829,144	(199,846)	-24.1%
Holdings	5,407	5,745	(338)	-5.9%
Tangible and intangible assets	151,438	234,572	(83,134)	-35.4%
Rights of use	15,982	20,125	(4,143)	-20.6%
Tax assets	174,963	174,705	258	0.1%
Non-current assets and asset groups held for sale	17,322	12,923	4,399	34.0%
Other asset items	268,665	219,497	49,169	22.4%
Total assets	**10,561,763**	**10,275,562**	**286,201**	**2.8%**

Reclassified liability items	**31.12.2019**	**01.01.2019**	**Change**	
(thousands of €)			**Ass.**	**%**
Payables to banks at amortised cost	1,247,848	1,418,187	(170,339)	-12.0%
Financial liabilities with customers at amortised cost	8,222,768	7,663,294	559,474	7.3%
- amounts due to customers	*7,406,814*	*6,965,074*	*441,740*	*6.3%*
- outstanding securities	*815,954*	*698,220*	*117,734*	*16.9%*
Financial liabilities held for trading	1,485	1,429	56	3.9%
Financial liabilities at fair value	-	-	-	n.a.
- amounts due to customers	*-*	*-*	*-*	*n.a.*
- outstanding securities	*-*	*-*	*-*	*n.a.*
- other financial liabilities measured at fair value	*-*	*-*	*-*	*n.a.*
Tax liabilities	23,914	31,254	(7,340)	-23.5%
Liabilities associated with assets held for sale	-	-	-	n.a.
Provisions for risks and charges	17,480	20,729	(3,249)	-15.7%
Other liabilities	283,060	285,341	(2,279)	-0.8%
Payables for rights of use	15,851	20,125	(4,274)	-21.2%
Shareholders' equity:	749,357	835,203	(85,846)	-10.3%
- Capital	*182,867*	*183,440*	*(573)*	*-0.3%*
- Earnings reserves	*651,042*	*632,893*	*18,149*	*2.9%*
- Valuation reserves	*(180)*	*(15,387)*	*15,207*	*-98.8%*
- Result for the period	*(84,372)*	*34,257*	*(118,629)*	*-346.3%*
Total liabilities and equity	**10,561,763**	**10,275,562**	**286,201**	**2.8%**

Due to and from banks

Interbank relations	31.12.2019	01.01.2019	Change	
(thousands of €)			**Ass.**	**%**
Loans to banks	232,763	48,929	183,834	375.7%
Payables to banks	1,247,848	1,418,187	(170,340)	-12.0%
Net position of banks	**(1,015,085)**	**(1,369,258)**	**354,174**	**-25.9%**

With regard to treasury activity, the net liquidity position in the interbank market at year-end was negative at €1,015.1 million, compared with €1,369.3 million at the end of 2018.

Direct funding

Direct deposits by customers totalled €7,592.1 million, up by €641.6 million (+9.2%) on the figure for the year ended 1° January 2019 (€6,950.5 million).

Direct funding	31.12.2019	01.01.2019	Change	
(thousands of €)			**Ass.**	**%**
Direct deposits (€ thousands)	6,342,039	6,002,816	339,223	5.7%
Liability transactions on repurchase agreements	526,531			
on securities		369,899	156,632	42.3%
Securities in issue	683,117	565,459	117,658	20.8%
Certificates of deposit	-	-	-	-
Other collection	40,409	12,353	28,056	227.1%
Total direct funding from customers	**7,592,096**	**6,950,527**	**641,569**	**9.2%**
Wholesale funding	515,686	602,132	(86,446)	-14.4%
Subordinate liabilities	130,837	130,760	77	0.1%

Breaking the figure down shows an increase in forms of funding on demand, represented by current accounts and deposits (+339.2 million and +5.7%), forming 83.5% of direct funding; and an increase in the fixed-term funding, due to the issue of covered bonds and the decrease of other securities (+117.6 million and +20.8%).
Other payables increased to 40.4 million (they were 12.4 at the start of the year). Repurchase agreements, which stood at 526.5 million at year- end, were up compared to the start of the year (+156.6 million).

Indirect funding

Indirect deposits by private customers stood at approximately €3,774.0 million at 31 December 2019, up +9.4% compared with €3,500.0 million at the start of the year (+324.1 million).

Technical forms of indirect deposits	31.12.2019	01.01.2019	Change	
(thousands of €)			**Ass.**	**%**
Assets under administration - third party products	2,641,249	2,327,816	313,433	13.5%
Assets under management - third party securities and own shares	1,132,682	1,122,011	10,671	1.0%
Total	**3,773,931**	**3,449,826**	**324,105**	**9.4%**

Indirect funding under administration of third party products amounted to €2.641.2 million, up 13.5% compared with the start of the year (+313.4 million).
Indirect funding under administration of third party securities and own share emissions stood at €1,132.7 million, essentially stable compared with €1,122.0 million at the end of 2018 (+1.0%).
Indirect funding, net of the Bank's shares, amounted to €3.226.3 million, up +11.6% compared to the same aggregate at the start of the year (€2,892.1 million; +334.2 million).

Customer credits represented by loans

Loans to customers totalled €7,243.4 million, stable at +0.225 at the start of the year, which amounted to a balance of €7,227.7 million (+15.8 million).

Technical forms of use	31.12.2019	01.01.2019	Change	
(thousands of €)			Ass.	%
Current accounts	1,002,690	1,168,899	(166,209)	-14.2%
Advances and loans	517,277	467,870	49,407	10.6%
Mortgages	5,350,462	5,118,812	231,650	4.5%
Trade receivables	**6,870,429**	**6,755,581**	**114,848**	**1.7%**
Repurchase agreements	-	-	-	n.a.
Receivables represented by securities	105,163	87,144	18,019	20.7%
Non-performing loans	259,589	370,806	(111,217)	-30.0%
Other	8,257	14,122	(5,865)	-41.5%
Other loans to customers	**373,009**	**472,072**	**(99,063)**	**-21.0%**
Total	**7,243,438**	**7,227,653**	**15,785**	**0.2%**

Short-term technical forms (current accounts, active repurchase agreements and other transactions) amounted to €1,010.9 million, down -17.0% (-172.1 million) compared to €1,183.0 million at the end of the previous year. Medium and long term technical forms, primarily represented by mortgages and personal loans, increased by +3.0% to €6,232.5 million (+187.9 million) compared to the start of the year.
With regard to the breakdown of trade receivables, it should be noted that the technical forms of loans comprise 73.9% of net loans, up from 70.8% at the at the start of the year.
Current accounts represent 13.8% of net loans to customers, down compared with 16.2% in the previous year.
Gross non-performing loans stood at €555.0 million, down -16.2% compared with €662.5 million at the start of the year. The ratio of gross non-performing loans to total gross loans to customers was 7.3%, down from 8.7% at the start of the year.

Credits	31.12.2019	01.01.2019	Changes	
(thousands of €)			Ass.	%
A) bad debts				
gross amounts	369,165	407,836	(38,671)	-9.5%
value adjustments	(226,354)	(226,513)	159	-0.1%
net carrying amounts	**142,811**	**181,323**	**(38,512)**	**-21.2%**
% Coverage	-61.3%	-55.5%		
B) unlikely to pay				
gross amounts	178,053	248,054	(70,001)	-28.2%
value adjustments	(67,272)	(64,705)	(2,567)	4.0%
net carrying amounts	**110,781**	**183,349**	**-72,568**	**-39.6%**
% Coverage	-37.8%	-26.1%		
C) past due exposures				
gross amounts	7,826	6,659	1,167	17.5%
value adjustments	(1,829)	(526)	(1,303)	247.7%
net carrying amounts	**5,997**	**6,133**	**-136**	**-2.2%**
% Coverage	-23.4%	-7.9%		
D) Subtotal non-performing exposures (a+b+c)				
gross amounts	555,044	662,549	(107,505)	-16.2%
value adjustments	(295,455)	(291,744)	(3,711)	1.3%
net carrying amounts	**259,589**	**370,805**	**-111,216**	**-30.0%**
% Coverage	-53.2%	-44.0%		
E) performing loans - stage 1				
gross amounts	6,140,847	6,156,732	(15,885)	-0.3%
value adjustments	(23,956)	(28,818)	4,862	-16.9%
net carrying amounts	**6,116,891**	**6,127,914**	**-11,023**	**-0.2%**
% Coverage	-0.39%	-0.47%		

F) performing loans - stage 2				
gross amounts	795,679	673,698	121,981	18.1%
value adjustments	(33,884)	(31,908)	(1,976)	6.2%
net carrying amounts	**761,795**	**641,790**	**120,005**	**18.7%**
% Coverage	-4.26%	-4.74%		
G) Subtotal performing loans (e+f)				
gross amounts	6,936,526	6,830,430	106,096	1.6%
value adjustments	(57,840)	(60,726)	2,886	-4.8%
net carrying amounts	**6,878,686**	**6,769,704**	**108,982**	**1.6%**
% Coverage	-0.83%	-0.89%		
H) performing exposures represented by securities - stage 1				
gross amounts	105,465	87,400	18,065	20.7%
value adjustments	(302)	(256)	(46)	18.0%
net carrying amounts	**105,163**	**87,144**	**18,019**	**20.7%**
% Coverage	-0.29%	-0.29%		
I) performing exposures represented by securities - stage 2				
gross amounts	-	-	-	n.a.
value adjustments	-	-	-	n.a.
net carrying amounts	**0**	**0**	**0**	**n.a.**
% Coverage	n.a.	n.a.		
J) Subtotal performing loans consisting of securities (h+i)				
gross amounts	105,465	87,400	18,065	20.7%
value adjustments	(302)	(256)	(46)	18.0%
net carrying amounts	**105,163**	**87,144**	**18,019**	**20.7%**
Total loans to customers measured at amortised cost (D+G+J)				
gross amounts	7,597,035	7,580,379	16,656	0.2%
value adjustments	(353,597)	(352,726)	(871)	0.2%
Net carrying amounts	**7,243,438**	**7,227,653**	**15,785**	**0.2%**
- of which forborne performing	40,442	73,731	(33,289)	-45.1%
- of which non-performing forborne	76,780	107,910	(31,130)	-28.8%

Net bad debts decreased by - 21.2% to €142.8 million, compared with €181.3 million at the start of the year. The coverage ratio was 61.3%, compared with 55.5% at the start of the year. Net bad debts accounted for 1.97% of total net loans, down from 2.51% at the start of the year.

Net unlikely to pay positions amounted to €110.8 million, down -39.6% from €183.3 million at the start of the year. The coverage ratio was 37.8%, up from 26.1% at the start of the year. The ratio of net unlikely to pay to net loans was 1.53%, down from 2.54% at the start of the year.

Net past-due exposures stood at 6.0 million, stable compared to 6.1 million at the start of the year. The percentage of write-downs was 23.4%, up from 7.9% at the start of the year.

Net non-performing loans stood at €259.6 million, down -29.99% compared to €370.8 million at the start of the year. The percentage of write-downs was 53.2%, up from 44.0% at the start of the year. Net non-performing loans accounted for 3.58% of net loans, down from 5.13% at the start of the year.

Net *performing* loans stood at €6,878.7 million, up 1.61% compared with €6,769.7 million at the start of the year. The estimate of collective *impairment* of *performing* receivables resulted in an adjustment of €57.8 million, compared to €60.7 million at the start of the year. The percentage of write-downs was 0.83%, stable compared to 0.89% at the start of the year.

This section presents some key *asset quality*indicators:

Asset quality	31.12.2019	01.01.2019
Gross non-performing loans/gross uses	7.31%	8.74%
Net non-performing loans/net loans	3.58%	5.13%
Gross bad debts/gross loans	4.86%	5.38%
Net bad debts/net loans	1.97%	2.51%
Gross unlikely to pay/gross loans	2.34%	3.27%
Net unlikely to pay/net loans	1.53%	2.54%

The ratio between gross non-performing loans and gross loans including financial assets measured at *fair value* constituting loans was 7.92%, whereas the ratio calculated on net values was 3.91%.

Financial assets

Financial assets	31.12.2019	01.01.2019	Change	
(thousands of €)			**Ass.**	**%**
Financial assets valued at FV with an impact on profit and loss	149,221	290,022	(140,801)	-48.5%
- financial assets held for trading	7,648	3,258	4,389	134.7%
- financial assets designated at FV	0	0	0	n.a.
- financial assets obligatorily measured at FV	141,574	286,764	(145,190)	-50.6%
Financial assets valued at FV with an impact on the OCI	629,298	829,144	(199,846)	-24.1%
CA-rated securities that do not constitute loans	1,673,265	1,212,245	461,020	38.0%
Total	**2,451,784**	**2,331,411**	**120,373**	**5.2%**

The financial assets section is as follows:

- financial assets designated at *fair value* with impact on the Income Statement, for €149. 2 million, are made up of €7.7 million in financial assets held for trading, almost entirely consisting of debt securities, €141.6 million financial assets compulsorily measured at *fair value*, represented by €54.1 million in capitalisation agreements, €50.4 million in UCITS units, and €36.5 receivables that do not pass the SPPI test;
- financial assets designated at *fair value* with an impact on overall profitability of €629.3 million are made up of €618,5 million in debt securities and €9.0 million in equity securities;
- securities measured at amortised cost that do not constitute loans amount to €1,673.3 million, up 38.0% compared to €1,212.2 million at the start of the year, and are fully composed of debt securities.

Tangible fixed assets

Tangible fixed assets totalled €149.0 million, up €13.0 million from €136.0 million at the start of the year (+9.6%). Due to application of IFRS 16 as of 1 January 2020, €16.0 million was recognised for rights of use. A total depreciation of €11.7 million was recorded, also considering that of rights of use.

Intangible fixed assets

As part of the incorporation of the Banca Popolare di Marostica Group, customer-related intangible assets, known as "*client relationships*", were identified. These related to the enhancement of assets linked to asset management, including the placement of insurance contracts as well as funding through the management of "*core deposits*". At year end, this item amounted to €17.5 million, after depreciation of €1.0 million.

Goodwill was fully written-down during the year. For further information, please refer to "Section A.6 – Intangible assets" in the Explanatory Notes.

There were no significant investments in intangible assets during the year. Depreciation and amortisation totalled €0.8 million.

Equity

At year-end, the share capital amounted to €202.0 million, divided into 50,498,938 ordinary shares with no indication of par value.
Shareholders' equity, including loss for the period of -84.3 million, stood at a balance of €749.4 million. Own funds stand at €882.8 million.

Total treasury stock	**31.12.2019**
(thousands of €)	
Class 1 Primary Capital (CET 1)	752,785
Class 1 Primary Capital (TIER 1)	752,785
- TIER 2 instruments	130,000
Transitional regime - Impact on T2	-
- Items to be deducted from TIER 2	-
Total class 2 Capital	130,000
Total treasury stock	**882,785**

The ratio between Class 1 primary Capital ("CET 1") and the total weighted risk activities (Common equity Tier 1 Ratio) was 12.7%, up compared to 11.2% at 31 December 2018. The ratio between Treasury Shares and the total weighted risk activities (Total Capital Ratio) is 14.9%, up compared to 13.2% in the previous year.

Total treasury stock	**31.12.2019**	**01.01.2019**
(thousands of €)		
Common Equity Tier 1 Ratio	12.7%	11.2%
Total capital ratio	14.9%	13.3%
Risk-weighted assets (RWA)	5,908,557	6,471,938

For further information please refer to the shareholders' equity movement table and section F in the Notes related to capital and treasury shares.

1.5 THE DISTRIBUTION MODEL

1.5.1 INTEGRATED APPROACH TO CUSTOMERS, MULTICHANNEL AND MULTICHANNEL STRATEGY APPLICATION

Volksbank is dedicated to providing credit intermediation, financial and investment services to its customers, through its presence in the area of reference, maximum enhancement of the bank-customer, bank-company relationship and of specific local aspects.
The distribution model is based on the concept of integrated multichannel distribution, establishing constant dialogue with the customer through all available channels, including innovative channels and a service (information, advice, contact and sale of products) that is integrated across the various channels.
The distribution network is focused on providing advice and assistance to customers to ensure the best service to all customer types, thanks to specific segmentation criteria which assigns the relevant service and consultancy models, the appropriate specifically trained personnel, and specialised advisory centres for specific customer segments. The commercial structure is organised in two Business Lines, Retail and Corporate-Private, with the clear objective of perfecting the quality of relationships and specialisation of the services provided to the various customer segments.

The Retail and Small Business segments are mainly controlled through the branch network. The retail customer is served by consultants who also use an integrated Customer Relationship Management ("CRM") system to best support the needs.
Private customers and corporate entities are served by consultants operating from the Corporate-Private Business Line centres.
Consultancy is provided according to specific service standards ("SLAs"), which include, inter alia, an annual interview structured and supported by specific consulting applications.
The multichannel nature and automation of services is progressively freeing time, to the benefit of consultancy services.
The specific commercial initiatives are undertaken with a view to differentiating the Bank's service provision levering, inter alia, maximum exploitation of personnel, who constitute the real added value of the service offered.
The Volksbank purpose is to constantly strengthen its territorial roots, as a regional bank. It offers its services as an economic operator ensuring an important contribution to local economic growth.
Its multichannel strategy implementation continued in 2019. This approach foresees four equally-important distribution channels (branch, online banking, contact centre and mobile consultant). The new channels are as important as the branch in terms of customer relationships, operations and management. The services provided by the Contact Centre are continuously being extended to take account of customer requirements. The consultants who operate from the Contact Centre mainly come from branches in order to guarantee clients a professionally qualified service. A new, out-of-office, customer approach mode is currently being studied.
The New Distribution Model project was launched within BL Retail in 2019. Its principal objective is to redesign the Bank's territorial structure and strengthen use of digital channels to approach the various customer segments over the coming years. This model, which envisages the centrality of the Head Branch as a point of reference for a territory larger than the one currently served by single branches and specialised offices in the world of residential properties and insurance, was tested in 2019 on two 'pilot' areas, in order to verify its applicability and sustainability. The plan is to extend the model to the entire retail channel in 2020. This new approach will be especially aimed at retail customers and will lead to the emergence of a new service provision method, increasingly based on multi-channel services, while maintaining the centrality of the client-consultant relationship.

BRANCHES	**31.12.2019**	**31.12.2018**
Territorial branch distribution		
Trentino Alto Adige	**71**	**75**
- Bolzano	54	58
- Trento	17	17
Veneto	**87**	**92**
- Belluno	18	20
- Treviso	19	21
- Venice	14	14
- Vicenza	31	31
- Padua	5	6
Friuli Venezia Giulia	**2**	**3**
- Pordenone	2	3
Total	**160**	**170**

1.5.2 THE TERRITORIAL NETWORK AND COMMERCIAL ACTIVITY

THE COMMERCIAL NETWORK	31.12.2019	31.12.2018
Traditional branches	160	170
Self Area	14	6
Corporate Consultancy Centres	3	10
Private Consultancy Centres	3	7
ATMs	200	199
POS	9,982	9,903

The Retail segment serves customers of the Retail and Small Business segments through the branch network. This structure was further rationalised during 2019 to streamline structure costs strengthening the customer commercial support capacity.

The Corporate-Private Business Lines manage both private and corporate customers which for needs and characteristics require in-depth, specialised advice on financial products and investments.

The commercial network is divided into geographic territories with specific customer segmentation:

- Retail: including six areas divided into single territorial markets and the Contact Centre virtual branch; within individual areas, the geographic market is divided into market areas (Leaders) and branches, and in some cases separate offices ("spoke").
- Corporate-Private: composed of 3 Private Centres and 3 Corporate Centres distributed throughout the Bank's territory. These centres provide specialised consultancy services for private and corporate clients.

1.5.3 THE CLIENTELE

Private Customers

Nearly 239,000 private customers, 30,000 corporate customers and 7,000 clients of other types were served in Volksbank branches and consultancy centres.

CUSTOMERS	31.12.2019	31.12.2018
Number of customers		
Individuals	241,972	238,614
Corporates	30,559	30,029
Others (public administration, associations ...)	6,890	6,744
Total	**279,421**	**275,387**

The integrated multichannel service is a key part of the commercial strategy. Customers are provided with virtual channels through which most transactions can be executed. The Bank offers its clients various solutions: from the Contact Centre to "Mobile" (smartphone and tablet) services, to internet banking and the in-branch kiosk. Customer care is ongoing: the customer is contacted by a consultant for after-sales support, particularly for some more complex products to ensure that the service sold to the customer has created the desired added value.

Business customers

During 2019, the sectoral specialisation of Corporate Consultants continued, in order to offer clients more focused and professional advice. For example, specialisations were developed in tourism, metalworking and agri-food. At a territorial level, a number of consultants were identified and received ongoing specialised training.

Following creation of the commercial Business Lines, the Corporate – Private one established the Debt Capital Markets service which creates added value for corporate customers mainly identifying loan solutions by giving corporates access to the capital markets, for example by issuing Minibonds and the creation/participation in pool transactions.

1.6 BANKING BUSINESS

1.6.1 BANK PRODUCTS

The following projects were developed during 2019:
- continuous monitoring and analysis of the product range and optimisation of the product catalogue;
- introduction of new products in response to inputs received from the commercial network in particular;
- strategic projects, in primis the Bank-Insurance project;
- digitalisation of sales and after sales processes;
- expansion of service provision on online and mobile channels;
- support and assistance for the commercial network.

The most important project is undoubtedly the Bank-insurance one. The need is to increase revenue from insurance services, optimising the network, ensuring access to the product offer through a single sales and management portal. For this, an agreement has been reached with an important company for unitary management of the entire range of products.

Through agreements with Apple, Samsung and Google, during 2019 the bank offered all customers the chance to pay in shops using their smartphone and smartwatch, thanks to a simple payment card virtualisation process in the person's phone or watch. The service is available for all payment cards offered by the Bank (debit, credit and prepaid cards), a distinctive element on the local market. The Volksbank customer can use the payment services available in the Apple Pay, Google Pay and Samsung Pay digital wallets, including the de-materialisation of fidelity cards and coupons.

The numerous activities in progress in 2019 included reviewing the front-end of the CoB@ web making it easier for customers to use, with new functionalities making transactions simple and immediate.

In the last months of 2019, the Bank launched a project that will enable a new Mobile APP to be launched for private customers in 2020. Besides new, more modern, attractive graphics, it will contain a number of innovative of device functionalities for the payment systems. New signature methods will be made available as well as new interrogation functions for insurance policies in progress. Customers will also be able to use personal document loading functions from their mobile phones directly with no need to go through the branch to handle administrative matters. Still in the direct banking application context, useful functionalities have been implemented to fill in the questionnaires and regulatory forms the Bank is obliged to collect from customers periodically online; for example the due diligence questionnaire, the MiFID adequacy one for investor customers and the privacy consent management form.

1.6.2 PROVISION OF INVESTMENT SERVICES

The process of providing investment services was consolidated during 2019; particularly for advisory services, commencing with the identification of customer requirements and determination of their investment profile. This work resulted in a specific recommendation to meet both overall requirements (portfolio advice) and specific (single objective) needs.

With this in mind the MiFID questionnaire for natural persons, Juridical persons and Bodies was reviewed, based on the ESMA guidelines that came into force in March 2019; thanks to which we can offer investment services and financial products that are more suited to the customer's risk profile. Development of a new platform to be used to provide investment services is also being finalised. Its updated version foresees an adequacy assessment at portfolio level.

The offer range was expanded during the year including products available for consultancy in its scope, with specific attention for the "ethical" line portfolios.

Wealth management training for financial advisers was strengthened.
For the Private Centres, the "Wealth Management per Private Bankers" Academy, in collaboration with Milan's SDA Bocconi conducted classroom training and online modules through the Bank's "Docebo" portal.

1.6.3 PROPRIETARY PORTFOLIO MANAGEMENT

Compared to 2018, 2019 saw positive performances in the main departments. The 10-year benchmark rate of Italy and Germany was 1.29% in the December average, down compared to 2.78% twelve months earlier. In the USA it was 1.86%, in Germany -0.27%. The spread between the ten-year return of Italian and German State bonds was still 156 basis points in December. Financial bonds, based on indications provided by the Merrill Lynch index, showed a December return average of 0.63% in the Euro Area and 2.75% in the USA. As has already been said, evolution of the main share markets was especially positive.

The average amount of the bank's proprietary portfolio was about €2.4 billion in 2019. The share of securities classified as HTC ("held to collect") was increased, in order to stabilise market volatility profiles. In order to benefit from favourable returns, the portfolio duration was increased, going from an average value of under 4 years to an average, at year end, exceeding 4 years. The longer duration enabled increasing the contribution made by the investments portfolio to returns, related to both the sale and the net interest components.

1.7 GOVERNANCE ACTIVITIES

1.7.1 MANAGING LIQUIDITY AND FUNDING

The Delegated Regulation (EU) 61/2015 came into force on 1 October 2015. This obliges banks to maintain a certain liquidity level measured with reference to the short-term horizon (Liquidity Coverage Ratio, "LCR"). The regulation foresees a phase-in path.
At 31 December 2019, Volksbank had an LCR ratio of 172%.
Introduction of another measured liquidity requirement is expected in the near future, over a longer time horizon, called Net Stable Funding Ratio ("NSFR"). For Volksbank that ratio is higher than 100%.
Lastly, for what concerns the financial leverage ratio ("Leverage ratio"), at 31 December 2019 the value was 6.7514%, whereas the operational ratio is estimated as 6.2615%.
On this point, please note that, since September 2016, amendments pursuant to Delegated Regulation (EU) 2015/62 of 10 October 2014 have been in force together with the new technical standards pursuant to Execution Regulation (EU) 2016/428 of 23 March 2016. Amendments concern both capital assets consisting in exposures and the composition of aggregates giving rise to the ratio.
Please note that the ratio is not currently binding.
The refinancing base was formed by direct funding from customers, by placing the first OBG security for a nominal value of €300 million, from the sale of own emission ABS securities for a nominal value of 120 million and by use of the EIB refinancing line for a total of 50 million. The need was mainly from repayment of institutional "Schuldschein" bonds for an amount of 3.5 million and from repayment of the 221 million established by the securities depreciation plans related to securitisations placed on the market and existing EIB loans.

1.7.2 MANAGEMENT OF PERFORMING LOANS

The primary target of reference remains SMEs and households.
The “special credits” section gives small and medium-sized enterprise better and easier access to credit, exploiting opportunities related to facilitated loans with interest rate subsidies pursuant to the Sabatini bis Law, loans through revolving funds, or to public guarantees granted by the Guarantee Fund pursuant to Law 662/96. In this context, cooperation continued with finance companies in support of economic growth with the various Credit Guarantee/ Underwriting Consortia with which the relative agreements were concluded. These bodies manage various concessional instruments for the development of regional companies. In this respect, the Bank collaborates with Finanziaria Internazionale (which manages the “Trentino Alto Adige Strategic Fund”) on the “Minibond” product. With “Minibonds” the range of products offered has expanded to become partners of reference for the more structured SMEs. For selected clients, the Bank grants pooled loans with other banks, both as a passive participant in the pool and as an active arranger of the pool.

1.7.3 PERSONNEL

Employees

The Bank’s Human Resources Department adopts a “job rotation” model to ensure, through internal rotation and new hirings, the resources needed to consolidate branches located in the various provinces, strengthen internal resources and prompt replacement of employees who have resigned and of those absent for a prolonged period (maternity leave, accident or illness), and an exchange of experiences and professional skills between internal offices and the commercial network, based on sizing criteria and policies.
To achieve this goal, specific training pathways have also been set to reflect both company strategy and the employee’s professional growth.
Furthermore, the annual employee interview assesses the person’s performance and any behavioural factors, any training needs required by the position and each person’s potential. The growth pathway is professional, cultural and human and is designed to lead employees to holding positions of greater responsibility.

At the end of 2019, the Bank had 1,278 employees (1,327 at the end of 2018). This reduction in the number of staff, in line with the targets set in the business plan, was due to the recruitment of 36 new staff and 85 employees leaving, 28 of them with retirement packages.
In 2019, 16 new young employees were recruited, of which 9 for the commercial network, and 20 new staff with specific skills of which 10 for the commercial network and 10 for internal services that served to increase the level of professionalism.
Considering the working hours of employees on part-time contracts (267, an increase on the 258 in 2018) and the exclusion from the count of employees on maternity or unpaid leave, the level of “full-time equivalent” employees (FTE) in service at the end of 2019 stood at 1,167, again a decrease compared with 2018 (1,217).
The Bank continued its reorganisation of both the commercial network, which affected the number of branches and managers, and of its internal services, by optimising the activities of the Bolzano head office and the Marostica offices, in continuity with the process of structural integration defined prior to the merger. The following table shows the number of employees active in internal services and branches, broken down by province, compared with the preceding year:

Figures per province	31.12.2019		31.12.2018	
	Number of units	%	Number of units	%
Bolzano - internal services and branches	647	50.63%	673	50.6%
Trento	83	6.49%	82	6.2%
Belluno	77	6.03%	82	6.2%
Venice	74	5.79%	74	5.6%
Treviso	101	7.90%	104	7.8%
Vicenza	268	20.97%	282	21.3%
Padua	19	1.49%	20	1.5%
Pordenone	9	0.70%	10	0.8%

Great importance has always been attributed to employing and creating mixed work teams. The percentage of women employees is currently 43.7%. Of these, 34 occupy managerial positions in the Bank (13 in headquarters and 21 in the network).

Volksbank is committed to ensuring a work-life balance. The Bank has promoted the "Family/Work Audit" project since 2011. The Bank obtained its first "Family/Work Audit" certification in 2014 and then, in 2017, a regular "Re-Audit" programme was successfully launched to positively conduct the Family Audit every three years. As part of the Re-Audit, existing measures were confirmed and new measures were adopted for the next three years, to further entrench reconciliation between family and work life within the Bank. As an example, please note introduction of flexible hours as of April 2018 for all employees in both the commercial network and internal offices. All measures planned will be progressively implemented and serve to confirm that the Bank is very attentive to the needs of the family.
Furthermore, please note that KiTas (a social cooperative or "Tagesmutter"), a kindergarten located at the Bank's registered office, is growing positively from year to year and is fully used.
As in previous years, in 2019 the Bank agreed new part-time contracts. This enables women employees with children to better combine their jobs with family commitments. This effort is also intended for fathers and all employees, who have taken responsibility for home care of family members.
At the end of 2019, 21 employees were on maternity or parental leave; another 10 were absent for an unpaid leave period granted under the Company Supplementary Agreement to parents until the end of their children's 5th year. 2 employees are using INPS leave permission, pursuant to Law 151/2001 (serious family reasons).

Volksbank means to guarantee all employees suitable professional motivation through training programs, to implement a profitable, lasting relationship.
An appropriate generational mix helps to strengthen and maintain the best skills within the Bank. The percentage of employees over 50 was 35% of the workforce in 2019, a slight increase compared to 2018 (32%). The average age of employees is around 47.
At the end of 2019, a new supplementary contract was signed with the Trade Unions for the period 2020 - 2022. On that occasion, an integration was made to give employees the possibility to feed the "Ethical Bank of Hours" by depositing leave for former holidays, bank hours and holidays exceeding the annual minimum established by law for staff belonging to the middle management category.

Personnel training and development

People enhancement is of fundamental importance for the Bank. It offers an ample training program, starting from the Workshop for new employees on to specific banking training, and then on regulatory innovations, support for the use of computer tools or personnel interaction, and on to specific training for management figures.
In year 2019, employees received 80,000 training hours corresponding to an average or 62 per employee. This is an indicator of the commitment to qualifying and strengthening employee competences.
The Bank offers a broad training program to all employees. On the one hand, to fulfil its regulatory professional updating obligations and, on the other, to acquire and strengthen multiple skills, both technical and personality. Special focus is dedicated to the skills needed to introduce the new distribution model.

The Bank continuously offers paid internships to University students from its user basin and to young graduates in a convention with the Autonomous Province of Bolzano.
It also implements bank apprenticeships ("Banklehre") lasting two years and organised by the Autonomous Province of Bolzano, which provides training in its own structures.
It also prepares an individual onboarding plan for all new employees, decided with them. This contemplates several training types (training on the job c/o central services and the commercial network, classroom courses, e-learning) supporting a fast, effective inclusion in the new role.
The technical training projects organised in 2019 were for specialisation purposes (managed, bank/insurance, corporate, private, digital). For personality growth projects, it launched a second edition of the Academy (developing talents) and extraordinary training was carried out to strengthen the leadership and managerial skills of all participants.

Personnel certification

In 2019, 829 employees, 89% of commercial network staff, were certified for IVASS (the Insurance Companies Supervisory Authority) purposes, so are therefore authorised to provide advice and sell insurance products. In total, approximately 25,300 hours of training were provided for IVASS purposes.
In 2019, 734 employees, 79% of commercial network staff, were certified for MiFID II purposes and thus are able to provide advice and sell financial products. In total, approximately 22,000 hours of training were provided, approximately 5,300 of which was provided in the classroom and 16,500 through e-learning.
In 2019 a loans area training course was completed; it was required by the Bank of Italy's implementing provisions on the "Transparency of banking and financial transactions and services" detailed in Legislative Decree. 72/2016 which in turn applies the Directive 2014/17/EU on "Loans to consumers for residential property" (so-called "MCD-Mortgage Credit Directive" or "mortgage directive"). A total of 795 employees completed the course in 2019, the final date the new law came into force, for a total of approximately 5,700 training hours.

Annual interview with each employee

The evaluation form introduced in 2016 was still in use in 2019. The form provides a basis for a more objective assessment of the professional performance and potential of individual employees. In this process, the dialogue between the reviewer and the employee continues to be of prime importance. All activities assigned are discussed and commented on, including all aspects that can be improved. The annual interview with the employee is an important tool for establishing mutual expectations, developing strengths and compensating weaknesses, and requires personal commitment on both sides. To sustain this important process, all Volksbank interviewers were trained during a 1 day classroom session in the months between January and March 2019.

Service Klima Index ("SKI")
The SKI survey on the company climate was also held in 2019; to specifically identify the service level perceived by the various internal offices and the network in daily collaboration. The result was positive and outlines a trend that has improved continuously in the last 3 years.
2017: 69.2%
2018: 71.4%
2019: 76.4%

1.7.4 WORKOUT DEPARTMENT

The structure of the Depertment is designed to ensure an adequate process for the oversight and management of non-performing loans and is divided into the Abnormal Loan Analysis Service, the Bad Debts Service and the active Workout Service with support from the Portfolio Management/Reporting Service.
A process to review the non-performing loans assessment process was launched in the second half of 2019; in order to integrate the recent regulatory changes and methodological practices thus aligning the Bank with the recent Supervisory Authority expectations.
The method adopted was developed specifically based on the characteristics of our bank (its territory, economic situation, etc.) to align the internal assessment practice with the market best practices.
The abnormal loan analysis Service further intensified prevention and management of loans classified from the first critical aspects, through targeted actions, planned periodically directly c/o the retail sales network, at branch leader level and c/o the single corporate Centres.
Those occasions were also used to illustrate legal and regulatory novelties related to processing abnormal loans and the resulting impact on current operations to network collaborators.
With that in mind, a project was launched foreseeing the different improvement actions for the Credit Management tool, to support the aforementioned activities.
The Bad Debts Service continued its core business of proactive portfolio management by recovering positions classified by extrajudicial or judicial means. The approach provides for in house management with the collaboration of external lawyers if legal proceedings need to be taken.
For smaller exposures, for which there are no property guarantees, collaboration continued with a leading servicer operating in Italy.
In order to optimise the portfolio, during 2019 Volksbank took part in a multi-originator transaction establishing the sale, without recourse, of about 450 mainly unsecured positions for a gross book value of about 57 million. Single-ticket sales were made for a total of 52 million which then involved, for 2019, the sale of gross non-performing for a total of 108 million.
To align itself with the leading market practices and Authority expectations requiring a high depth and quality of the figure to best personalise the assessment and management model, the Portfolio Management Service further strengthened controls of periodical reporting quality and granularity and effectively supported the outsourcer SEC with updating and implementing IT procedures to support Department activities.

1.7.5 TECHNOLOGICAL AND ADMINISTRATIVE SERVICES AND PROCESS INNOVATION

The Company uses the services of the IT outsourcer SEC Servizi S.p.A. of Padua for the management, evolution and innovation of the entire IT system supporting all banking processes, both branch and internal.
SEC Servizi offers advanced multi-channel solutions and centralised back-office services which are capable of ensuring adequate levels of service and constant evolution and innovation of the products and services offered by the Bank.
In November 2018 SEC was acquired, 100%, by the Accenture group, to evolve SEC into an advanced platform for services to the Italian banking and financial sector.
In 2019, SEC Servizi launched a number of activities in order to raise IT and Cyber security and take it to the high standards established for the entire Accenture group.

Future Branch - Expansion of the cash recycler with touchscreen to rationalise cashier counters

Rationalisation of cashier counters continued in 2019. At year end, a total of 77 branches had been supplied with the new automation system. The fixed cashier role no longer exists in those branches; personnel are dedicated to the more specific needs of customers and the self area (ATM, kiosk, coin-counter) is used for cash transactions.

In these branches, the use rate of these Advanced ATMs to deposit cash is the absolute highest, an average of 70% of cash deposits, enabling employees to concentrate on consultancy; however, with it still being possible to serve customers who do not want to use the Advance ATM on their own.

Tablets

In addition to consolidating the signature of counter transactions on tablets and bank contracts, during 2019 the tablet signature was rolled out to almost all branch processes.
This function brings significant benefits to customers and banks:

- the operational risk of missing signatures on contracts is reduced (avoiding any subsequent actions needed to recover missing signatures)
- certainty and immediacy obtained in filing contracts (the client gets a copy of the contract immediately in their internet banking and can consult it at any time);
- physical contract management actions are reduced in branches and central offices, with resulting cost savings;
- a contribution is made to environmental protection by reducing paper and toner consumption.

Tablet signing is the result of an analysis of the best methods of use for customers and employees. A "deferred signature" function has been implemented for tablets which, in the case of joint holders (e.g. husband and wife, companies with 2 or more legal representatives, etc.) enables all signatory customers to visit the branch at different times, independently of each other. The contract becomes valid with the signature of the last of the co-holders.

E-post kiosk

The availability of bank documents at the kiosk (e-post), introduced in 2014, was further expanded in the first few months of 2019. Almost all the documents that the Bank sends to the customer can now be viewed and printed in the kiosk.
Customers generally use the e-post service: in some regions, more than 80% of customers without internet banking agree to view their documents in the kiosk and no longer wish to receive them by traditional mail.

Extension of Advanced ATMs

The installation of advanced ATMs which accept banknote and cheque deposits continued in 2019. This service is increasingly appreciated by customers. At the end of June 2019, 145 Advanced ATMs had been installed in 139 different locations. Where installed, an average of 60% of banknote deposits are made using these machines. At the end of 2019, 47 cash-recycling Advanced ATMs had been activated. This functionality enables supplying the cash deposited by customer with no need for it to be handled by colleagues. This automation has avoided the manual counting of about €120 million in banknotes.
In 2019, the project continued to provide branches with larger volumes of cash transfers with the new "S200" machine. This machine, a "Glory" Cash Recycler, is designed for self-service deposit and payout of recycled banknotes, and as a further innovation has an option to select different banknote denominations. 8 new machines have been installed in this phase. In the first half of 2019, the machine functionalities were consolidated by developing, in collaboration with the supplier Auriga, customised software that meets client/branch requirements that emerged during the branch operation auditing stages. Customer appreciation is good, particularly for large sum deposits, processed more quickly by this type of machine than when using a cash-in ATM, and the option to exchange banknotes outside banking hours is very much appreciated, currently possible 24 hours a day, 7 days a week.

Modernisation of the Branch Infrastructure

Modernisation of the branch hardware infrastructure started in 2016 and continued in 2019.
Installation of "Cash Recycler" equipment in branches speeded up transactions for the cashier and made it more secure when managing cash (risk of robbery). This modernization also meets the requirements of the security service, which requires that cash be traceable through modern machinery, especially in branches with large cash turnovers.
During 2019, the modernisation of network components continued, with the replacement of network switches and progressively firewalls with more high-performance equipment.
The WAN (a geographic network interconnecting offices, SEC offices and all branches) has also evolved in terms of speed and available bandwidth, given the growing demand for online services.

Upgrading of central infrastructure

The current configuration consists of a primary "data centre" in Bolzano and a "disaster recovery" one in Marostica. With the creation of a second data centre in the facilities available in Marostica, on the one hand, the system response times for the offices in Marostica have improved while, on the other a "backup centre" has been created in the event of an emergency in the other two centres. As of 2019, it will be possible to reduce the costs of third party suppliers that have provided backup for the data centre till now.
In terms of central infrastructure, supervisory systems and defences against cyber attacks were also refined and expanded in 2019.
New high-capacity mass storage equipment was introduced in the first half of 2019. Furthermore, a significant investment was made to replace a large part of the Farm in order to continue providing a high level of service, which is always ahead of the new requirements for the systems in use.

1.7.6 ONGOING PROJECTS

PSD2

On 23 December 2015 the EU Directive 2015/2366 of the European Parliament and of the Council on payment services in the internal market (so-called PSD 2 - Payment Services Directive 2) was published, and was implemented by Member States on 13 January 2018.
The main aims of the legislation are harmonisation within the European retail payments market, increased competition between operators and between products and channels, and increased attention to the new instruments made available by the rapid technological development that increasingly characterises the market for new retail payment products.
The Bank finalised activation of the new security management methods significantly strengthening its fraud prevention measures. Alternation methods were made available to customers in order to cover all situations and a solution was implemented that exploits the biometric functionalities in order to maintain a good use experience despite the process being more complex. This permitted opening the order for transactions through Third Parties (TPP) securely and respecting regulations.

TARGET2/T2S Consolidation

TARGET2 is a gross payment system of the ECB which handles high amount payments exchanged by banks and represents the assumption needed for the single currency to operate correctly. It is one of the pillars that the Euro area financial integration process is based on.
With the "T2-T2S Consolidation" project, the Eurosystem intends to maximise synergies between TARGET2 (T2) and TARGET2-Securities (T2S), integrating the offer of payment services in securities and cash, providing new functionalities to satisfy the more recent market needs. Consolidation of the technical, application and infrastructural

components is also aimed at improving the use of services offered, continuing to guarantee high security levels in line with the international best practices and standards. The project will radically modify the network infrastructure it is based on and the messages exchanged between banks. The impact will also extend beyond the Treasury for both the recent laws on liquidity and for the new information set made available. The project was launched in 2019, in order to ensure full implementation by the end of 2021.

GDPR

(EU) Regulation 2016/679 establishes uniform personal data protection levels for citizens in the European Union. That protection is the result of obligations assigned to process controllers (companies and public bodies) and of rights each data subject (the natural person) can exercise to control the fate of its personal data, in a period marked by digitalisation of information and its fast circulation.
Volksbank adopts technical and organisational measures that comply with what is required by (EU) Regulation 2016/679 and by the provisions issued by the Authority which have an impact on the banking sector, and updates them continuously related to the introduction of or changes to products, services and technologies.
As process Controller, the Board of Directors has adopted and governs a Privacy Organisation Model supported by the Data Protection Officer (DPO) and internal structures appointed to supervise the physical and logical security of personal data.
The function to consult and autonomously modify their privacy consent was activated in 2019 for all customers using home banking.
All Bank employees attend periodical training and updating courses in matters of privacy, because they are the persons materially authorised, in their daily work, to process personal data and therefore play the most important role in all legislation.
The Bank is developing new projects, in compliance with legislation, to make it easier to use banking services from remote through digital technologies; always protected by the most updated security measures.

New omnichannel service model

The omnichannel concept is centred round the customer and its needs during all the Customer Journey stages. The project aims to optimise the customer experience with a standardised approach on the one hand for the commercial launch of products and, on the other for consultancy through the Value Proposition for the Bank's main products. The product launch process foresees an offer developed in line with customer needs thanks to several User Experience tests and targeted communication following an omnichannel approach. The Value Proposition is the value product proposal shared among employees and communicated to the customer univocally on all Bank channels.
The numerous activities in progress in 2019 included reviewing the front-end of the CoB@ web making it easier for customers to use, with new functionalities making transactions simple and immediate.
In the last months of 2019, the Bank launched a project that will enable a new Mobile APP to be launched for private customers in 2020. Besides new, more modern, attractive graphics, it will contain a number of innovative device functionalities for the payment systems. New signature methods will be made available as well as new interrogation functions for insurance policies in progress. Customers will also be able to use personal document loading functions from their mobile phones directly with no need to go through the branch to handle administrative matters. Still in the direct banking application context, useful functionalities have been implemented to be able to fill in the questionnaires and regulatory forms the Bank is obliged to collect from customers periodically online; for example the due diligence questionnaire, the MiFID adequacy one for investor customers and the privacy consent management form.

New distribution model

Rethinking the distribution model is a key initiative for the Bank's path to transformation over the next 3--5 years.
The project site is oriented towards understanding the digital propensity of customers and assessing the implications on the distribution model in the short and medium term. To this end, the importance of the Bank's presence in the territory and the level of dissemination of digital channels among the various customer segments were analysed. The findings that emerged were then validated through quantitative analysis, in order to rethink the delivery of products and services by exploiting new channels to increase engagement with the customer and gain greater knowledge of customers in order to optimise the sales channels.
On the basis of the analyses conducted, a new optimal service model was defined that adapts the Bank's strategy for the distribution of products and services, with objective of responding to the expectations of existing customers and finding new customers through a rethinking of the strategy for the use of the channels and for their integration. The model also takes account of the geographical diversity of the Bank's various areas of operation, proposing general guidelines that are tailored to the Bank's specific characteristics.
The new distribution model was tested through a pilot project in two selected, restricted zones. Using a pilot project enabled the Bank to assess model effectiveness, identify the measures required for improvement, define a plan for gradual implementation of the distribution model over the rest of the Bank's perimeter.
The new model will enable the Bank to make the current model efficient, operationally and economically, and to create new business opportunities for itself through the full exploitation and control of a distribution model focused on real needs.

Data platform

The project, launched in 2019, aims to develop a modern data architecture - data platform capable of storing, managing, analysing and enhancing large quantities of data and offering relevant insights through the selective collection of data from both internal and external sources.
State-of-the-art data architecture can provide real, complete customer knowledge, make internal processes involving data searches and knowledge of the customer more efficient and faster, collect, homogenise and process large amounts of data in order to make Volksbank's service offer more effective, provide useful information to enable data-driven business logics, and create business intelligence tools for consulting near real time data. The analysis is preliminary to development of predictive logic for improvement of the commercial service provision and the user experience.
The main project objectives:

- ownership of data, operational independence, and internal efficiency in the management of the Data Platform and data analysis.
- aggregation of different data sources - also external data;
- development of new customer engagement possibilities.

Several dashboards were activated in the last months of 2019. These enable navigating in data available to the commercial network; others will be activated in 2020.

Migration new Foreign procedure

In the second half of 2019, the project to migrate to the new "Estero PREMIA" procedure, WEB application considered of reference by most Italian banks, became effective.
The foreign environment has a transversal impact on various bank processes (products, sales, accounting, notifications, counterparts, finance, loans, management control, anti money laundering, etc.). Activation became effective with data migration at the end of the year and a "go live" on the entire Bank at the start of January 2020. The goal to guarantee service continuity involving several business units was achieved satisfactorily and the commitment will continue in the first months of 2020 to be able to always offer customers a better service.

Activation of the DWH (Data Warehouse)

Introduction in Volksbank of the Information Governance (IG) framework foresees adopting different software architecture components. Of these, the Datawarehouse/Data Lake (DW/DL), Data Glossary/Lineage (DG/DL) platforms, Data Quality (DQ) and Business Intelligence (BI) are fundamental components.
The scope of reference for company data governance standards is outlined by the regulatory framework requiring an adequate data and information management and reporting model. In particular, for the company Datawarehouse, for analysis and reporting purposes, data extraction, transformation, control and uploading to central archive procedures – as well as the data exploitation functions – are documented in detail, to enable control of the quality of data and the reporting system enables production of prompt, top quality information for the supervisory authority and the market.
The new Datawarehouse enables a new service model between SEC and Volksbank, based on the possibility to use certified data autonomously without the assistance of professional figures with specific IT knowledge. The Bank means to introduce the Datawarehouse into ordinary practice, continually increase the quality of information, reduce the times of analysis and automate the reporting process.

Bank-insurance of the future

To launch the “Bank-insurance of the future” project, 3 indispensable, strategic points have been identified:
- vision: develop a new distribution concept which, in line with new regulations, is based on the centrality of customer needs and not on those of the product;
- objective: lead customers to perceiving the Bank as the only place in which to find answers to all their needs; not only financial but also for insurance and protection;
- new business approach: Simplification, IT tools, streamlining processes, commitment, omnichannel for sales and communications, are all milestones to be reached to create and offer added value to the end customer.

The project intends to improve the insurance sector with the private customers of all management segments as the main reference target, but with different approaches.
Building the “Bank-insurance” model of the future is decisive for remaining competitive with distribution channel diversification in mind, to increase margins, update and uniform the daily operations of employees and naturally be able to satisfy customer needs, increasingly more complex.
An in-depth analysis was carried out when developing the project; through sophisticated, innovative approaches (e.g. design thinking), to understand the various customer needs going from when it perceives the risk until any claim management when the event covered by the single insurance policy occurs.
The project, that started in the first few months of 2019 and will continue all through 2020, foresees a single access platform for our consultants, regardless of which insurance company the policy will be stipulated with, that will considerably optimise the user experience with positive impacts inevitably reflected on advice to customers.

“Dream house” project

The mortgage is a key product for the Bank as it makes it possible to establish a lasting relationship with private customers. Based on the first results processed in 2018 as part of the project “Expanding the value chain – dream house”, the “Dream house” project was launched in 2019.
The project aimed to expand the house area value chain, going from the mere sale of a mortgage to accompanying the customer in all the process stages. The primary focus is placing the customer at the centre of attention, applying new agile design methods, that is design thinking to find the best solutions for customers. In 2019, in the various Bank Offices, the key house experts with in-depth knowledge of the subject were identified, then acting as multipliers for the other commercial network colleagues and creating – through events - a territorial network. The new advertising campaign “House? Volksbank!” was launched and several “quick wins” were activated including

house folders as information material for customers. 11 "House Forum" events took place in several Offices with an average of 100 customer and potential customer participants. A specific training program has been designed for house experts for 2020, to guarantee specific, in-depth, always up-to-date knowledge.

Wealth Management 2.0

As part of the project to develop consultancy in investment service terms by the Bank, an advanced version of the advisory platform Objectway is being developed. The project aims to improve the investment service consultancy service, from an IT point of view but above all at approach level; with private customers from all segments as the reference target, but with different approaches.
Alongside technical developments, the product governance process and construction of portfolio models has been internalised, expanding the scope of placement agreements (towards new SICAV/SGR) in order to obtain a considerable increase in the efficiency of products placed actively as part of the financial advisory services.
Redefining the approach to the investment consultancy service is decisive for remaining competitive with distribution channel diversification in mind, expanding the commercial offer based on logics consistent with market and customer growth, to update and uniform the daily operations of employees and naturally be able to satisfy customer needs, increasingly more complex.

CRM phase 2

The CRM is the enabling factor for supplying and managing the omnichannel business models towards which our sector is evolving: integration of channels, automation of commercial processes and the increasingly more targeted analysis/use of data are the keys to future success for banks.
More specifically, some developments in the CRM area are enabling factors/gaps for supplying the new distribution model.
The CRM – phase 2 project aims to:

- expand the number of channels integrated in the CRM (mobile banking, ATM, Kiosk, new direct banking functions, CTC outbound, sms, Email, …), with priority for enabling channels and functions for the new distribution model
- activate analysis functions (Power BI, interface with the new DWH), but with less priority than channel integration
- gradually activate all the new channels available.

Out-of-office offer

The Private customer expresses increasingly more sophisticated needs that require service level, value proposition and "specialist" skills. The target of Volksbank Private Banking is to serve customers with a 360° model based on specialised advice and able to guarantee service exclusivity.
With this in mind, a project has been launched for employees of the Private BL to be able to offer the Out-of-office Offer service as of mid 2020. The Out-of-office Offer is a sales instrument aimed at increasing volumes and margins with existing customers while acquiring and developing new customers outside the branch. The main private customer target groups are Upper Private and Affluent.
The benefits had from the Out-of-office service are mainly:

- Increased convenience for the customer through a new channel being made available, to make him/her independent of the branch
- Facilitating acquisition of new customers as the Bank is more flexible in the promotion, consultancy and sale of products
- The increase in employee skills as it requires the financial promoter figure with ongoing professional training and updating

Digital onboarding

With the new 2019-2021 business plan and, in particular, the in-depth review of the distribution model foreseeing a reduction in structure capillarity in the territory, it has become of strategic importance to propose a new customer acquisition model through digital channels.
The "Digital Onboarding" process foresees implementing a fully digital process available from Web and App through which a natural person not a Volksbank customer can autonomously purchase a package of Bank products (current account, internet banking and debit card).
The Onboarding process will be guided step by step and will also contain a distance recognition function in compliance with regulatory due diligence provisions. Modern technologies supporting the process and a simplified user experience will enable concluding Onboarding in a very short period of time, up to 10 minutes in the most linear cases. The process will be controlled by a Bank business unit offering support in the data insertion stages and for registering the customer in the information system.

Credit 2.0 processes

At the end of 2019, the Bank launched the project "credit 2.0 processes" to adopt the new EBA (European Banking Authority) guidelines for:
- Guidelines on application of defining default pursuant to article 178 of (EU) Regulation 575/2013", coming into force from 31/12/2020
- guidelines on Granting and Monitoring of loans published in consultation the draft of 19 June 2019 EBA

The "New definition of default" regulation introduces new, uniform quantitative levels (relative and absolute) for the objective classification of default exposures and identifies qualitative criteria (i.e. hard triggers) that guarantee uniform regulatory treatment of specific phenomena
The regulation on "Concession and monitoring of loans", is aimed at harmonising the entire credit process from granting and on to the loan monitoring stage. Those guidelines aim to guarantee that European banks have solid standards for the subscription, management and monitoring of the credit risk and that new loans granted are top quality. Impacts are structured in 5 levels: Governance, Granting, Pricing, Assessing guarantees and Monitoring.
The project's global objective is to go from a RE-Active to a PRO-Active approach when managing credit with suitable standards for the granting and monitoring of loans in order to promptly identify any deterioration and prevent the passage to NPL.

1.7.7 SPONSORSHIPS AND DONATIONS

Sponsorships

Volksbank financially supports events, activities or organisations for certain advertising and/or economic benefits in accordance with a specific marketing plan, in order to achieve specific image and/or commercial objectives.
In 2019, Volksbank invested a total of €724 thousand in sponsorships.
The sectors that have benefited from its sponsorship range from sport, culture, social affairs and training. It especially considers support of the youth sections of sports associations.
In 2019 Volksbank sponsored approximately 160 associations. The investment was approximately 80.8% in sports activities, while the remaining 19.2% benefited cultural, social and environmental and category associations.
Sums managed directly by the branches in support of local small/medium-sized enterprises can be added to this total. In 2019 this totalled €276 thousand.

Sponsorships in 2019	Amount	% of total
(in euro)		
Sports	584,966	80.80%
Culture	65,280	9.02%
Social	20,172	2.78%
Other	53,538	7.40%
Total	**723,956**	**100.00%**

Donations

Volksbank also supports the territory through donations in to entities worthy of support. Usually donations are intended for the common good and can also be provided to cultural institutions. Traditionally, the Company contacts the local structures donated to directly, in the user basin. In 2019, donations amounted to a total of about €145 thousand. The recipient institutions include parishes, voluntary secular associations and local institutions.

1.7.8 BANCA POPOLARE DI MAROSTICA FOUNDATION • VOLKSBANK

The Banca Popolare di Marostica Volksbank Foundation aims to promote and support initiatives with cultural, educational, training, recreational, social and healthcare, worship or scientific research objectives for the benefit of the civil and social fabric in the area where the former Banca Popolare di Marostica, now incorporated into Volksbank, operated.
Total donations from the Foundation in 2019 amounted to approximately €300,000.

1.8 RISK MANAGEMENT

In view of the significant regulatory changes and the complexity of the operating environment, Volksbank attaches special importance to risk management and control, which must be safeguards for the creation of value in a context of controlled risk, in line with the objectives of current and prospective profitability as defined by the competent decision- making bodies.

INTERNAL AUDIT

Consistent with what is set forth in the Supervisory Provisions issued by Bank of Italy and in line with the Joint Bank of Italy - Consob Regulation implementing art. 6, paragraph 2-bis of the TUF of 29 October 2007, Internal audit holds the internal Auditing function.

Internal Audit activities, based on Supervisory regulations, are mainly designed on one hand to monitor, in terms of third level checks and on-site audits, the propriety of transactions and the evolution of risks, while on the other hand, to assess the completeness, adequacy, functionality and reliability of the organisational structure and other components of the Internal Control System, bringing possible improvements to the attention of corporate bodies, particularly with regard to the Risk Appetite Framework (RAF), the risk management process, and the instruments for measuring and controlling them.
Internal Audit operates within the context of an integrated corporate assessment model for the internal control system, on the basis of a “risk-based” - “process-oriented” approach, primarily designed to enable company departments to conduct integrated risk analysis and organisational and control measures.
The integration is, above all based on use of information shared amongst all structures involved (in primis, the control functions, but also the operating ones involved each time), and on the growing interaction between company control functions. Besides establishing specific mutual information flows, of special importance was the creation, in 2014, of the internal control Committee, formed by the heads of the three control functions, to facilitate operational coordination and the exchange of information and to generate synergy when performing their respective tasks.
Internal audit operates independently and does not respond hierarchically to any Head of business units; it reports directly the Board of Directors, also through the Risks Committee. Those bodies are systematically informed of the results of audits carried out, with special evidence of any critical issues detected.
Internal audit has budget autonomy. This enables it, amongst other things, to use external consultancy services. It also has the right to access all Bank activities performed in Central Offices, branches and by outsourcers.
The appointment and revocation of the Head and Deputy-Head of Internal Audit are the sole, non-delegable responsibility of the Board of Directors, having consulted the Board of Statutory Auditors. The Board also approves the regulations of Internal audit.
Internal audit operates in line with an annual/multi-year audit plan drawn up by its Head through a “risk based” and “process oriented” approach, approved by the Board of Directors. In that area:

- it assesses the completeness, adequacy, functionality, reliability of the other components of the internal control system, of the risk management and other company processes, also considering the ability to identify errors and irregularities. In this context, it audits, inter alia, the company's Risk Management and Compliance/ Anti Money Laundering functions;
- it assesses the effectiveness of the RAF definition process, the internal consistency of the overall layout, operational compliance with the RAF and their compliance of with other strategies approved by company bodies;
- it verifies, also through audits:
    - the regularity of several company activities, included outsourced ones, and the evolution of risks in both the Bank's Central Offices and branches;
    - the monitoring of compliance with regulations of the activities at all company levels;
    - compliance, in the different operating sectors, of limits set by delegation mechanisms, and the full, correct use of information available in the various activities;
    - the effectiveness of the powers of the risk control function to provide preliminary opinions on the consistency the most important transactions with the RAF;
    - the adequacy and correct functioning of processes and methods for assessing corporate assets, in particular, financial instruments;
    - the adequacy, overall reliability and security of the information system (by means of ICT audit);
    - the elimination of anomalies detected in the operation and functioning of controls (“follow-up” activities);
- performs regular tests on the functioning of operating and internal control procedures;
- performs detection duties, including in relation to specific irregularities,
- regularly controls the business continuity plan;
- if it should gain knowledge of critical issues emerging during the independent audit during its collaboration and exchange of information with the party appointed to carry out the independent audit, it takes action so that the company functions responsible take the necessary action to overcome those issues.

In order to perform its activities correctly, effectively and efficiently, Internal Audit:
- has access to all company documentation and information;
- may use any necessary external support to obtain any technical or specialist skills, or skills any other kind, on the basis of a formal agreement. Any such agreement shall not result in Internal Audit delegating any of its responsibilities;
- in cases where it has not participated directly, it is kept informed of relations with the Authorities, and in particular with the Supervisory Authority;
- it collaborates with the different Organisation levels, with the Board of Statutory Auditors and with the other subjects appointed to carry out controls (especially with Risk management, Compliance/Anti money laundering, etc.).

When pursuing its "mission" Internal audit is inspired by the rules of conduct (Code of Ethics) established by the Board of Directors of the Institute of Internal Auditing (hereinafter also "IIA"), that every auditor must comply with. These rules are based on four principles briefly described below:
- integrity. Internal auditing is conducted with the utmost care, honesty, diligence and professionalism. Internal Audit operators must not knowingly engage in any illegal activity or take any action that could bring the profession or the organisation for which they operate into disrepute;
- objectivity. The assessments made must take into account all significant facts and must not be influenced by other people or particular interests. The subject expressing the assessment maintains his/her independence of opinion, analysis and constructive criticism. Internal audit operators must report all known significant facts, the omission of which could provide an altered picture of the activities analysed;
- confidentiality. Persons operating in Internal Audit are bound by the confidentiality of the information that they disclose during their work and are therefore required not to disclose such information without prior authorisation, unless they are required to do so for legal and/or ethical reasons. Information obtained must not be used for personal benefit or in a manner that is contrary to law or to the ethical and legitimate objectives of the organisation;
- expertise. Internal Audit operators must only perform services for which they have the necessary knowledge, expertise and experience. They must also continually improve their professional preparation and the effectiveness and quality of their services. On this point, please note that Internal audit resources follow a skills growth and development path by taking part in courses and conventions of specific subjects/regulations and through continual professional updating, through self-training.

Internal audit has given itself an Internal Audit Charter that includes the main professional standards: purpose, authority, independence, objectivity, responsibility, services and activity, audit implementation type and method, internal control system, risk assessment, code of ethics.
Besides its "Charter", Internal audit has given itself an "Operating Manual" which defines the main internal audit methods such as the methodological approach for conducting an audit, standardised work layouts for the process audit, standardised layouts with points of control for auditing the commercial network.

COMPLIANCE

The Compliance Department has to identify, mitigate and monitor the compliance risk, considered that of not complying with laws, regulations, internal and external self-discipline codes, also protecting the Company's reputation and the quality of services provided to customers.
The Compliance Department operates independently and autonomously within the corporate structure, functionally reporting only to the Board of Directors, which is the natural recipient of institutional assessments. The current mandate of the Compliance Department was approved by the Board of Directors at its meeting of 22 September 2017.

The main responsibilities of the Compliance Department concern:
- governing and managing the compliance process controlling all Bank activities, with an approach based on the non-compliance risk level: instruments and methods for achieving the pre-set objectives of regulatory and operational compliance are identified for each activity exposing the Bank to the compliance risk, activating special controls where needed;
- supervising the effectiveness over time of organisational controls to mitigate the non compliance risk and, if needed, request to activate the mitigating actions to eliminate or, in any case, maximum containment of risks;
- ongoing identification of rules applicable to the Banca Popolare dell'Alto Adige and measurement and assessment of their impact on company processes and procedures; where necessary alerting the competent business units for the necessary adjustments;
- consultancy, support and training on compliance, provided to both top management and to functional structures;
- assessment and periodical control of the overall state of compliance;
- reporting to senior management and corporate bodies;
- management of relations with banking and financial Supervisory Authorities and with public institutions that control the management of certain economic sectors (Authorities).

During 2019, the Compliance department systematically monitored the legislative and regulatory novelties, informing the internal services involved; it interacted daily with company bodies and structures, through ex-ante consultancy and control, on the adequacy of controls implemented to mitigate non compliance risks, and ex-post auditing, related to the consistency of operational conduct. These activities were structured and formalised through:
- annual planning of ordinary activities;
- regulatory alerts to internal organisational units;
- analytical reports on the organisational impact of new regulations;
- ordinary audit reports in implementation of the annual plan, and extraordinary reporting if necessary;
- reports on regulatory consultancy, requests to the various company departments for development of new products and services or organisational changes and, as a result of those reports, indications to company structures of organisational measures needed to achieve and maintain regulatory compliance;
- control of correct adoption by company departments of organisational measures following compliance reports;
- training on regulations that effect corporate organisational functions;
- periodical interim reports to the Board of Directors and its committees;
- the annual report for the 2019 financial year, submitted to and approved by the Board of Directors.

The Compliance Department acts as part of the "Internal control system - Coordination, integration, information flows between control functions" whose activities are coordinated by the internal controls Committee, composed of the heads of the Bank's second and third level control functions; the objective is to increase, also through rules, the risk awareness level of the bodies managing the company.

Its activities mainly concerned the following areas:
- Corporate governance;
- Company strategies and policies;
- Remuneration and incentive systems;
- Management of conflicts of interest;
- Investment services;
- Market Abuse;
- Credit and Anti-usury processes;
- Supervisory reporting;
- New products and services;
- Transparency and Payment Service Directive (PSD);
- Insurance mediation;

- Taxation;
- Support to management of the Organisational Model pursuant to Legislative Decree. 231/2001 and the Code of Ethics;
- Internal controls system;
- Privacy and data protection: in this context, following the resolution adopted by the Board of Directors in its capacity as Data Controller, a member of the Compliance Function has been assigned the role of Data Protection Officer, which has been mandatory for the Bank since 25 May 2018, in application of the European Data Protection Regulation.

The Compliance Department plays a decisive role in protecting the reputation with its customers and and the community at large. It is therefore also responsible for compliance with the Code of Ethics that the Board of Directors adopted in 2005. Efficient and effective compliance monitoring in this area contributes to the establishment and growth of reputational assets. The Compliance Department therefore represents a benefit for both consumers, who have a point of contact within the company for their rights and grievances, and for the company itself, by virtue of the creation of the reputational value that this safeguard can produce.

RISK MANAGEMENT

With the Risk management department mandate, the Board of Directors formalised the tasks and responsibilities of the risk control function, implementing all the most recent national and international regulations on the role and obligations of corporate control functions that Risk Management belongs to, part of the more general Internal Control System, especially imposing:
- independence requirements for all corporate control functions;
- requirements of suitable professionalism for function heads and personnel, excluding that they have responsibilities or take a direct part in the operating areas being controlled;
- specific planning and reporting of control activities to be provided annually to company bodies.

The mandate establishes that Risk Management depends hierarchically and functionally from the Board of Directors directly. The head of the Risk Management Department communicates and reports on his/ her work to the Board of Directors and fulfils the mandate granted to the function independently.

Within the Internal Control System, the risk control purpose is to implement risk governance policies.

In 2015 the Risk Committee was established - pursuant to Bank of Italy Circular 285/2013 - as an internal advisory committee within the Board of Directors to advise the Board on risks and internal control system. It is composed of between three and five non-executive directors and has the task of:
- identifying and proposing the appointment of heads of company control functions;
- examining in advance the activity programmes and annual reports of the functions;
- providing assessments and opinions to the Board of Directors on compliance with the principles to which the Internal Control System and the company organisation must conform, and on the requirements to be fulfilled by the company control functions, drawing the Board's attention to any weaknesses and the resulting corrective actions to be taken;
- checking that company control functions comply correctly with the body's indications and lines and support the latter with drawing up the coordination document;
- defining and approving the strategic guidelines and risk governance policies ("RAF"), performing the assessment and proactive activity necessary for the Board, acting as a strategic supervisor, to define and approve the risk objectives and tolerance threshold;
- supporting the Board of Directors in verifying proper implementation of risk governance strategies, policies and the RAF;
- supporting the Board of Directors in defining the policies and processes for assessment of corporate activities, including verifying that the price and terms of transactions with customers are consistent with the business model and risk strategies.

This risk management policy sets out, in an organic, systematic manner, the policies for identifying, measuring, managing and controlling risks and the conditions for the informed assumption of such risks.

Firstly, the Policy contains the definition, in compliance with the regulations contained in the aforementioned Bank of Italy circular 285/2013, of the so-called Risk Appetite Framework (RAF) for which it defines, consistent with the maximum risk to be taken by the Bank, its business model and strategic plan, the following fundamental sizes:

- the risk appetite,
- the tolerance thresholds,
- the risk limits,
- the risk governance policies,
- the reference processes needed to define and implement them.

The objective is to define the risks in single business activities and describe the variations over time of the structure of risks; in order to ensure accurate, prompt risk control and management. Any unfavourable changes can thus be identified early thanks to systematic oversight, ensuring the possibility of corrective action to the risk structure.
The framework adopted provides for four levels of risk assumption based on the ability or willingness to take on risk and they depend on its capital base, which is set aside to cover risks, the income capacity and the risk the bank is willing to take on in order to achieve economic and strategic objectives:

- the "risk covering potential" representing the absolute risk limit that the Bank can assume, although this may compromise the continuation of its business, while protecting savers and preserving the stability and efficiency of the financial system - thus avoiding a contagion effect on the system. It reflects the Bank's ability to deal with adverse emergency or crisis scenarios;
- maximum risk capacity, representing the maximum risk amount the Bank can take on without compromising normal business continuity ("going concern"). It reflects the ability to confront and survive adverse, emergency or stress scenarios;
- the risk appetite, which constitutes the overall (or aggregated) level of risk by risk category that the Bank intends to assume in pursuit of its strategic objectives. It reflects the risk appetite in the context of normally conducting its business;
- risk tolerance, which represents the maximum deviation permitted by the risk appetite. It is the physiological risk deviation accepted compared to its appetite when conducting normal economic activities and is set to ensure sufficient margins to operate, even in stressful conditions, within the maximum risk that may be assumed.

On an annual basis, the Board of Directors, supported by the risk control function, checks the adequacy of the RAF, and its compliance with the business model, and quantifies, in compliance with strategic objectives, risk objectives and any tolerance thresholds for each financial year, in a document entitled the Risk Appetite Statement ("RAS").
With regard to risk assessment, i.e. the periodical assessment of the relevance and significance of each risk to which it is exposed, the Bank uses an evaluation method and scale that conform to the integrated verification method common to company control functions. In particular, the methodology requires that, for each risk category, its relevance considers - where possible - the probability that the risk will occur and the resulting impact. Each control function, in respect of its areas of expertise, is involved and shares the outcome of the audit.
Within the internal control system ("ICS"), the "integrated method", common to all company control functions, defines, in a uniform, consistent framework, objectives, roles, procedures and techniques to be adopted when designing and assessing controls implemented to mitigate risks. This method requires involving and empowering process owners and the adoption of a bottom-up approach to identifying and assessing risks.

RISKS THE BANK FACES

Credit risk

The credit risk is the risk of total or partial insolvency of a counterpart with loans and is the main risk factor the Company is exposed to, consistent with its bank type, oriented towards retail customer and small and medium-sized companies.
Consequently, its credit risk management is designed on the one hand to improve processes for granting credit facilities to render them consistent with underlying risks, while on the other preventing any deterioration of the solvency of customers with loans through increasingly effective and reliable monitoring systems.
During 2019, credit risk management was entirely based on the provisions of the Credit Risk Policy. This document establishes an organic definition of management guidelines for all possible forms of credit risk, as defined in the more general risk policy (default risk, solvency risk, foreign currency exposure risk, risk of concentration of the loan portfolio, residual risk). In particular, the document provides:

- the definition of economic risk appetite in relation to customer credit risk;
- the scope of application of the policy, expressly mentioning the Bank's reference values for lending that apply to the annual credit strategy and management policies;
- the organisational model, specifying the minimum responsibilities, roles and activities assigned to each of the company departments involved;
- the description of the credit risk management and control process, broken down into five key phases: the credit granting phase, the control and monitoring phase for assigned positions, the risk measurement and quantification phase, the adverse scenario analysis phase (stress tests), and the non-performing credit management phase;
- for each phase, the essential procedures for execution, monitoring and control are outlined, making regular reference to detailed internal documentation;
- risk mitigation techniques, i.e. the collateral collection and management process, with their implications for capital requirements;
- the "credit position monitoring" system, which relies on five pillars: specific monitoring assigned to periodic reviews, performance monitoring through the internal rating system, performance monitoring of individual exposures by the Risk Management Department as part of level 2 controls, the supervisory system and warning of positions at risk (early warning, GDC) and the monitoring of risk mitigation instruments;
- the model for recording the likelihood of official default of the loan portfolio and quantifying the expected and unexpected loss;
- the effects of credit risk on the Bank's assets and financial statements: identification of capital requirements for credit risk (Pillar I); regulatory and internal limits for concentration risk (Pillar II); criteria adopted for impairment losses on loans.

From an operational standpoint, the credit monitoring process is continuously guaranteed through an automatic system for classifying anomalous positions (GDC, Credit Management). This uses an early warning engine which, based on performance rating and other indicators calculated and entered on a daily basis, can report the emergence of potentially degraded situations. In addition, the system enables streamlining the internal process of classification and management of problem customers, which in turn is governed by a specific regulation that contains the details of the controls to be performed, the procedure for classifying anomalous positions, and the operating instructions for the administration and management of such positions.
In addition to the usual risk classes for non-performing loans established by the supervisory body (bad debts, unlikely to pay positions, impaired past due positions and forborne exposures), the system also establishes three classes of *performing* loans for customers, which are graduated according to the presence of anomaly indicators which, although not requiring classification in the category of non-performing loans, nevertheless require attentive management of the risk profile.

In particular, there is system in place to monitor and manage "pre-past two" positions, i.e. positions that have constantly overrun for more than 30 days, in order to prevent their deterioration to "past due" status.
The adoption of credit risk mitigation methodologies for calculating the capital requirement for credit risk in accordance with Basel 3 regulations continues to require a precise definition of the estimation, assessment and periodic re-evaluation processes for properties used as mortgage guarantees, in order to comply with the eligibility and admissibility criteria for such guarantees.
Amongst actions taken to guarantee a correct classification and assessment of credit exposure, the Risk management department controls the trend of single positions, in particular:

- checking that the trend monitoring exposure, both *performing* and non performing loans, is conducted systematically, with method, in compliance with internal organisational processes;
- ensures that the said monitoring uses methods and procedures that:
  - enable prompt identification and reporting of any anomalies;
  - ensure that adjustments and reported losses are adequate.
- assess, with regard to credit management:
  - whether classifications are consistent, i.e. whether the breakdown into credit classes complies with internal regulations;
  - the adequacy of provisions, i.e. the adequacy of coverage of non-performing loans.
- verify the adequacy of the debt recovery process, in particular:
  - that non-performing loans are correctly placed;
  - the reliability of estimates of recovery times and of the levels of non-recoverability of non-performing loans;
  - the processing of guarantees, including the updating of specialist reports.

The control performed by Risk Management Department take the form of:

- spot checks, using a predefined logic, of all categories of receivables;
- systematic checks, through adoption of summarised remote indicators applied to all outstanding exposures at every stage of the life of the receivable.

During the year, the capital requirement level was monitored continuously as part of the ICAAP process and no significant variations to the average weighting level of exposures in single regulatory portfolios were reported.
The quarterly credit risk report prepared for the Board of Directors serves as the means of reporting on the performance of the lending activities and the associated risks, together with the risk objectives (defined in the "RAF") and the objectives and guidelines defined in medium and long term strategic planning. The report includes an assessment of risk indicators (probability of default and estimation of expected losses), the methods adopted in the calculations and scenario analyses to assess the behaviour of the loan portfolio in response to unexpected events.
A reduced report containing key information on the composition and overall risk level of the loan portfolio is also prepared on a monthly basis.
The assessment and control of credit risk was also the subject of monthly discussions within the Internal Loan Committee, during which the aforementioned monthly and quarterly reports and the detailed situation of the main non-performing positions were examined in detail.

Market Risk

The market risk is defined as the risk of loss on financial instruments owned resulting from possible fluctuation in financial market variables (interest rates, volatility, foreign exchange rates, share prices), considering scenarios in which each individual financial instrument is exposed to one or more of these risks. The market risk is risk is measured as a change in the value of stocks due to market movements.
The market risk measurement and control system is based on the Value-at-Risk (VaR) method, on which it bases a system of maximum tolerable risk and loss limits (risk capital) over various time horizons. The VaR method calculates the maximum potential loss of a portfolio over a given time horizon and with a given probability, under normal market conditions. The VaR is a uniform measurement system, applicable to all types of financial

instruments, thus making it possible to compare risk values calculated from the point of view of both time and daily profitability. to calculate the VaR, the Bank uses the parametric model of variance-covariance provided by a leading company with widespread experience, supported by internal models used for the necessary checks, as well as for planning purposes: for example, VaR from Monte Carlo simulations and historical VaR using the Extreme Value Theory for the highest levels of confidence.
In addition to VaR and maximum sustainable loss analysis, market risk management is based, through specific limit systems, on the control of counterpart risk, country risk, the sensitivity of the portfolio to market rate risk ("basis point value") and credit risk ("credit risk sensitivity").
In order to avoid and prevent possible overruns in authorised risk limits, a standardised daily reporting system monitors and raises an alert when the thresholds are approached.
Thee Risk Management Department compiles a detailed, comprehensive monthly report on market risks relating to the proprietary portfolio. Finally, the Risk Management Department is tasked with continuously validating and verifying the pricing system for financial instruments held, in order to maintain a reliable price profile that is consistent with market prices (*fair value*).

Counterpart Risk

Counterpart risk is the risk that a counterpart to a transaction will fail to fulfil its obligations by the methods and deadlines established in the contract. Counterpart risk is regulated through a specific system of operating limits, based on a series of criteria for assessing the creditworthiness of counterparts, in separate form according to their type (corporate or financial).
The general rule that all financial transactions must be carried out exclusively with contracted counterparts also applies.
The limit for each counterpart is approved by the Board of Directors and may be employed by the Treasury and Investment services on the basis of specific percentage shares of the limit assigned to homogeneous categories of financial instruments.

Interest Rate Risk

With regard to the banking book, which corresponds to the Bank's entire commercial operations in relation to the transformation of the maturities of all balance sheet assets and liabilities, treasury, and hedging derivatives, changes in the structure of market interest rates may have unfavourable effects on net interest income and capital, and thus constitute a source of risk (interest rate risk).
The management and investment strategies for this portfolio are based on criteria for optimising the risk/return profile, and are implemented on the basis of expectations for interest rate trends. The Bank's investment policy is accordingly focused on optimising interest margins and minimising their volatility (Asset & Liability Management).
The guidelines and regulations for the management of interest rate risk in the banking book are set out in the ALM Policy, together with the associated operating limits and mandates for financial and liquidity management. Two indicators are identified here, relating respectively to the sensitivity of the interest margin and the present value of the assets in the face of unfavourable changes in the rate curve.
The interest rate control especially avails itself of monthly processes prepared using an application module integrated with analysis and simulation supporting the ALM and risk rate process; the model has been continually refined to process all asset and liability items of the bank's portfolio in a more realistic, reliable way, in order to optimise the strategies of the financial statement asset and liability items.
Verification and control of the interest rate risk profile is discussed on a monthly basis in the Finance Committee, during which a specific monthly report (ALM report) is presented by the Risk Management Department. In particular, the report includes a so-called fixing analysis that provides a daily illustration of the amount of the most important balance sheet items subject to rate change, broken down by indexing parameter. This enables, inter alia, monitoring of the current natural hedging capacity of the banking book, in terms of both timing and amount, between assets and liabilities.

Liquidity Risk

Liquidity risk is the risk that the Bank may not be able to meet its payment obligations as they fall due and/or finance increases in its assets. It mainly emerges as an:

- inability to raise funds by finding funds on the market (funding liquidity risk);
- inability to mobilise funds by selling assets on the market (asset liquidity risk).

In compliance with the information needs that emerged in the SREP guidelines of the European Banking Authority, the assessment process of the adequacy of internal liquidity called ILAAP (Internal Liquidity Adequacy Assessment Process) is carried out again.

Liquidity management is based on the indications and operating guidelines set out in the liquidity and funding Policy, which is constantly updated. An essential element of that management is the distinction between short-term operational liquidity (with a time horizon of up to 12 months) and medium- to long-term structural liquidity (with a time horizon of more than 12 months). The former is aimed at avoiding situations of sudden liquidity tension, caused by specific shocks of the Bank or systemic market shocks; the latter responds to the need to ensure optimal management, from a strategic point of view, of the transformation of the maturities between deposits and loans, through an adequate balance of the maturities of the assets and liabilities, so as to prevent future liquidity crisis situations.

The measurement and control of operational liquidity and structural liquidity have been defined by means of a system of indicators, limits and periodic reporting, also on a daily basis. Furthermore, the organisational structure of the offices and departments responsible for liquidity management and the associated controls and the emergency plans to be implemented in the event of situations of stress or crisis - the so-called Contingency Funding Plan (CFP) - are also clearly defined.

Liquidity risk is calculated using the Liquidity at Risk (LaR) method which estimates - at different confidence intervals - the liquidity requirement, which cannot be directly influenced by the Bank, over pre-defined time horizons. The cash flows of interest in the LaR analysis are the daily imbalances not attributable to choices made by the Bank, i.e. flows that are "independent" of the Bank's will and therefore attributable to the activity of customers. This approach is used to verify the level of reserves and to assess, including from an ICAAP perspective, any internal capital requirement to be allocated to cover liquidity risk.

The liquidity situation is constantly monitored by the relevant offices on a weekly and monthly basis. The Contingency Funding Plan also foresees an alarm signal system monitored on the so-called Liquidity Monitor and based on measurement of pre-alarm indicators divided between systemic and specific crisis indicators.

The indicators are appropriately weighted in order to identify five different operating situations that can be traced back to a progressive deterioration of the Bank's liquidity position: normal operating conditions - in turn are broken down into situations of normality, under observation, and attention - a state of stress (emergency), and a crisis situation (a grave emergency).

The Treasury Service, responsible for managing operating liquidity, also employs the so-called liquidity synoptic chart, a daily report that briefly and exhaustively describes the liquidity situation in the short- to medium-term enabling prompt identification of critical situations and the maintenance of the indicator values at the desired levels.

The calculation and forwarding of monthly reports to the supervisory authority, as provided for in the Basel 3 regulations, has been under way since 2015. The report contains a short-term indicator, the LCR (Liquidity Coverage Ratio), and a long-term indicator, the NSFR (Net Stable Funding Ratio).

For what concerns the excessive financial lever risk, that is the risk that an especially high indebtedness level compared to treasury stock makes the bank vulnerable, making it necessary to adopt business plan corrective measures, including the sale of assets recognising losses which could imply value adjustments to the remaining assets, every year the Board of Directors defines, in the RAF, the bank's risk appetite in financial lever terms establishing a minimum leverage level (ratio between Tier1 and total assets), as set forth in Basel 3.

The liquidity management policy privileges maintaining stably consistent reserve liquidity funding, always enough to handle stress situations. For this purpose, all available instruments are used, last of all those implemented by the European Central Bank and the Italian Government. The proprietary stock portfolio is configured to guarantee

an ample reserve over time with which to manage liquidity; establishing, for that purpose, suitable investment regulations in terms of duration, sector, issuer risk, eligibility, etc.
The ABACO refinancing channel, through which loans that meet specific eligibility requirements can be collateralised with the ECB, was activated extensively in 2016.

Operational Risks

Operational risks are naturally inherent in the execution of processes, in the characteristics of the products and services offered, and in the possibility of being the subject of fraudulent or incidental events.
For these reasons, the Bank analyses the causes of operational losses and systematically identifies and measures events in order to limit and reduce the relevant risks.
In accordance with the definitions of the Basel Committee, the operational risk is identified as "the risk of losses arising from errors or inadequacies in internal processes, human resources, systems, or from external events". Legal risks are included but not strategic, reputational or systemic risks.
Thus the definition of operational risk does not include opportunity risks (missed business), reputational damage, or risks involving the entire banking system.
The Company uses an internal system to detect and measure operating losses for better management of potential sources of danger that could undermine its stability.
This system is based on a similar initiative in which the Bank participates, undertaken at national level by the Italian Banking Association (ABI). With the DIPO (Italian Operational Losses Database) project, ABI intends to raise awareness and assist banks in the implementation of these procedures, and to create a national database that will enable banks to obtain broader, more significant statistical information and data.
The operational loss collection process is based on an internal reporting process, which involves the detection and forwarding to a central collection point located with the Risk Management Department, of all listed events arising from legal action, customer complaints, disputes with staff, etc. The collection of systematic analysis of that information over the years has provided precious indications and suggestions for assessing and optimising Bank processes and activities
Assessment of operational risks is also included in the assessment of the company control functions following the introduction of new products, services or other commercial initiatives, the introduction or modification of new operating processes.
The Risk Management Department is responsible for managing operational risks. This is also the subject of attention, within the Internal Control System and the Internal Control Committee, which meets periodically in order to coordinate all company control functions (Internal Audit, Compliance and Risk Management), to share control perimeters and results of audits, direct corrective actions towards operational functions, and develop and disseminate a risk and control culture among the Bank's operating offices.
On a quarterly basis, the Risk management department draws up a report on the Bank's operating risks discussed in the internal controls committee and submitted to the Board of Directors.
Since 2012, capital requirements compared to operational risks have been calculated applying a standardised method, which also imposes taking actions to improve the general operating risk control level. These include:

- execution of a comprehensive self-assessment process for the operational risk management system, designed to assess the overall quality of the system in relation to the Bank's organisational structure by assessing the overall level of exposure to operational risks and the system's compliance with applicable regulatory requirements and evaluating the effectiveness of the system in relation to the objectives and programmes of the current strategic plan and the evolution of the market of reference;
- regulations for the correct distribution of operating losses among the Bank's business lines;
- an annual review of the operational risk management system by the Internal Audit department.

The operating risk management system has also been integrated with the so-called "Conduct risk", as defined in the European Central Bank's SREP guidelines. This is the risk of loss from the inadequate provision of financial services, including cases of wilful misconduct or negligence, and arises from any unethical conduct on the part of the Bank's executives and employees, including in violation of properly defined controls and processes: i.e. the

result of an unethical corporate culture. This category includes the following risks:
- the fraudulent sale of products on retail and wholesale markets;
- forced cross-selling of products to private customers, such as "packaged" bank accounts or additional products that customers do not need;
- conflicts of interest in the execution of transactions;
- the manipulation of reference interest rates, exchange rates, or other financial instruments or indices to improve the profits of entities;
- barriers to switching from a financial product during its life cycle and/or to switching to other financial service providers

A risk assessment is part of the assessment by the company control functions upon the introduction of new products, services, or other commercial initiatives.
In order to assess the risk, the internal method for assessing so-called model risk was more widely used for those areas of banking activity that, for decision-making and the measurement of certain market variables, employ "models", i.e. methods, systems and quantitative approaches that use theories, techniques and statistical, mathematical, economic and financial assumptions to obtain quantitative results/estimates from the processing of input data.
Particular attention is paid to the processes of analysis, measurement and processing of the IT risk, with specific reference to the SEC service centre in Padua which continued to be the outsourced IT centre of the Bank, even after its transfer of ownership.

Concentration risk

The concentration risk is defined as a risk resulting from credit exposures with counterparts, groups of connected counterparts, counterparts in the same economic sector or performing the same activity.
The concentration risk per individual borrower is measured in accordance with the provisions of Bank of Italy Circular 285 (Title III - Chapter 1 - Annex B) according to the Granularity Adjustment ("GA") method.
As part of ICAAP, specific methods have been developed, in accordance with applicable legislation, to calculate the concentration risk by geographical area, i.e. the risk arising from exposures to counterparts operating in the same economic sector or geographical area.
A comprehensive limit system is also in place that controls and directs guidelines for limiting the level of concentration risk in the Bank's loan portfolio.
The concentration risk in its various forms is also monitored in the quarterly credit report and is discussed during the quarterly meetings of the Internal Loan Committee.

Other Risks

The risk management Policy identifies and defines the following additional categories of risk that are periodically analysed and assessed:
- the strategic risk divided into the following sub-types in terms of the time horizon of the event:
    - the short-term risk (business or commercial risk), i.e. the risk of losses due to unexpected changes in sales volumes (lower revenues) and/or expected margins (higher costs due to technological innovation, the tightening of the tax treatment, a change in the regulatory environment, etc.);
    - the strategic risk in the strict sense, or positioning risk, i.e. the risk of current or prospective losses, a fall in profits or capital arising from changes in the operating context or bad company decisions, inadequate implementation of decisions or insufficient reaction to changes in the competitive environment;
- risks arising from securitisation transactions;
- the equity investment risk, i.e. the risk that the book value of an equity investment may decrease as a result of a reduction in its price stock markets price, in the case of listed companies, or of the equity default of the investee, which renders it necessary or advisable to revise its carrying value in the financial statements, in the case of unlisted companies;

- the reputational risk, i.e. the current or prospective risk of a decline in profits or capital arising from a negative perception of the Bank by stakeholders or by any person with whom the Bank has had a relationship.

THE ANTI-MONEY LAUNDERING OFFICE

Money laundering and financing terrorists are phenomena that, partly because of their possible transnational dimension, pose a serious threat to the legal economy and may have destabilising effects, particularly on the banking and financial system.
The articulated legal bases that the international and internal fight against money-laundering and the financing of terrorism is based on are intended to protect the system against the risk of being exploited, even unknowingly, to perform illegal actions, calling on operators to perform so-called "active collaboration" that is report any transactions suspected of an illegal origin of funds transferred to the Authority responsible.
To enable the anti-money laundering system to be fully effective, an international harmonising process for prevention to avoid that, in an increasingly more open and competitive market, those moving illegal funds can take advantage of gaps in the protection nets established by the different countries.
However, some geographical areas and territories remain where legislation is not yet in line with international best practice and where stricter anti-money laundering controls, calibrated to the highest risk level, must be applied.
On this point, primary and secondary legislation is abundant and is continuously expanded by Authorities appointed to do so. In brief, the system of obligations incumbent on intermediaries and which Volksbank is careful to implement continuously, is still focused on the following three fundamental institutions:
i) customer due diligence;
ii) data storage;
iii) reporting suspicious transactions.

In order to prevent and combat money laundering and the financing of international terrorism new Community and national regulations have been issued in recent years.

Internationally, the main reference regulation includes:
• the Recommendations processed by the International Financial Action Group (GAFI), which represent the fundamental standards for preventing and combating money-laundering and the financing of terrorism, that countries are required to adopt in the their various legal, administrative and financial systems. In 1990 the GAFI issued forty Recommendations on preventing and counteracting money-laundering; nine special Recommendations were then added in 2001, dedicated to combating financing international terrorism. The subject was fully reviewed in February 2012 with the release of new "International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation" (in forty Recommendations). The Recommendations are accompanied by "Interpretative Notes" that are an integral part of the new standards.

In Europe, the main reference regulations include:
• (EC) Regulation 2580/2001 of the Council dated 27 December 2001 related to specific restrictive measures, against certain people and entities, destined to combat terrorism.
• Directive (EU) 2015/849 of the European Parliament and Council dated 20 May 2015 related to preventing use of the financial system to launder the proceeds of criminal activities and finance terrorism, with amendment (EU) Regulation 648/2012 of the European Parliament and Council and which abrogates Directive 2005/60/EC of the European Parliament and Council and Directive 2006/70/EC of the Commission (so-called "IV anti-money laundering Directive");
• Regulation (EU) 2015/847 of the European Parliament and Council dated 20 May 2015, concerning information data accompanying the transfer of funds and which abrogates the Regulation (EC) 1781/2006;
• Delegated Regulation (EU) 2016/1675 of the Commission dated 14 July 2016 which integrates Directive (EU) 2015/849 of the European Parliament and Council, identifying the high risk third countries with strategic shortcomings and subsequent updates;

• Joint guidelines issued on 26 June 2017 by the European Supervisory Authorities (EBA, ESMA and EIOPA) on the simplified and reinforced measures of customer due diligence and on the risk factors to be considered when assessing the risks of money laundering and financing terrorism associated with single ongoing relationships and occasional transactions;
• Delegated regulations of the European Commission that identify high risk third countries with strategic shortcomings;
• Directive (EU) 2018/843 of the European Parliament and Council dated 30 May 2018 which amends the IV anti-money laundering Directive and amends Directives 2009/138/EC and 2013/36/EU (so-called "V anti-money laundering Directive");

In Italy, the main reference regulations include:
• Legislative Decree 109 dated 22 June 2007, containing measures to prevent, combat and repress the financing of terrorism and the activities of Countries that threaten international peace and safety, as recently amended by Legislative Decree 90/2017:
• Bank of Italy Resolution 357 of 27 May 2009 with the subject "Provision including operating indications for exercising reinforced controls against the financing of programs to multiply weapons of mass destruction";
• Bank of Italy Resolution 28 of 9 February.2018, on "Enhanced due diligence procedures on Politically Exposed Persons";
• Bank of Italy communication dated 12 February.2018 on anti-money laundering obligations for banking and financial intermediaries;
• Bank of Italy provision of July 2018 containing "Specific provisions for the use of data and information for anti-money laundering purposes and to combat the financing of terrorism" (3);
• Bank of Italy provision of 26 March 2019, containing "Provisions on internal organisation, procedures and controls to prevent the use of intermediaries for money laundering and the financing of terrorism";
• Provision of the UIF (Financial Information Unit), containing "Instructions on objective communications" dated 28 March 2019;
• Bank of Italy provision of 30 July 2019, containing "Provisions on customer due diligence to combat money laundering and the financing of terrorism".

For Bank operations the main elements characterising the regulatory framework referred to are:

a) the obligation to adopt suitable strategies, policies, procedures and processes to identify, assess and monitor the money laundering risk;

b) the obligation to conduct a periodical assessment of the money laundering and financing of terrorism risk it is exposed to, with attention for risk factors associated to its customer type, the operational geographical area and distribution channels, products and services offered;

c) the obligation to adopt measures deemed the most suitable to prevent the money laundering risk, consistent with the exposure to the money laundering risk;

d) The clear definition, at different role, task and responsibility levels, and the preparation of procedures to guarantee compliance with customer due diligence obligations, preservation of documents and proof of relations and transactions, and the obligation to report suspicious transactions;

e) the creation of an anti-money laundering function assigned to supervise the commitment to prevent and manage money laundering risks;

f) a control function architecture with coordinated components, also through suitable information flows, while being consistent with the company structure, complexity and size, type of services offered and the entity or risk that can be associated with customer characteristics;

g) a control activity whose purpose is the compliance by personnel and collaborators with internal procedures and all regulatory obligations; with special attention for ongoing analysis of customer transactions, the "active collaboration" and protection of confidentiality over reporting;

h) customer due diligence obligations, with indication of "when" (e.g. establishing an ongoing relationship, execution of an occasional transaction for an amount exceeding the legal thresholds) and "how" (e.g. how we identify a customer, the effective owner, the purpose and nature of an ongoing relationship) fulfil those obligations;

i) the risk-based approach, for which the customer due diligence obligations are structured at different due diligence levels based on the customer's risk profile, that of the transactions and the ongoing relationship;

j) the obligation to apply enhanced customer due diligence methods when faced with a high money laundering or financing of terrorism risks, considering the risk factors related to the customer, products, services, transactions and distribution channels and the geographical area involved. In any case, the enhanced due diligence is applied in the case of: (i) customers resident in high risk Third Countries identified by the European Commission; (ii) ongoing relations, professional services or transactions with customers and effective owners who are politically exposed persons (so-called "PEP"); (iii) transactions for unusually high amounts or which cause doubts;

k) related to "politically exposed person", an extensive approach for those holding public offices or in any case who administer public assets, with no longer any distinction between domestic and international PEPs;

l) the obligation to abstain from opening a new continual account, to maintaining an existing account or executing a transaction if it is objectively impossible to perform a customer due diligence;

m) the obligation to report suspicious transactions when you know, suspect or have reasonable motives for suspecting they are in progress or money laundering or financing of terrorism transactions have been committed or attempted or, in any case, the funds, regardless of their amount, come from criminal activities;

n) the obligation to periodically transmit to the UIF data and information identified based on objective criteria, concerning transactions risking money laundering or the financing of terrorism (so-called "objective communications");

o) the obligation to store documents, useful data and information to prevent, identify or ascertain money laundering or financing of terrorism activities and to enable audits to be conducted, for their respective attributions, by the UIF or another competent Authority;

p) the limits established for use of cash and bearer bonds;

q) the obligation to send the UIF the aggregated figures for transactions, to enable targeted analyses and bring forth any money laundering or financing of terrorism phenomena in certain territorial areas;

r) carrying out permanent training programs, for the correct application of provisions, to recognise transactions connected to money laundering or the financing of terrorism and for the adoption of behaviour and procedures;

s) introduction for the prevention of money laundering and the financing of terrorism of the so-called "whistleblowing" procedure, to protect those who report breaches of the provisions to prevent the risk of money laundering and financing terrorism in the intermediary;

t) a sanction system based on penal sanctions, reduced compared to the system previously in force, and administrative sanctions, modulated based on principles of effectiveness, proportionality and dissuasiveness;

obligation to adopt enhanced control measures to contain the risk of involvement in terrorist activities or proliferation (e.g. monitoring the accounts, freezing funds).

COMPLAINT MANAGEMENT

Volksbank is convinced that real and lasting growth and development are possible only if the customer is at the heart of every strategic decision taken by the company. This customer-centred approach, the basis of which can be found in the company's Code of Ethics, emerges straight from the design phase of products and services, with constant focus on quality research, but above all on managing the relationship with the customer in order to provide him or her with the product or service that best suits his or her needs.

Despite the best efforts of employees, given the large number of transactions that are concluded daily, it is not possible to avoid possible cases in which, from time to time, customer expectations are not met, hence generating dissatisfaction by those who believe that they have not received an adequate service. On such occasions, customer cooperation becomes essential in order to identify and eliminate the causes of service failure and to implement appropriate procedural improvements.

Some time ago, the company set up an internal office to handle complaints and adhered, in accordance with applicable legislation, to the relevant extra-judicial bodies to settle disputes arising between banks and their customers. With a view to the continuous improvement of the services offered to customers, third party analysis and judgement of complaints received has been guaranteed; and the personnel of the complaints management office are in a position of organisational and hierarchical independence of business units responsible for marketing products and services.

In cases where a customer is not fully satisfied with a proposed solution, he or she can refer to extra-judicial dispute settlement systems which, as they operate as an alternative to the ordinary judicial authorities, can provide a faster and less costly means of resolving disputes. Through its commercial network and its website, on this point the Company provides customers with information containing, inter alia, complaint regulations and information on the various extra-judicial dispute resolution systems.

Statistical information on complaints received up to 31 December 2019 was also published. During the year, 544 written complaints were received and processed, 234 of which concerned banking and financial services, and 310 concerned investment services.

Of the 544 complaints filed as at 31 December 2019, 21 were settled, 345 were closed pending settlement, while 174 are still being assessed.

A compliant is considered closed when the answer is sent to the customer, signed by the Head of Compliance; whereas it is considered settled when the Bank, consistent with the complaints policy, has provided full, exhaustive response within terms established and the customer has not presented further complaints for the same matter in the following 12 months (each further reply from the customer on the same subject implies re-opening the complaint, even after 12 months have gone by).

A complaint for which a settlement agreement or an amicable resolution on the matter has been reached with the customer is also deemed to be settled.

For complaints received during 2019 related to bank and financial services, the Company refunded customers for the total amount of €18,853.10. For what concerns losses expected as at 31.12.2019 there was no evidence of that so, consequently, no provisions were made.

For complaints received during 2019 related to the investment services, the Company refunded customers for the total amount of €2,843.12. For what concerns losses expected, still referred to 31.12.2019, they total €81,828.95; that sum has been allocated to the specific provision.

In addition, reimbursements totalling €213,176.73 were made in in 2019 related to complaints filed in previous years.

THE CODE OF ETHICS

A good reputation implies a vote of confidence in the corporate organisation, which is understood as an institution operating in the market that adopts business and relationship policies for its stakeholders. Protecting reputation derives from compliance with the values, principles and standards of conduct that the Code of Ethics of the Banca Popolare dell'Alto Adige Group explicitly endorses. It constitutes an in-company control guaranteeing correctness in the daily management of business, correctness intended both ***strictu sensu***, as adhering to regulatory provisions, and more latently concrete in good operating practices with high driver values. The Code of Ethics is a key tool for assessment by stakeholders, enabling them to deal with the company in a spirit of serenity, confidence and collaboration. The Code of Ethics constitutes the internal regulations of the Bank, which operates in the full conviction that the integrity, honesty, propriety and good faith of all those concerned are essential conditions for its lasting success. The Code of Ethics also integrates the Organisational Model of Banca Popolare dell'Alto Adige in its control of predicate offences pursuant to Legislative Decree 231/2001.

The Code of Ethics in force was approved by the Board of Directors in 2015. It links to the values that Volksbank activities are based on:

Appreciation: we treat each other with esteem and respect, we behave fairly towards customers, partners, colleagues and supervisors.

Confidence: as a result of our reliability in dealings with our customers, partners and associates, we create the basis for mutual trust.

Enthusiasm: we take pleasure in our work; our spirit of initiative and commitment transmit enthusiasm to customers and members, contributing to the success of the Bank.

Courage: everything we do, we do it courageously: our positions are clear and even in difficult situations we remain true to our values and principles.

Authenticity: we are aware of our strengths as people and as employees; we continue to hone our our skills and believe in the value of our Bank.

Attention: we are aware of and mindful of our surroundings; we pay attention to our customers, partners and colleagues, listening to and respecting each of them.

Excellence: we achieve excellent results through constant improvements; we seek out new challenges and pursue our goals with sporting ambition.

The rules of conduct set out in the Code of Ethics derive from these ethical principles (the "values") sustained and actively experienced by persons operating, for any purpose, at the Bank and in group companies.

CERTIFICATION PURSUANT TO ART. 154 BIS TUF

Legislative Decree 195 of 6 November 2007 implementing Directive 2004/109/EC on the harmonisation of transparency requirements (the "Transparency Directive"), partially extended the provisions of Law No. 262 of 28 December 2005 to companies that issue securities which are admitted to trading on a regulated market. The Law establishes "Provisions for the protection of savings and regulation of financial markets", as amended by Legislative Decree 58/1998 (Consolidated Finance Act).
These provisions establish an obligation for the Financial Reporting Officer to produce corporate accounting documents that provide a true and fair representation of the Issuer's financial position, results and cash flows.
To this end, in a specific report the Financial Reporting Officer certifies that the administrative and accounting procedures for the preparation of the annual financial statements and all other financial communications have been adequately and effectively applied, and that the documents correspond to the results as stated in company accounting books and records.
In order to issue this certification, the Financial Reporting Officer reviews the adequacy and efficacy of the internal control system for Financial Reporting:

- by means of a concise, comprehensive analysis at company level, designed to verify the existence of a corporate climate that is committed to reducing the risks of errors or improper conduct accounting and financial reporting purposes;
- at a process level, through analysis and audits of company operations generating and supplying Financial Reporting, also conducted using results produced by other control functions. For that purpose, they identify the scope of area activities in order to identify significant processes that need to be checked.

Accordingly, Volksbank has embarked on an organisational process to define a reference model, in line with national practice; with a view to strengthening the processes underlying the reliability of financial reporting, i.e. of activities related to the collection, processing and publication of economic and financial information flows.

1.9 OTHER INFORMATION

1.9.1 INFORMATION PURSUANT TO BANK OF ITALY/CONSOB/ISVAP DOCUMENTS No. 2 OF 06.02.2009 AND No. 4 OF 03.03.2010

On 6 February 2009, the Bank of Italy/Consob/ISVAP issued document No. 2 on application of the IAS/IFRS, in order to recommend the inclusion in financial reports of information on a going concern basis, the financial risks borne by the company, audits of the possible existence of asset impairments and uncertainties regarding the use of estimates.
The importance of making every effort to assess the applicability of the "going concern" assumption and the related financial statement disclosures was further highlighted in document No. 4 of 3 March 2010 issued by the same authorities. This stresses the need to ensure a high degree of transparency in disclosures on the valuation of goodwill and other intangible assets with an indefinite useful life, on equity investments, the valuation of equity securities classified as "available for sale", and the classification of financial liabilities backed by special contractual clauses.
With regard to the going-concern principle, the Directors have not detected in the operating performance or in the evolution of their financial position any situations that could jeopardise the company's ability to continue operating normally. The Directors therefore believe that the capital and financial structure is suitable to guarantee business continuity in the near future. On the basis of this reasonable expectation, the financial statements as at 31 December 2019 were therefore prepared on a going concern basis.
With respect to reporting financial risks, please note that they were analysed both in the report on operations and in Chapter E of the explanatory notes. "Information on risks and on risk hedging policies".

When preparing its year-end financial statements, Volksbank performed an audit on the possible impairment of its assets, including goodwill, equity investments recorded in the balance sheet and equity investments available for sale. The description of how the audits were conducted and their results is specifically illustrated in the Explanatory Notes where single assets are dealt with.
With reference to the uncertainties on the use of estimates when drafting the financial statements, in the Notes "Part A – Accounting policies, A. 1 – General Part", there is a specific paragraph entitled "Uncertainties related to the use of estimates".
Finally, with regard to the classification of its financial payables, it should be noted that there is no medium/long-term liability to be classed as "current" due to the forfeiture of an acceleration clause or failure to comply with the contractual clauses governing the liability.

1.9.2 INFORMATION ON STRUCTURED CREDIT PRODUCTS AND ON EXPOSURE WITH SPECIAL PURPOSE ENTITIES

On the basis of the recommendations made in 2008 by the Financial Stability Forum (now the Financial Stability Board) and by the Bank of Italy, the following information is provided on exposures as at 31 December 2019 for those financial products that the market considers to be high-risk, such as, in particular, Collateralised Debt Obligations ("CDOs"), real estate mortgage-backed securities ("RMBS"), commercial mortgage- backed securities ("CMBS"), other special-purpose entities ("SPEs") and leveraged finance.

EXPOSURE WITH SPE ("SPECIAL PURPOSE ENTITIES")

Special Purpose Entities (SPEs) are entities set up on an ad hoc basis to achieve a specific objective, normally the securitisation of receivables and operations for the issue of Covered Bonds.
For securitisation transactions, reference is made to special-purpose vehicles incorporated pursuant to article 3 of Law No. 130 of 30 April 1999, which place the debt instruments issued on the market to finance the purchase of the securitised loans. These receivables are used to guarantee repayment of liabilities issued by the vehicle company.
Covered Bond transactions, governed by Law 130 of 30 April 1999, are issues of debt securities by credit institutions specifically guaranteed by a portfolio of assets identified and separate from the issuer's assets. These assets are sold by the issuer to a duly incorporated special-purpose vehicle.
It should be noted that the Company holds a senior tranche of the HIPOCAT 15.1.50 TV security, which is recognised among instruments held to maturity ("HTM") valued at €0.5 million and relating to the securitisation of receivables.

STRUCTURED PRODUCT EXPOSURES

As at 31 December 2019, the main positions in structured credits issued by third parties were corporate bonds, in addition to a number of corporate minibonds.
Total exposure to covered bonds, in terms of book value, amounted to €31.1 million, all classified at *fair value* with an impact on comprehensive income ("HTCS"), a limited exposure compared to the total portfolio (amounting to approximately 4.9%).
Structured securities, which have a carrying amount of €58.2 million (equivalent to 2.3% of the total portfolio) are classified at amortised cost ("HTC") for an amount of €38.3 million and *fair value* with an impact on overall profitability ("HTCS") of €19.9 million. All these instruments have a residual maturity of ten years or less.

1.9.3 XPOSURES WITH SOVEREIGN DEBT SECURITIES

In accordance with the recommendations of the European Securities and Markets Authority (ESMA) in document 2011/226 of 28 July 2011, and Consob in communication DEM/11070007 of 5 August 2011, the company's exposure to sovereign debt, consisting mostly of Italian government debt securities, is reported. As stated in the ESMA document, "sovereign debt" relates to bonds issued by central and local governments and government bodies, as well as loans granted to them.

Exposure to sovereign debt securities - by due date

(thousands of €)

	2020	2021	2022	2023	2024	After 2024	Total
FVTPL	-		-	-	-	-	-
HTCS	150,730	59,303	82,871	64,285	30,749	70,284	458,222
HTC	27,234	59,771	143,608	204,748	225,711	964,391	1,625,463
Total	**177,964**	**119,074**	**226,479**	**269,033**	**256,460**	**1,034,675**	**2,083,685**

A breakdown by accounting category and issuing country is shown below.

Exposure to sovereign debt securities - by issuing country

(thousands of €)

	FVTPL	HTCS	HTC	31.12.2019
EU countries				
- Italy	-	458,222	1,625,463	2,083,685
Non-EU	**-**	**-**	**-**	**-**
Total portfolio	**-**	**458,222**	**1,625,463**	**2,083,685**

There are no additional exposures in sovereign debt securities. 50.3% of the total exposure held has a residual maturity of less than 5 years.

At 31 December 2019, the sensitivity to the increase of 1 bps in the credit spread of the Italian Republic for Government bonds classified among FVOCI Debt amounted to about € - 111,000, with an implicit spread-duration of approximately 2.4 years. There are no Italian Government securities classified as "Financial assets measured at *fair value* with an impact on the income statement".

1.9.4 ATYPICAL OR UNUSUAL TRANSACTIONS

With reference to Consob Communication No.6064293 of 28 July 2006, there were no atypical and/or unusual transactions during the financial year.Atypical or unusual transactions are considered, in accordance with Consob Communications DAC/98015375 of 27 February 1998 and DEM/1025564 of 6 April 2001, as transactions that are not part of normal business operations and which, due to their significance and/or importance, the nature of counterparts, how the transfer price is calculated and event timing, may give rise to doubts as to the correctness and completeness of the information in the financial statements, conflicts of interest, the safeguarding of the company's assets and the protection of shareholders.

1.9.5 INFORMATION ON PUBLIC DISBURSEMENTS PURSUANT TO ART. 1, PARAGRAPH 125 OF LAW 124 OF 4 AUGUST 2017 (“ANNUAL LAW ON THE MARKET AND COMPETITION”)

Law 124 of 4 August 2017, the “Annual Law on the market and competition” (hereinafter also Law 124/2017) introduced in Article 1, paragraphs 125 to 129, certain measures aimed at ensuring transparency in the public funding system.
In particular, the law establishes, inter alia, that companies must provide in the notes to the financial statements - and in any consolidated notes - information on “grants, contributions, remunerated assignments and in any case economic benefits of any kind” (hereinafter for brevity “public grants”) received from public administrations and other persons indicated in art. 1, paragraph 125 of the law. Failure to comply with the publication obligation will result in the return of sums received to the paying agents.
In order to avoid the accumulation of insignificant information, it is stipulated that the publication obligation does not exist if the amount of public disbursements received is below €10,000.
Notwithstanding clarifications provided by the Council of State in its opinion No. 1149 of 1 June 2018, the law in question poses certain doubts as to interpretation and application, in particular its objective scope of application, for which reference was also made to the guidelines emerging from the trade associations (Assonime). In particular, in view of the criteria that inspired the law and the guidelines that emerged, the reporting obligations should not include the following types:

- fees for services rendered by the company as part of the provision of professional services and supplies or any other task that is part of day-to-day business operations. In fact, these are sums received that do not relate to the field of donations/public support policies;
- tax expenditures available to all businesses that meet specific conditions, based on pre-established general requirements, which are also the subject of specific disclosures;
- granting of subsidised loans to its customers, as this involves the disbursement of other party funds (e.g. interest payments by public administration) and not of the Bank’s own resources as intermediary.

In addition, since August 2017, the National State Aid Register has been operational at the Directorate-General for Incentives for Companies at the Ministry of Economic Development, in which State aid and de minimis aid for each company must be published by the entities granting or managing the aid. For individual aid to the Bank, please refer to the section entitled “Transparency of the Register”, which is publicly available.
This stated, without prejudice to the foregoing with regard to what is available in the National Register of State Aid, in accordance with the provisions of art 1, paragraph 125, of Law No. 124 of 4 August 2017, the following is an account of sums received during the financial year by way of “subsidies, contributions, remunerated assignments and economic benefits of any kind”.

Company	**Type of contributions**	**Granting Authority**	**Sums received in 2019**
(in €)			
Banca Popolare dell’Alto Adige SpA	Kindergarden Contribution (*)	Autonomous Province of Bolzano	35,026
Total			**35,026**

(*) This is a provincial contribution to childcare at the company’s premises.
Please note in this regard that the above table, in line with the provisions of the law in question, does not indicate economic benefits below the threshold of €10,000. This threshold is understood to refer to the total benefits received by the same authority in 2019, whether the benefit was granted by a single deed or whether the disbursement took place in a number of payments.

1.10 BUSINESS OUTLOOK

Based on the latest data available, the Italian economy grew 0.2% in 2019. After four quarters of slow economic growth, the GDP in Italy dropped 0.3% in the last quarter. Both agriculture and industrial production decreased, whereas the service sector remained stagnant. The sentiment on economic cycle prospects remained weak, burdened by the overall fragile framework, thus penalising commerce and investments.
Surveys on company expectations indicate a weak start to 2020. Company trust increased in January, but there are no expectations of an imminent jump in industrial production. Even though not influenced by the weak industrial cycle, services should sustain the real GDP growth short-term. The temporary stabilisation of the industrial production linked to inverting the inventory rotation cycle, the reduction in the internal political framework uncertainty and more favourable loan conditions are the most likely factors able to sustain domestic demand beyond the short term.
Private consumption sustained by the new minimum income should sustain growth in the forecast period. However real income available should only increase moderately as families could suffer the weakness of the labour market, while savings should remain high.
Company investments should slow down in 2020, as indicated by recent surveys conducted on investments, whereas there should be a recovery in 2021, also due to the improved demand prospects and the more favourable borrowing conditions. The increased public investments expected should facilitate aggregated investment stabilisation. The macroeconomic conditions will probably remain complex, but should gradually provide increasing support for growth. Exports should increase, in line with the overall exports market expected to recover significantly towards the end of 2020.
As a whole, in 2020 real GDP growth should record recovery that is only slightly under +0.3% and +0.6% in 2021. Inflation was an average 0.6% in 2019 and is expected to rise to 0.8% in 2020 and 1.0% in 2021, due to growing pressure on prices compensated by the drop in energy prices. Basic inflation should gradually increase during the next two years. Company profits should recover margins in line with the accelerated economic activity, whereas salaries are only expected to grow moderately.
With reference to Volksbank, directions highlighted by the European Monetary Authority due to the uncertainties still weighing on the macroeconomic cycle and the expected inflation target evolution mean there are unlikely to be any interest margin improvements; they are weighed down by market rates at historical minimums, whereas commission revenues could benefit from the progressive improvement to the financial picture, the reduction in political uncertainty and the continuing high inclination to save. Though in a general, still uncertain macroeconomic context, the credit quality improvement process should continue, with positive effects on the number of Income Statement adjustments. The result of security activities will still be significantly conditioned by the financial markets, for which it seems difficult to make any reliable forecasts, in the light of the numerous uncertainty elements. Operating costs will still be contained and the Bank will continue controls to make sure they do so, with progressive improvement to the cost-to-income ratio in mind. It is felt that careful assessment of the elements highlighted will allow us to sustain total company profitability.

1.11 SIGNIFICANT EVENTS OCCURRING AFTER THE YEAR ENDED

In accordance with the special regulations issued by the Bank of Italy, significant events occurring after the end of the financial year are illustrated in Part A, Section 3 of the Explanatory Notes.

1.12 REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

1.12.1 SHARES AND EXERCISING RIGHTS

Banca Popolare dell'Alto Adige S.p.A. is a public limited company resulting from the transformation of the "Banca Popolare dell'Alto Adige società cooperativa" decided by the Shareholders' Meeting of 26.11.2016 pursuant to Law 33 / 23.03.2015.

The Bank's share capital amounts to €201,993,752, fully paid in and divided into 50,498,438 ordinary shares with no nominal value. Shares are exchanged on the order-driven Italian Multilateral Market managed, with Consob authorisation, by Hi-MTF Sim S.p.A. As of 8 November 2019, for shares put up for sale on the trading platform, the specialist operator Equita SIM S.p.A., Milan, registered with the mobile property intermediation company Register held by Consob under no. 67, acts as liquidity provider, based on methods and assignment limits granted by the Bank.

Each share entitles the holder to one (1) right to vote in the Shareholders' Meeting, except for treasury stock held by the Bank, for which the right is suspended. Voting rights are certified pursuant to art. 83-sexies of the Consolidated Finance Act, based on deposit accounts, related to closure of the accounting day on the seventh market day open prior to the date set by the Shareholders' Meeting. Credits and debits recorded on accounts after that term do not count to legitimise exercising the right to vote in the Shareholders' Meeting.

Exercising the right to vote is not limited. Please note that the legal limitation to the right to vote for shares exceeding 5% of share capital expired on 26 March 2017 with no effects.

Banca Popolare dell'Alto Adige is owned by a large, widespread shareholder base of about 58,000 shareholders with a considerable fragmentation of share ownership; legacy of the form of governance which foresaw the capita vote and strict legal limiting for acquiring shares in co-operative banks.

Share ownership fragmentation normally implies the presence at Shareholders' Meetings of a relatively low capital share for the shareholders taking part in person. Therefore, for corporate activities to take part in an orderly manner, voting proxies and the forms of joint representation of shareholder interests take on a certain importance and, in general, as does organisational simplification to take part and vote at the Meeting.

The holders of voting rights can grant proxies to take part and vote in shareholders' meetings pursuant to laws in force and methods established by the articles of association, Shareholders' Meeting regulations and, as regulated for deferment, by the Shareholders' Meeting call notice.

To guarantee the broadest presence possible of voting rights, with statutory amendment approved by the Shareholders' Meeting of 30 March 2019:

- the need to authenticate the signature of the delegating party was cancelled;
- the provision limiting the granting of proxy to shareholders alone was abolished;
- the right for the Bank to appoint one or more independent third parties that shareholders can assign proxies to with instructions in compliance with regulations for listed companies in Italy was established, without prejudice to the limit for each party delegated to represent a maximum of two hundred (200) proxies at the Shareholders' Meeting.
- the Bank was given to right to organise the granting and/or delivery of proxies electronically;
- the Bank was given to right to organise intervention and vote in the Meeting electronically from remote.

For the ordinary Shareholders' Meeting called for 22 April 2020 - in in single ordinary call validly constituted regardless of the number of voting rights present - the Board of Directors has acknowledged that it is not useful to call the independent third party representative and/or to activate granting of proxies in a dedicated section of the website and to organise the Shareholders' Meeting digitally

Please note that, pursuant to law:
- each delegated party can exercise up to a maximum of two hundred (200) vote proxies granted by rights holders who do not take part in the Meeting;
- directors, statutory auditors and employees of the bank and its subsidiaries may not take on voting proxies;
- proxies must be delivered in original version on entering the Meeting by when the start of meeting works has been ascertained. In order to legitimise the right to take part and vote, certification of the share depositary bank for the subject holding voting rights is always needed.

In order to vote at the Shareholders' Meeting, forms of aggregation between shareholders are permitted. Typically, depending on the specific nature of the associated interests, voting rights may be organised through the following institutions:
- an association of shareholders, which exercises the voting proxies obtained from its members;
- a shareholders' (voting) agreement, with a vote agreed by a majority of the parties to the agreement;
- a (vote) holding company, with the vote decided by the Board of Directors of the holding company.

On 18 November 2019, the Bank was notified of the existence of a shareholders' agreement between some shareholders with commitment for consultation and vote in the Shareholders' Meetings, to define some limits to the circulation of Bank shares owned by the associates and establish terms and methods for other shareholders requesting it to adhere to the agreement.

As far as the Bank knows, when this document was drafted, the voting rights held directly or indirectly by the shareholders singly or aggregated in forms permitted by law, do not reach any relevant threshold for Supervisory purposes.

1.12.2 THE SHAREHOLDERS' MEETING

The Shareholders Meeting calling notice is published by the Bank within the term indicated in the articles of association of at least twenty (20) days. The Meeting is normally held, by legal and statutory methods, in a single call in ordinary and extraordinary session and is, in a single call, validly constituted whatever the part of share capital present in ordinary and extraordinary session when at least 1/5 of voting rights are present or represented or, on share capital subscribed to and paid up of € 201,993,752, divided into number 50,498,438 shares, when at least 10,099,688 rights are present. The high number of voting rights required for the valid constitution of an extraordinary Shareholders' Meeting reflects concerns that an adequate quorum be reached and the importance of establishing proxies and correct organisation in the interests of shareholders for the orderly management of the company.

The Articles of Association allow for multiple convocations, at the discretion of the Board of Directors. In that case, with special constitutional and decision-making quorums; and a reinforced quorum regulates matters indicated in art. 16, paragraph 3 of the articles of association.

The Shareholders' Meeting adopts resolutions openly, by a majority of the established voting rights, with the exception of the appointment of the Board of Directors and the Board of Statutory Auditors, which takes place by list voting in accordance with the procedures established in the articles of association: art. 21 for the Board of Directors and art. 33 for the Board of Statutory Auditors.

Corporate bodies serve for three year terms, with the terms of office under way in 2019 expiring:
- for the Board of Directors, upon approval of the financial statements for the year ended 31 December 2019;
- for the Board of Statutory Auditors, upon approval of the financial statements for the year ended 31 December 2021.

Lists of candidates for the election of directors and statutory auditors are validly submitted, in accordance with legislation, including regulatory and statutory provisions governing the matter, with signature authenticated by a Notary or signed in Banca Popolare dell'Alto Adige, in the presence of employees authorised to receive it, of shareholders who, together, hold voting rights equal to at least one per cent (1%) of share capital. The minimum capital threshold requirement to present a list of candidates (directors and statutory auditors) is 504,984 Banca Popolare dell'Alto Adige shares.

To present candidate lists, the shareholders consult the articles of association, the Shareholders' Meeting regulation and the Meeting notice of call, as well as documents published on the Bank website when Bank Bodies are renewed.

For the purposes of the criterion for drawing from the lists of candidates to form the Board of Directors or the Board of Statutory Auditors, the list that obtains the highest number of votes at the Shareholders' Meeting is considered the "majority" list, while the second and third most voted lists for the election of the Board of Directors or the second most voted list for the election of the Board of Statutory Auditors are deemed to be the "minority" list when they have obtained a vote of at least one per cent (1%) of share capital.
For further information, please see the "Corporate Governance" page on the Bank website.

1.12.3 THE SIZE PROFILE AND GOVERNANCE MODEL OF THE BANK

NOTES ON SIZE PROFILE

Banca Popolare dell'Alto Adige is a commercial retail bank for families and small and medium-sized enterprise. It was established in Alto Adige through the merger of three local credit co-operatives dating to the second half of the 19th century. At end 2019, the Bank operates with a North-East distribution network with 160 branches and onboarding and remote bank service use models evolving with the sector's digital transformation.
In 2017, it started an important functional reorganisation of its branch network that is still going on.
The bank is the Parent Company of the Banca Popolare dell'Alto Adige Banking Group, set up at the start of 2019 through acquisition of the controlling shareholding in the financial company Voba CB, a limited liability company. Voba CB is a Special Purpose Vehicle, assignee of the assets suited to guarantee the OBG (covered bonds, regulated by Law 130/1999, art. 7-bis and implementation regulations) issued by the Bank and which constitute the activities to procure money to be used for funding, in compliance with the strategic Plan. A first tranche of OBG was placed in 2019 for a nominal €300 million.
As part of the bank Supervisory harmonisation process at European level with the Single Supervisory Mechanism (SSM) coming into force in 2014, the Bank is included in the "Less Significant Institutions" which remain subjected to the Supervisory powers of the national Authority. Based on Bank of Italy classification criteria, the indicators of size, operating and organisational-structural complexity place Banca Popolare dell'Alto Adige S.p.A.amongst the "intermediate banks" that is banks with financial statement assets of between €3.5 and 30 billion.

CORPORATE GOVERNANCE MODEL

The quality of of its organisational and corporate governance design is an essential requirement for ensuring that the Bank is managed in a sound, prudent manner, is capable of generating profitability, and that it can foster the confidence of the economic context in the Banca Popolare dell' Alto Adige S.p.A, enterprise. Based on the assumption of sound, prudent management, the Bank of Italy establishes the general principles and application lines for enhancement of governance structures, with particular attention for the rules of operation in the:

- financial structure and relationship with owners;
- configuration and functioning of corporate bodies;
- requirements for company representatives and the role of directors;
- organisational architecture and monitoring of internal controls and risk management;
- control of conflicts of interest.

The operational regulations of the public limited company Banca Popolare dell'Alto Adige are based on Articles of Association and on the organisational and corporate governance Project. The latter is considered as the group, updated from time to time, of Company control documents based on Supervisory guidelines and provisions.
Banca Popolare dell'Alto Adige adopts the so-called "traditional" corporate governance model which prescribes the corporate Bodies and the functions they are called on to perform, in compliance with statutory and banking Supervision regulations, in:

- a Board of Directors, appointed to strategically supervise and control management and
- a Board of Statutory Auditors, charged with ascertaining correct Company administration.

THE BOARD OF DIRECTORS

The Board of Directors is assigned the strategic and management supervision of the Banca Popolare dell'Alto Adige banking Group and must govern the risks the Bank is exposed to in its activities based on «healthy, prudent management» principles.
The strategic supervision involves deciding the Group's direction and strategic objectives and checking they are implemented. Strategic supervision related to resolutions that (i.) establish the following decision-making areas and that (ii.) check their implementation:
- the commercial model;
- updates to the business and financial Plans;
- risk objectives and connected risk governance policies to understand their correlation with the business Plan and the external environment [5];
- the internal control system guidelines;
- guidelines and coordination of subsidiaries;
- transactions and provisions of strategic importance and which cannot be delegated.

Management supervision concerns (i.) defining the organisational structure (of the Bank and the Group) and (ii.) control of the adequacy and appropriateness of the commercial model defined in strategic supervision and (iii.) management control, that is checking that objectives decided in strategic supervision are implemented and ascertaining activities carried out. Management supervision areas are resolutions that establish and check.
- the Bank's organisational, administrative and accounts structure;
- the delegation and the directional information flow systems;
- the risk management process and IT security;
- the internal controls system;
- the process for introducing services, products and new activities and for entering new markets;
- the corporate function outsourcing policy.

Management supervision includes monitoring and coordinating domains constituting the direction and discipline corpus guaranteeing the consistency between:
- Business Plan, RAF, risk objectives, ICAAP, budget and internal controls system;
- supply of capital and liquidity, risk appetite, risk governance policy and resulting management processes.

Operational management is controlled, pursuant to law and the articles of association, by the General Manager who supervises the internal structure, executes board resolutions and exercises current activities based on guidelines and within limits of powers established by the Board of Directors. The delegation system attributes management powers for deed categories to the operating structures and on the granting of credit, in particular, to executive directors organised in the Credit Committee, to operating structure committees, internal credit Committees and employees singly. Delegated offices supervise business with executive powers in accordance with the guidelines and objectives established by the Board, to which they report.

The number of directors.
Pursuant to art. 20 of the Articles of Association, the Board of Directors may consist of a minimum of nine and a maximum of twelve directors, elected by the Shareholders' Meeting for a period not exceeding three years. Directors may be re-elected. The Shareholders' Meeting decides how many directors should be elected in the year preceding their appointment based on the Board of Directors proposal, in accordance with the supervisory instructions and procedures described in Circular 285 - Title IV, Chapter 1 (Corporate Governance), Section IV (Composition and appointment of corporate bodies).
The proposal is based on the self-assessment performed by the Board of Directors on its best collective composition. On the healthy, prudent management plan, the Board deemed it was good practice to reconfirm the number of directors due to the complexity of regulatory references and instances resulting form the technological push and the Bank's reference market.

([5]) «External environment» are the variables occurring externally and outside the Bank's control (e.g. economy; politics; competition) but which cause internal changes (e.g. strategic planning: proactive changes to the Business Plan).

The Shareholders' Meeting of 30 March 2019 decided to maintain the number of twelve (12) directors for the 2020-2022 Board of Directors, to be elected by the Shareholders' Meeting approving the financial statements as at 31 December 2019.

The professional qualification of directors.
The Shareholders' Meeting called to approve the 2019 financial statements is also called to elect directors for the 2020 – 2022 mandate, choosing with list vote regulated by arts. 21 and transitory 43 of the articles of association. Directors must hold the position requirements established by the law, by bank supervision Provisions and by the articles of association and have the «competence» and «time» appropriate to the professional diligence required by the position.
In order for shareholders to be able to select and appoint directors suited to the office, the supervisory Provisions Circular 285 / 2013 First Part, Title IV, Chapter 1-IV ask bank boards of directors to establish ex-ante, at the time of new appointments, the «professional profile of reference» which, based on experience acquired, they consider preparatory for the suitability assessment of in-coming directors, individually and for the quality of the board group formed by them. The result is that directors must each have a competence profile that is pertinent to the size of the bank they are managing and must form, as a whole, a Board of Directors that shows a balanced combination of "theoretical" (from formal studies) and "practical" knowledge (from professional careers) and from suitably diversified individual skills and personality profiles.
When establishing the competence criteria it deems in-coming directors must satisfy, the out-going Board considered the EBA / ESMA 09.2017 guidelines and of the ECB 05.2018 on qualification of bank representatives, in particular, the principles contained in the MEF decree – being issued (see Par. The reform of art. 26 TUB) – including the regulation on requirements and criteria [for the assessment] for the suitability of bank representatives. Requirements for the office and competence criteria «suited to the size and complexity of the BPAA Group» are written in the 2020 professional Profile of reference published on the Bank's website.
The Board of Directors constituted through extraction - in accordance with rules indicated by art. 21, paragraph 8 of the articles of association - from the list of candidates presented by shareholders, proceeds with formal process and information to Bank of Italy to check the suitability of single directors and the qualitative assessment of the collective composition resulting from the appointment process. The professional competence defect, that cannot be filled through specific, limited training measures, implies the non-compliant director falling from office, also through action taken by the Bank of Italy.

Roles in the Board of Directors.
Directors are required to act in an informed manner and make collective decisions, each with full autonomy of judgement.
The chairman is required to ensure the effective functioning of corporate governance and the effectiveness of Board discussions so that the decisions that the Board takes are the result of a genuine dialectic process, based on the informed and reasoned contribution of all directors.
Executive directors are organised in Board committees with executive mandates for the granting of credit.
Non-executive directors shall participate in the Board's resolution process with specialist expertise, in particular to analyse the risk associated with major decisions.
Independent directors are non-executive directors who have been formally assessed as meeting the independence requirements established from time to time by the Supervisory Authority and by the Articles of Association. They participate in Board discussions on potential conflicts of interest with authority and autonomy that is not influenced by relations with the Bank or persons connected with the Bank.

The following collegial bodies are established as Board of Directors' committees:
- the Credit Committee
- the Committee of independent directors
- the risks Committee

The Credit Committee ("CC"), as provided for in art. 31, paragraph 2 of the Articles of Association, exercises the executive powers granted annually by the Board of Directors with regard to the granting of credit and instructs the Board on customer positions that exceed the established limits. The CC consists of three to five executive directors appointed by the Board of Directors, appointed from year to year, and the General Manager with an effective vote. The CC is governed by its own Regulations. The Committee meets on a weekly basis. Minutes are compiled on its deliberations and it reports to the Board of Directors, providing aggregated data, at the earliest opportunity.

The Committee of Independent Directors ("CID"), established pursuant to art. 28, paragraph 2, letter (l) of the Articles of Association, acts as a consultative and advisory body to the Board of Directors, with a mandate to minimise Banking risks arising from resolutions that involve a potential conflict of interest, with particular regard to (i) transactions with persons who may exercise influence over Board decisions (the so-called "Persons connected with the Bank"), (ii) in determining the system of remuneration and incentives for personnel whose work has a significant impact on the Bank's risk profile (the "Remuneration Policies"), (iii) determining the theoretical requirements that candidate directors must meet (the "Optimal Composition of the Board") and selecting and appointing personnel that are most appropriate for the Bank's risk profile. The CID consists of three non-executive directors that meet the relevant independence requirements. The Committee is governed by specific Regulations and operates according to company regulations that transpose the supervisory regulations governing the transactions indicated in this paragraph.

The Risk Committee ("CR"), established pursuant to art. 30 of the Articles of Association, is a Board sub-committee dealing with risk assessment and the internal control system matters. The CR has advisory, investigative and proactive powers in support of the Board's decision-making process. The Committee is composed of five non-executive directors, the majority of whom are independent.

The Committee is governed by specific Regulations governing its characteristics and duties, pursuant to the provisions of Supervisory Circular No. 285.

The Board of Directors 2019 by aggregated data

Number of components	11 directors (*)
Number of meetings	24
Gender balance	9 M ÷ 2 F (1 vice president, 1 director)
Average age	51
Average years in office	14 years
Directors drawn from minority lists (2017 election)	no minority lists were submitted

(*) In 2018 the director Marcello Alberti died

Board committees

Credit Committee	
Number of components	4 Executive Directors
Number of meetings in 2019	27

Committee of Independent Directors	
Number of components	3 Independent directors
Number of meetings	20

Risks Committee	
Number of components	4 non- executive directors of which 3 independent
Number of meetings	22

Board of Directors and Board committees (recognition date 31.12.2019)

The Board of Statutory Auditors
The Board of Statutory Auditors is responsible for supervising compliance with legislation governing Bank activities and the proper administration and adequacy of the Bank's organisational, administrative and accounting structure. The Board of Statutory Auditors is required to report to the Bank of Italy on matters it becomes aware of when exercising the mandates provided for in art. 34 of the Articles of Association, where such facts may constitute an irregularity in Bank management or, in general, an infringement of the rules governing proper banking conduct.
The incumbent Board of Statutory Auditors was elected by the Shareholders' Meeting of 30 March 2019 for the three-year term 2019-2021. Its mandate expires with approval of the financial statements for the year ending 31 December 2021.

The Board of Statutory Auditors by aggregated data

Number of components	3 standing auditors, 2 alternate auditors
Number of meetings	36 (8 of outgoing Board 28 of the Board elected on 30 March 2019)
Gender balance	3 M ÷ 2 F (President and Alternate auditor)
Age – standing auditors (average)	49
Remaining in office – standing auditors (average)	8 years

Board of Statutory auditors (recognition date 31.12.2019)

1.12.4 REFORM OF ART. 26 TUB

Art. 26 of the Italian Consolidated Banking Act ("TUB" - Legislative Decree 385/1993) as reformed by Legislative Decree 72/2015, adopting directive 72 2013/36/EU on the prudential supervision of banks - provides that persons performing administrative, management and control functions in banks must be suitable for those duties and grants the Minister for the Economy and Finance a mandate to identify, by means of a decree adopted following consultation with the Bank of Italy, the requirements and eligibility criteria to be met by such persons, the limits on the number of positions they may hold in third party companies, the grounds on which they may be temporarily suspended from office and the duration of any such suspension, and the cases in which the requirements and eligibility criteria also apply to the heads of the main corporate departments in major banks.
As indicated in the art. 26 of the Consolidated Banking Act, the implementing legislation of the Ministry of Economy and Finance applies to appointments as of the date of its entry into force. Until that date, the previous provisions pursuant in art. 26 of the Consolidated Banking Act continue to apply, with the relevant implementing rules established by Ministerial Decree No. 161/1998.
The main changes in the draft decree, compared to the previous Ministerial Decree 161/1998, are inspired by the guidelines of the European Central Bank (Guide to fit and proper assessments - May 2017) and propose some new parameters for the suitability of corporate representatives, including:

- new criteria for propriety, independence, and independence of judgement, in addition to good reputation requirements;
- greater professionalism and competence, based on the principle of proportionality in relation to the size of the Bank;
- an exhaustive indication of the criteria of independence, under penalty of forfeiture of office;
- stricter criteria for assessing the commitment of company representatives, including their availability and the time they intend to dedicate to their mandate and stricter limits the holding of multiple positions;
- a review of the criteria for adequacy of the Board's collegiate composition.

In general terms, the draft legislation significantly reinforces the standards for company representatives, partly by raising the existing requirements, but above all by introducing new aspects (propriety, competence, collective composition, independence of judgement, availability of time, limits to the number of positions held).
The Regulation had not yet come into force on the date this 2019 Financial Report was drawn up.

1.12.5 Internal controls related to accounting and financial information

The Internal Control System for corporate reporting can be understood as a process that, as it involves multiple corporate functions, can provide reasonable assurances as to the reliability of financial reporting, the reliability of accounting documents, and compliance with applicable legislation.
There is a close and clear correlation with the risk management process, which is the process of identifying and analysing those factors that may compromise the achievement of the company's objectives, in order to determine how these risks can be managed. In fact, an appropriate, effective risk management system can mitigate any negative effects on the company's objectives, including the reliability, accuracy, reliability and timeliness of accounting and financial information.
In order for the Bank to establish and maintain an adequate system of control over corporate reporting and assess its effectiveness, a comparative model must firstly be identified to which reference can be made. It must generally be accepted, rigorous, complete and therefore serve as a guide to proper implementation and evaluation of the control system.
The presence of an adequate system of administrative and accounting procedures and its proper functioning over time is verified according to specific methodologies defined in internal regulations and is partly achieved by the appropriate organisational unit established for this purpose, and partly by the same unit with the support of other corporate functions.
The scope of analysis must also take account of the components of the internal control structure at company level that affect financial reporting; these controls operate across the single line business processes.
The next section describes the main characteristics of the existing risk management and internal control systems in relation to the financial reporting process

Identification of risks to financial reporting

Risks are identified primarily by analysing the risks that reside alongside the business processes from which financial reporting originates.
This activity involves defining quantitative and qualitative criteria.
Significant processes identified are defined as such if associated with material data and information, i.e. accounting items for which there is no possibility that they could contain errors that could potentially have a significant impact on financial reporting.
In each significant process, the most significant "assertions" are also identified, again according to assessments based on risk analysis. Assertions in the financial statements consist of the existence, completeness, need and valuation of rights, obligations, presentations and disclosures. The risks are therefore associated with the possibility that one or more assertions in the financial statements are not correctly recognised, with a consequent impact on reporting.

Assessment of financial reporting risks

Risk assessment is performed both at the overall corporate level and at the level of the specific process. The first category includes, with particular regard to financial reporting, risks of fraud and risks of IT systems functioning incorrectly or of failure to separate functions. At process level, the risks associated with financial reporting (operational errors, underestimation or overestimation of items, inaccurate reporting, etc.) must be analysed at the level of the activities making up the processes.
An assessment of relevant risks and controls associated with the critical processes of the Financial Reporting Officer is conducted using a risk-based approach, which has as a fundamental prerequisite the precise mapping of company processes.
The potential risk index is a summary assessment of the single risk event, the occurrence of which could cause direct/indirect economic and financial damage, damage to assets, sanctions, or damage to the company's reputation. It is recognised as part of the process and is independent of existing controls. The risk index is assessed

on the basis of the intensity of potential damage and its frequency, i.e. the number of times the risk may occur. A combination of intensity and frequency gives rise to an indication of an inherent or potential risk.
In the first instance, the focus centres on controls at company level that can be linked to data/information and the relevant assertions, identified and evaluated by monitoring the impact both at process and general level.
Company-wide controls can prevent or detect any significant errors although they do not operate at the process level.
Having adopted a "risk based" approach, determination of critical processes and, within them, of accounting risks at process level, guides the analysis and involves the subsequent identification and evaluation of controls, which can mitigate the level of inherent risk and bring the residual risk within acceptable levels.

Assessment of controls in response to identified risks

An assessment of the control system used is based on various elements: virtuous controls; timing and frequency; adequacy; operational compliance; organisational evaluation. An overall analysis of the controls of each risk is defined independently as a synthesis of the process of assessing the level of adequacy and compliance of the controls. These analyses summarise subjective considerations regarding the effectiveness and capacity of controls to control single risks. The overall assessment of risk management may be broken down into assessments of existence, adequacy and compliance.
The risk assessment process ends with a determination of the level of residual risk as a value resulting from application of the overall assessment of controls in relation to the inherent risks.
Information flows with the results of assessments are made available to the administrative bodies on a half-yearly basis as operating reports of the Financial Reporting Officer. These reports include: the results of determination of the critical scope of analysis, identification of accounting risks with related final valuation scores, a focus on the deficiencies and points for improvement detected and the relevant mitigation procedures, together with a summary of the adequacy and effectiveness of controls at the company level.

The Financial Reporting Officer is essentially at the top of the system overseeing the drafting of financial reporting. In order to pursue his mission, the Financial Reporting Officer has the power to lay down the organisational guidelines for an adequate structure within his remit.
Various company departments contribute to providing economic and financial information. Accordingly, the Financial Reporting Officer must establish a systematic and fruitful relationship with these offices.
The Board of Directors is responsible for ensuring that the Financial Reporting Officer has adequate powers and means to perform the tasks assigned to him, as well as ensuring actual compliance with administrative and accounting procedures.
The Financial Reporting Officer is required to inform the Board of Statutory Auditors promptly if any problems of an accounting, asset and financial nature arise.
The above model is being progressively refined as part of a project to formalise the administrative, accounting processes and relative controls. The subsequent integration of processes and controls in a specific application will enable the financial information controls system to evolve towards better management of growing company complexity.
The model used during 2019 is believed to provide sufficient guarantees for correct accounting and financial reporting. It should be noted, however, that we cannot be certain that dysfunctions or anomalies with an impact on accounting and financial reporting cannot occur, even if the internal control systems are established and functioning correctly.

1.12.6 THE INDEPENDENT AUDITING FIRM

With approval, in the Shareholders' Meeting of 30 March 2019, of the financial statements closed as at 31.12.2018, the nine-year independent auditing mandate granted by the Shareholders' Meeting of 20 April 2010 to BDO Italia S.p.A. ended, precluding a new appointment pursuant to law.
The Shareholders' Meeting of 30 March 2019 therefore appointed, pursuant to art.13 of Legislative Decree 39/2010 based on a motivated proposal by the Board of Statutory Auditors, the company KPMG S.p.A. to conduct the independent auditing of the accounts of Banca Popolare dell'Alto Adige S.p.A. for the years 2019 – 2027, within the terms and under the conditions contained in the Board Report for the Shareholders' Meeting decision.

1.12.7 MANAGEMENT OF CONFLICTS OF INTEREST AND TRANSACTIONS WITH RELATED PARTIES

The Group Regulation for management of Transactions with related parties and connected Subjects updated by the Board of Directors on 21 June 2019 sums up, in a single body of rules:
- prudential limits on risk activities by an individual related party;
- restrictions on exposure to all related parties considered as a whole: the method of determination of an exposure limit is set out in the Risk Appetite Framework; the threshold established in this manner updates the "Credit Strategies";
- procedures for the identification, approval and execution of transactions with related parties and internal rules to ensure the transparency and substantive and procedural propriety of transactions, together with procedures for the fulfilment of public disclosure obligations, financial reporting requirements, and any other reporting requirement established by applicable legislation, including regulatory provisions;
- monitoring of operations in which an employee or external contractor has an interest that is different to that of the Bank;
- internal policies for controls on risk activities and conflicts of interest involving related parties;
- the responsibilities of the corporate departments involved.

The Regulations govern transactions with related parties and establish the procedures that the Bank must adopt in compliance with Consob and Bank of Italy regulations to identify and monitor transactions with related parties and ensure compliance with prudential limits for risk activities in relation to such transactions. This safeguard is designed to capture, based on the Bank's specific characteristics, the risk that any proximity of certain parties to the decision-making centres could compromise the objectivity and impartiality of decisions on the granting of loans and other transactions with such parties, with possible distortions in the resource allocation process and the consequent exposure of the Bank to risks that are not adequately measured, to the potential detriment of depositors and shareholders.
The Regulations define and formalise procedures for the management, communication, control and reporting of the execution of transactions:
- undertaken by the Bank with related parties, in order to ensure the transparency and substantive and procedural propriety of such transactions and to establish the procedures for the fulfilment of the relevant reporting obligations, including those established by law and by applicable regulations (CONSOB Regulations);
- with affiliated entities (related parties and parties in turn related to them), undertaken by the Bank in order to ensure compliance with prudential limits for risk activities and the substantive and procedural propriety of such transactions (Bank of Italy requirements), implementing the most restrictive requirements, procedures and definitions of those separately established in CONSOB and Bank of Italy provisions.

In guarantee of procedures for authorisation, disclosure and reporting to the supervisory bodies, the Bank uses IT systems for the automatic acquisition and reporting of agreements and transactions with the counterparts identified in the Regulations.

1.12.8 REMUNERATION POLICIES

On 18 November 2014, Bank of Italy integrated its Supervisory Provisions for Banks (Circular 285 of 17 December 2013) with a new chapter on remuneration and incentive policies which implements the contents of directive 2013/36/EU (CRD IV) and abrogates the Provision of 30 March 2011 (Supervisory provisions on remuneration and incentive policies and procedures in banks and banking groups).
The European Banking Authority ("EBA") also published an update to its remuneration guidelines (the "Guidelines") on 21 December 2015. On 26 October 2018, the Bank of Italy published the XXV update to its Circular 285 to adapt the Italian regulatory framework to the European Banking Authority guidelines.
So during 2015, the Bank started its annual review of the Remuneration Policies to align itself with regulations currently in force.
On 30 March 2019, the Shareholders' Meeting approved the remuneration Policies decided by the Board of Directors on 22 February 2019, updated due to the changed regulatory context mentioned above, and to pursue its medium-long term company objectives.
In particular, changes in Remuneration Policies in force include a bonus and incentive system anchored to the long term performance of "key personnel" who have a greater impact on Bank risk. Therefore, in compliance with European legislator principles and Bank of Italy regulations, the Remuneration Policies applied by Volksbank foresee payment of a part of variable remuneration in financial instruments, deferment over time of a part of those variable payments, the prohibition to sell (for a set period of time) the financial instruments paid and a series of ex post corrective mechanisms, if the performance assumptions the remuneration received are based on prove to be wrong or, in worse cases, depended on the non-compliant conduct (or even fraudulent) of beneficiaries - so-called malus and claw-back mechanisms.
For further information, please see the document published on the Bank website.

1.12.9. INTERNAL CONTROL SYSTEM AND CONTROLLING RISKS

A detailed description of the single components of the internal control System and management and risk control activities is contained in this Report on Operations in paragraph 1.8 Management of Risks and in the Notes.

CHANGES SINCE THE END OF THE YEAR OF REFERENCE

Except for what was reported in "Part A of the Explanatory Notes, Section 3 – Events occurring after the date of reference of the financial statements", no further changes to the governance structure need to be reported.

COVERING LOSSES FOR FINANCIAL YEAR 2019

Dear Shareholders,

The financial statements of Banca Popolare dell'Alto Adige S.p.A. for financial year 2019 show a negative result for € 84,371,785.83. So there is the need to decide to cover that loss using reserves available.

For the purpose, the equity reserves have been considered, as reported in the Explanatory Notes, "Part B, section 14.4" of Liabilities with their usability criteria.

The available share of those reserves amounts to a total of € 628,670,564.99 and includes the share premium Reserve for € 383,158,533.16 and the profits Reserves for € 245,512,031.83.

Pursuant to art. 2364 of the Italian Civil Code and art. 40 of the Articles of Association, the Board of Directors proposes covering the loss for the year by attributing it, for € 84,371,785.83, to the share premium Reserve.

Related to the negative net result, we are therefore submitting it for your approval.

	(euro)
Coverage of 2019 period losses using the Share Premium Reserve issued	84,371,785.83

Furthermore, as is known, pursuant to art. 6, paragraph 1, letter a) of Legislative Decree 38/2005, a share of period profits corresponding to the capital gains recognised in the Income Statement, net of relative taxes, resulting from applying the fair value criterion, has to be entered in a non-distributable reserve. As at 31 December 2019, that amount was €1,367,572.94.

If the proposal made meets your approval, the shareholders' equity of Banca Popolare dell'Alto Adige S.p.A. will be as indicated in the table below.

Equity	**Financial Statements 2019**	**Change due to shareholders' meeting resolution**	**Capital and reserves after shareholders' meeting resolutions**
Capital			
- Ordinary	*201,993,752.00*	-	*201,993,752.00*
- of savings			
Total capital	**201,993,752.00**	**-**	**201,993,752.00**
Emission surcharges	383,158,533.16	-84,371,785.83	298,786,747.33
Reserves	267,883,115.58	-	267,883,115.58
Valuation reserves	-179,194.27	-	-179,194.27
Treasury shares in portfolio	-19,126,853.60	-	-19,126,853.60
Total reserves	**631,735,600.87**	**-84,371,785.83**	**547,363,815.04**
Total	**833,729,352.87**	**-84,371,785.83**	**749,357,567.04**

REPORT OF THE BOARD OF STATUTORY AUDITORS

REPORT OF THE BOARD OF STATUTORY AUDITORS

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS’ MEETING PURSUANT TO ARTICLE 2429, PARAGRAPH 2, OF THE ITALIAN CIVIL CODE AND ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/1998

Dear Shareholders,

with this report, drawn up in compliance with the Italian Civil Code - specifically art. 2429, paragraph 2 - and art. 153, paragraph 1, Legislative Decree 58 of 24 February 1998, the Board of Statutory Auditors of Banca Popolare dell'Alto Adige S.p.A. (hereinafter the “Bank", the “Company" or "Volksbank"), Parent Company of the Banca Popolare dell'Alto Adige banking Group, reports on the most significant aspects of the supervision and control activities conducted during the financial year closed as at 31 December 2019.

Please be reminded that the Board of Statutory Auditors, in its current composition, was appointed for the 2019-2021 three year period, that is until approval of the financial statements for the year as at 31.12.2021, by the Shareholders’ Meeting resolution of 30 March 2019.

Summary of supervisory activity

During the fiscal year 2019, the Board of Statutory Auditors performed the supervisory activities established by the Italian Civil Code, by Legislative Decree 385/1993 (Consolidated Banking Act - T.U.B.), by Legislative Decrees 39/2010 and 58/1998 (“T.U.F.” Consolidated Finance Act), by the guidelines of the public Authorities exercising supervision and control activities, by statutory regulations and by the principles and codes of conduct recommended by the National Association of Chartered Accountants.

From appointment until now, the Board of Statutory Auditors has met 36 times and has taken part in 26 Board of Directors’ meetings and, through a representative or in a joint session, in the meetings of the Risks Committee and other Board Committees and the Supervisory Body, set up by the Bank pursuant to Legislative Decree 231/2001; obtaining exhaustive information on activities carried out and on the most important transactions conducted by the Bank and ascertaining the regularity of management through periodical audits. In particular, from when it was appointed the Board of Statutory Auditors has arranged a number of interviews and meetings with the Chairman of the Board of Directors, the General Manager, the top managers of company control Departments with various Bank departments to acquire complete, updated knowledge of the Bank’s overall situation and identify the main critical issues. The Board of Statutory Auditors committed to promoting the corrective actions needed. The Board also maintained an ongoing, proactive exchange with the independent auditor and the Financial Reporting Officer of the Bank,

In particular, from the time of appointment, the Board of Statutory Auditors:

- has obtained the information required on compliance with law, the Articles of Association and regulations, on observance of the principles of sound administration, the adequacy of the Bank’s organisational structure and its internal control and administrative-accounting systems;
- has obtained significant information on management, its evolution and the Bank’s most significant economic, financial and capital transactions from Directors and General Management;
- has performed audits on the internal control system, including through participation by the Head of Internal Audit at its meetings, and liaised with managers of the Risk Management, Compliance and Anti-Money Laundering departments to oversee the necessary interrelationship of their respective control duties, and duly informing them of the outcomes; the Board appreciated the Board of Directors decision to carry out an Assessment on the internal control system in order to strengthen its effectiveness and efficiency.

- has ensured, on the basis of statements issued by single Directors and the collegiate assessments of the Board of Directors, that the criteria and procedures adopted by the Board of Directors to assess the independence of its members were correctly applied;
- has checked transactions coming within the scope of art. 136 of the T.U.B. and ensured compliance with the obligation, established in art. 2391 bis of the Italian Civil Code, to adopt rules to guarantee the transparency and substantive and procedural propriety of transactions with related parties. No significant findings emerged from these audits. Information on transactions with related parties is provided in section "H" of the explanatory notes to the financial statements;
- in light of orders issued by the Supervisory Authorities on remuneration and incentive systems, the Board of Statutory Auditors, in close collaboration with the other corporate functions, checked that the rules on the remuneration of the heads of corporate control bodies and of the Financial Reporting Officer were correctly applied. The Board of Statutory Auditors has acknowledged the audits carried out by and endorsed the observations of the Internal Audit Department on the compliance of remuneration practices with policies and the regulatory environment, leading to a satisfactory assessment. On the basis of the information available, the Board of Statutory Auditors considers that the principles set out in the Remuneration Report are not inconsistent with the corporate objectives, strategies, and policies of prudent risk management.
- has duly ascertained the adequacy of orders given to subsidiaries;
- has regularly acquired information on the procedures, management methods and evolution of complaints and assessment of relative risks with specific reference to management of complaints regarding Bank shareholders;
- has checked - in close, ongoing comparison with the independent auditing firm, KPMG S.p.A. - compliance with laws and regulations in force on financial statement preparation, implementation and layout processes for year 2019, and the compliance with laws and regulations in force and consistency with Board of Directors' resolutions.

Significant transactions during the year

During the year, from the time of its appointment, the Board of Statutory Auditors obtained information on the most significant economic and financial transactions undertaken by the Bank. On the basis of the information provided, the Board of Statutory Auditors found that the transactions were based on observance of the principles of proper administration, compliance with law and the Articles of Association, and were not manifestly imprudent, risky, involving conflicts of interest, contrary to resolutions adopted, or liable to compromise the integrity of the company's assets.

The significant facts and events occurring during the year, details of which are provided in the Report on Operations and in the Explanatory Notes, included:

- the creation of a banking Group formed by the Banca Popolare dell'Alto Adige S.p.A. and by its subsidiary Voba CB s.r.l., special purpose vehicle for covered bond funding;
- the launch of a program to issue covered bonds to make funding even more efficient;
- placement, in the program mentioned above, a seven-year covered bond for a nominal value of €300 million on the international market;
- approval by the Board of Directors of a treasury share purchase and disposal plan (up to a maximum of 420,000) pursuant to arts. 2357 and 2357-ter Italian civil code, authorised by the Bank of Italy;
- the transfer without recourse, as part of the strategy to manage non-performing loans approved by the Board of Directors, of several non-performing loan positions for a total gross volume (including default interest) of €107,585,373;
- the process to select a new General Manager;
- the full write-down after the impairment test carried out by Bank Directors of the goodwill value entered in the financial statements as at 31 December 2018 for €99.6 million and related (i) to the transaction to purchase the company branch of Gruppo Banca Intesa and (Ii) the merger through incorporation of the Banca Popolare di Marostica Group due to the development of negative market conditions;
- the recognition of adjustments on loans for a total of €77.9 million: in that area the Board obtained regular information on adoption by the Bank of suitable controls on the management and assessment of of the loans portfolio, with specific reference to non-performing loans.

From 18 February 2019 to 14 June 2019 the Bank of Italy conducted audits on the Bank. That audits were then extended to the investment services at a specific Consob mandate. Following that audit, on 30 August 2019 Bank of Italy delivered an audit report to the Bank, highlighting both management and compliance findings. The Bank prepared a “post-audit” action plan containing the corrective measures taken or being taken to apply the indications contained in the findings highlighted in the report and monitoring of the relative corrective measures. The plan was approved by the Board of Directors, assessed by Company control Departments and the Board of Statutory Auditors. Please note that the Board of Statutory Auditors is continually supervising how activities are progressing. In fact, monitoring related to the critical issues raised were integrated in the action plans of the Company Control Departments and of the Board of Statutory Auditors for 2020, in order to guarantee continual supervision and control of the action plan implementation and compliance.

Covid-19 epidemiological emergency

Starting in January 2020, following an epidemic called “novel corona virus" or 2019-nCoV breaking out in China, the Government adopted restrictive measures to keep the epidemic from spreading. Consistent with public authority Covid-19 epidemiological containment and management measures, the Company adopted some preventive measures to protect its employees and clients. Alongside protecting the health and well-being of personnel, business continuity is a priority for Volksbank. There is currently uncertainty over the impacts that those events can have on the macroeconomic variables and there is no way to clearly foresee how long the situation will last and its foreseeable evolution scenarios. As the epidemic is still in its initial stages, the high uncertainty level due to the still unforeseeable result of this disease makes it especially difficult to estimate the epidemic’s financial effects.

In this stage, the Board of Statutory Auditors, in compliance with article 2403 of the Italian civil code and considering the due attention for business continuity, is kept continuously informed and updated on the Bank’s approach, on the results of any consultations with the company physician or with the RSPP (prevention and protection service manager), on communications and instructions to employees, clients and suppliers, on any regulations adopted and the crisis management solutions identified, and on other actions or measures taken considered important by the Bank.

Supervision of the administrative-accounting system, of the financial reporting process, and of and Non-Financial Disclosure

Please be reminded that, related to the control of accounts and the financial statements, the task was performed by the Independent auditing firm, KPMG S.p.A. (hereinafter also KPMG or Auditing Firm), appointed to perform the independent audit of accounts for the years 2019-2027 by the Shareholders’ Meeting of 30 March 2019, based on the proposal of the Board of Statutory Auditors.

The Board of Statutory Auditors, in its capacity as the Internal Control and Audit Committee, has overseen the adequacy and functioning of the organisational structure, the internal control system, the risk management system and the Bank’s administrative and accounting system, including an assessment of the latter’s ability to properly report on management-related issues.

In particular, meetings with the heads of the main corporate bodies, with the Auditing Firm, with the Financial Reporting Officer and with Internal Audit did not reveal any critical issues concerning the adequacy and reliability of the administrative and accounting system to correctly report on management-related issues and to provide correct financial reporting.

The Board of Statutory Auditors received confirmation of its independence from KPMG S.p.A., pursuant to art. 17 of Legislative Decree 39/2010, together with a communication on non-audit services provided to the Bank by that company and by other companies belonging to its network.

The Board of Statutory Auditors reported that in addition to auditing duties, in 2019 KPMG SpA was granted the following mandates:

- certification services for tax returns for €1,250;
- *comfort letter* for the*Base Prospectus* of the MTN program for € 25,000.

During its regular meetings and in light of the Supplementary Report issued on 2 April 2020, the independent auditors KPMG S.p.A. did not report any critical situations to the Board of Statutory Auditors that could affect the internal control system relating to administrative and accounting procedures.

Pursuant to law, the Board of Directors prepared the financial statements as at 31 December 2019 of Banca Popolare dell’Alto Adige. The Board of Statutory Auditors supervised compliance with procedural regulations related to preparing and implementing them and the Report on Operations.

Observations on the Non-Financial Disclosure

The Board of Directors also produced the Non-Financial Disclosure, as introduced by Directive 2014/95/EU and implemented in Italy by Legislative Decree 254/2016, as an autonomous document.

The Board of Statutory Auditors monitored compliance with the laws in force on the subject, also referred to procedures and timing for publication of the Non-Financial Disclosure; in terms of its objective and subjective scope of application, compliance with the “comply or explain” principle regarding policies implemented, and on the capacity of the organisational, administrative, reporting and control system established by the Bank to provide a proper, complete description of its corporate activity in the Non-Financial Disclosure, together with its results and impact on the non-financial issues indicated in art. 3, paragraph 1, of the Decree.

The auditing firm, BDO Italia S.p.A., appointed to audit the Non-Financial Disclosure of the Bank for the year closed at 31 December 2019, issued its report on 2 April 2020. No significant critical issues emerge from the report on the internal control system related to the Non-Financial Disclosure preparation processes, nor any other critical issues that needed to be brought to the attention of the Board of Statutory Auditors;

Proposals concerning the financial statements, their approval, and matters coming within the competence of the Board of Statutory Auditors

With respect to the financial statements for the year ended 31 December 2019, it should be noted that:

- the independent audit of the accounts of Banca Popolare dell'Alto Adige, through Shareholders’ Meeting appointment, was assigned pursuant to art. 2409-bis of the Italian Civil Code to the Independent Auditing Firm, KPMG S.p.A. for the years 2019-2027;
- on 2 April 2020, the Auditing Firm issued its report on the financial statements as at 31 December 2019 pursuant to arts. 14 and 16 of Legislative Decree 39/2010 and 10 of EU Regulation 537 of 16 April 2014 On the merits, it should be noted that the financial statements were published without any observations or objections. The financial statements also include an assessment of the consistency of the report on operations;
- in meetings with the independent auditors, application of accounting standards and the recognition and representation in the financial statements of elements of economic, financial and capital significance were discussed. During these meetings, no anomalies, critical issues or omissions were detected by the Auditors;
- the draft financial statements for the year ended 31 December 2019, as approved by the Board of Directors on 21 February 2020, were presented, and information was provided on the layout of the financial statements, their general compliance with legislation, including regulations, on their formation and structure, also in accordance with the IAS/IFRS international accounting standards and the instructions issued by the Bank of Italy in circular No. 262 of 22 December 2005 and subsequent updates;
- the Internal Control and Audit Committee performed the supervisory activities provided for in art. 19 of Legislative Decree 39/2010. It obtained the results of audits carried out by the independent auditors on the proper keeping of company accounts and the correct recognition of management-related issues in the accounts. It also supervised the overall effectiveness of the internal control system for financial reporting. No significant events worthy of mention emerged from this supervisory activity;
- the Board of Directors’ report on operations describes the course of operations during the year and contains an analysis of the Bank’s situation and operating result. There are no particular issues to report in this regard;
- directors did not make use of the exception set forth in art. 2423, paragraph 4 of the Italian Civil Code. Meetings with the Financial Reporting Officer did not reveal any significant shortcomings in administrative and accounting processes and controls that would invalidate the conclusion that the administrative and accounting procedures used to oversee proper representation of the company’s financial position, in accordance with current international accounting standards, were adequate and effective.

- the Chairman of the Board of Directors and the Financial Reporting Officer signed the report for year 2019 on 21 February 2020, pursuant to art. 154 bis of the T.U.F. and art. 81 ter of Consob Regulation 11971/1999. The report did not reveal any shortcomings that could invalidate the assessment that administrative and accounting procedures were adequate.

In compliance with art. 19 of Legislative Decree 39/2010, controls performed enabled monitoring of the administrative and accounting processes for financial reporting, the effectiveness of the internal control and risk management systems, the effectiveness of audits, and the independence of the statutory auditor.

Complaints received pursuant to art. 2408 Italian Civil Code

The Board of Statutory Auditors did not receive any complaints from shareholders pursuant to art. 2408 of the Italian Civil Code during the 2019 financial year.

Conclusion

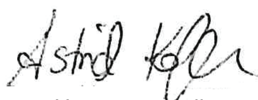
Following the supervisory activities conducted by the Board of Statutory Auditors, no reprehensible facts, omissions or irregularities emerged that need to be included in this Report.

Given the above, having examined the contents of the independent auditors' reports, the Board of Statutory Auditors does not identify, for its area of responsibility, any motives for not approving the draft financial statements as at 31 December 2019 prepared by the Board of Directors, accompanied by the report on operations and the proposal to cover the period loss made by the Board of Directors,

Bolzano, 06 April 2020

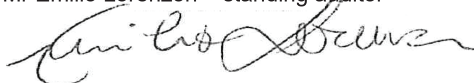
THE BOARD OF STATUTORY AUDITORS

Ms Astrid Kofler – president



Mr Georg Hesse – standing auditor

Mr Emilio Lorenzon – standing auditor



CERTIFICATION OF THE FINANCIAL STATEMENTS

CERTIFICATION OF THE FINANCIAL STATEMENTS

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 81 - TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED

1. The undersigned Otmar Michaeler, as Chairman of the Board of Directors of Banca Popolare dell’Alto Adige Societa per Azioni and Alberto Caltroni, as Financial Reporting Officer of Banca Popolare dell’Alto Adige Societa per Azioni, hereby certify, also pursuant to art.154-bis, paragraphs 3 and 4, of Legislative Decree No. 58 of 24 February 1998:

   - that the accounts are consistent with the characteristics of the company, and
   - the effective application

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

2. We also certify that:

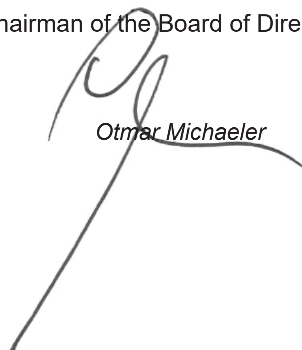
   2.1. the financial statements for the year ended 31 December 2019:

   a) have been produced in accordance with the international accounting standards recognised by the European Community pursuant to Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19 July 2002;
   b) correspond to the results of the accounts and records;
   c) provide a true and fair view of the issuer’s financial position and profit performance.

   2.2. the report on operations includes a reliable analysis of the performance and result of operations, together with the issuer’s situation and a description of the main risks and uncertainties to which the issuer is exposed.

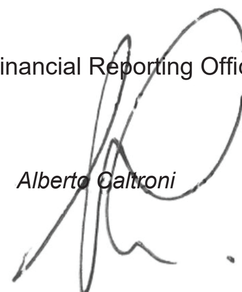
Bolzano, 21 February 2020

The Chairman of the Board of Directors



Otmar Michaeler

The Financial Reporting Officer



Alberto Caltroni

REPORT OF THE INDEPENDENT AUDITORS

KPMG S.p.A.
Auditing and accounting organisation
Via della Rena, 20
39100 BOLZANO BZ
Telephone +39 0471 324010
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

Report of the independent auditing firm pursuant to arts. 14 of Legislative Decree of 27 January 2010, and 10 of Regulation (EU) no. 537 of 16 April 2014

To the Shareholders of
Banca Popolare dell'Alto Adige SpA

Report on the Audit of the Financial Statements for the year

Opinion

We have audited the financial statements for the year of Banca Popolare dell'Alto Adige S.p.A. (the Bank), consisting of the balance sheet as at 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement for the year ended on that date and the explanatory notes to the financial statements, which also include a summary of the most significant accounting standards applied.

In our opinion, the financial statements give a true and fair view of the financial position of Banca Popolare dell'Alto Adige S.p.A as at 31 December 2019, together with its net result and cash flows for the year ended, in accordance with the International Financial Reporting Standards adopted by the European Union and with orders issued pursuant to art. 9 of Legislative Decree 38/05 - and art. 43 of Legislative Decree 136/15.

Elements on which the opinion is based

We have conducted the audit in accordance with the international auditing standards (ISA Italia). Our responsibilities in compliance with those standards are further described in the paragraph *"Responsibilities of the auditing firm when auditing the financial statements for the year"* of this report. We are independent of Banca Popolare dell'Alto Adige S.p.A, as required by the applicable principles of ethics and independence established in Italian law for the audit of financial statements. We consider that we have obtained sufficient, appropriate evidence on which to base our opinion.

KPMG S.p.A. is an Italian company belonging to the KPMG network of independent firms affiliated to KPMG International Cooperative ("KPMG International"), a Swiss entity.

Ancona Aosta Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genoa
Lecce Milan Naples Novara
Padua Palermo Parma
Perugia Pescara Roma Turin
Treviso Trieste Varese Verona

A Public Limited Company
Share capital
€10,345,200.00 fully paid up
Milan Resister of Companies and
Tax Code no. 00709600159
R.E.A. Milan No. 512867
VAT No 00709600159
VAT number IT00709600159
Registered office. Via Vittor Pisani, 25
20124 Milan MI ITALY

Key aspects of the audit

The key aspects of the audit are those which, in our professional opinion, were the most significant in the context of the audit of the financial statements for the year under review. We have addressed those issues as part of our audit and in the preparation of our opinion on the financial statements as a whole. Accordingly, we have not expressed a separate opinion on these aspects.

Classification and assessment of loans to customers recognised in the financial assets measured at amortised cost

Explanatory Notes ''Part A - Accounting policies": paragraph A.2. "Financial assets measured at amortised cost"

Notes "Part B - Information on the balance sheet- Assets": Section 4 "Financial assets measured at amortised cost"

Notes "Part C - Information on the income statement". Section 20 "Nt adjustments/write-backs for credit risk - Item 130"

Notes "Part E - Information on risks and related hedging policies" Section 1 "Credit Risk"

Key aspects	Auditing procedures in response to the key aspects
Allocation of loans and advances to customers is an important activity for the Bank. Loans to customers, recognised under the financial assets measured at amortised cost, amount to €8,916.7 million as at 31 December 2019 and represent 84.4% of the total assets in the financial statements for the year. Net adjustments in value of the loans to customers debited to profit and loss in the year closed at 31 December 2019 amount to €76.8 million. For classification purposes, Directors perform analyses, at times complex ones, to identify positions that, after allocation, show signs of a possible loss in value, considering both internal information, linked to the loan position trend, and external information, linked to the reference sector or total debtor exposure with the banking system. Measurement of loans to customers is a complex estimation activity, with a high uncertainty and subjectivity level, for which Directors use evaluation models developed in-house that consider numerous quantitative and qualitative elements such as historical collection data, cash flows and relative recovery times expected, the presence of possible loss in value indicators, assessment of any guarantees, the impact of macro-economic variables, of future scenarios and risks in the sectors Bank customers operate in.	Our audit procedures involved: — understanding company processes and the bank's relative IT environment, referred to the allocation, monitoring, classification and measurement of loans to customers; — examining the configuration and implementation of controls and carrying out procedures to assess the operation effectiveness of controls considered important, with specific reference to identifying loans indicating loss in value and calculation of value adjustments; — analysing classification criteria used to return loans to customers to the categories required by IFRS 9 (so-called "staging"); — analysing the policies and the analytical and standard measurement models used and examining the reasonableness of the main assumptions and variables contained in them.That activity was performed supported by KPMG network experts; — selecting a sample of loans measured using standard methods, controlling application of the measurement models adopted and checking the correspondence of the impairment percentages applied with those established by those models;

Key aspects	Auditing procedures in response to the key aspects
For those reasons we considered the classification and measurement of loans to customers recognised under financial assets measured at amortised cost as a key aspect of the audit.	— selecting a sample of loans measured analytically and examining the reasonableness of the value loss indicators identified and of assumptions related to recoverability, also based on any guarantees received; — reading the audit report issued on 30 August 2019 reporting the results of the inspection carried out by the Bank of Italy between 18 February and 14 June 2019; — analysing the significant changes in loan categories and value adjustments compared to previous year figures and discussing results with the company departments involved; examining the appropriateness of financial statement information related to loans to customers recognised in financial assets measured at amortised cost.

Assessment of other provisions for risks and charges recognised under provisions for risks and charges

Explanatory Notes "Part A - Accounting policies": paragraph A.10. "Provisions for risks and charges"

Notes "Part B - Information on the balance sheet - Liabilities": Section 10 "Provision for risks and charges - Item 100"

Notes "Part C - Information on the income statement". Section 23 "Net allocations to provisions for risks and charges - Item 170"

Notes "Part E - Information on risks and related hedging policies" Section 5 "Operational risk"

The financial statements for the year as at 31 December 2019 include, under provisions for risks and charges, other provisions for risks and charges amounting to €12.4 million related to legal and fiscal disputes. Net allocations debited to profit and loss for the year closed as at 31 December 2019 amount to €7.2 million. Assessment of other provisions for risks and charges allocated for existing legal and fiscal disputes is an extremely complex activity, with a high uncertainty level, for which Directors estimate how disputes will end, the risk of losing and how long it will take to close them.	Our audit procedures involved: — understanding the assessment process applied to other provisions for risks and charges, examining the configuration and implementation of controls; — analysing the changes in the consistency of other provisions for risks and charges compared to the previous year and discussing results with the company departments involved; — analysing differences between the book estimate of other provisions for risks and charges of previous years and values balanced once disputes have been

Key aspects	Auditing procedures in response to the key aspects
For those reasons, we considered that assessment of other provisions for risks and charges was a key aspect of the audit.	settled, in order to understand the accuracy of the measurement process adopted; — obtaining, with a written request, information from the legal advisers assisting the Bank with assessing the risk of losing existing disputes, quantifying the relative liabilities and examining the consistency of that information with elements considered by Directors to measure the other provisions for risks and charges; — analysing the reasonableness of assumptions adopted when estimating provisions for risks and charges related to the main disputes, through talks with the company departments involved and analysing supporting documents; — examining the appropriateness of financial statement information on other provisions for risks and charges.

Assessment of intangible assets with indefinite useful life

Explanatory Notes "Part A - Accounting policies": paragraph A.6. "Intangible fixed assets"

Notes "Part B - Information on the balance sheet- Assets": Section 9 "Intangible assets - Item 90"

Notes "Part C - Information on the income statement". Section 29 "Value adjustments for goodwill - Item 240"

Key aspects	Auditing procedures in response to the key aspects
Following the transaction to purchase a company branch including six branches of the Banca Intesa Group finalised on 25 February 2008 and the merger through incorporation of the Banca Popolare di Marostica Group on 1 April 2015, in the financial statements as at 31 December 2018 the Bank highlights intangible assets with an indefinite useful life, formed entirely by goodwill for €99.6 million. After the impairment test conducted by Bank Directors, those intangible assets were written down completely during financial year 2019. Consequently, goodwill adjustments in value debited to profit and loss in the year closed at 31 December 2019 amount to €99.6 million. Conducting the impairment test involves complex assessments requiring a high judgement level, with specific reference to the estimate: — of cash flows expected from the Cash Generating Units ("CGUs"), whose calculation must consider cash flows produced in the past and the general economic trend and that of the sector belonged to, as well as Director forecasts on the Bank's future economic trends; — the financial parameters to be used to discount cash flows. For those reasons, we considered that assessment of the intangible assets with indefinite useful life was a key aspect of the audit.	Our audit procedures involved: — understanding the process adopted to prepare the impairment test approved by Bank Directors; — examining the difference between historical results and the multi-year plans of previous years, in order to analyse the accuracy of figures underlying the Directors' assessment; — analysing the methodological approach used by Directors to calculate the use value of the CGU; — examining the appropriateness of information provided in the explanatory notes related to intangible assets with an indefinite useful life and the impairment test.

Other aspects - Comparative information

The financial statements of Banca Popolare dell'Alto Adige S.p.A. for the year closed as at 31 December 2018 were audited by another independent auditor who, on 15 March 2019, expressed an opinion on those financial statements with no findings.

Responsibilities of the Directors and the Board of Statutory Auditors of Banca Popolare dell'Alto Adige S.p.A. for the financial statements for the year

The Directors are responsible for preparing financial statements that provide a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree 38/05 and art. 43 of Legislative Decree 136/15 and, within the terms provided by law, for that part of internal control that they consider necessary

in order to enable preparation of the financial statements that are free from significant errors caused by fraud or unintentional conduct or events.

The Directors are responsible for assessing the Bank's ability to continue to operate as a going concern and, when preparing the financial statements, for the soundness of using the going concern assumption, and for adequate reporting on the matter. The Directors use the going concern principle when preparing the financial statements unless they have concluded that the conditions exist for liquidation of the Bank or for its business to cease, or they have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible, within terms established by law, for overseeing the Bank's financial reporting process.

Responsibility of the independent auditor for auditing the financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole do not contain significant errors, whether due to fraud or unintentional conduct or events, and to issue an audit report that includes our opinion. Being reasonably sure is understood as a high level of certainty, but not a guarantee, that an audit conducted in accordance with international auditing standards (ISA Italia) will always identify any significant error that may exist. Errors can arise from fraud, unintentional conduct or events and are considered important if, individually or in aggregate form, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit conducted in accordance with the international auditing standards (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. In addition:

- we identified and assessed the risks of significant errors in the financial statements, due to fraud or unintentional conduct or events; we established and conducted audit procedures in response to those risks, and we obtained sufficient and appropriate evidence on which to base our opinion. The risk of not detecting a significant error due to fraud is higher than the risk of not identifying a material error arising from unintentional conduct or events, since fraud may involve collusion, falsification, intentional omissions, misleading representations or the distortion of internal control;
- we acquired an understanding of internal control relevant to the audit in order to define audit procedures that are appropriate to the circumstances, not to express an opinion on the effectiveness of the Bank's internal control;
- we assessed the appropriateness of accounting standards used and the soundness of the accounting estimates made by directors, including the relevant disclosure;
- we have reached a conclusion on the soundness of the Directors' use of the going concern principle and, on the basis of evidence obtained, on the existence of any significant uncertainty regarding events or circumstances that may give rise to significant doubts as to the Bank's ability to continue operating as a going concern. In the event of significant uncertainty, we are required to draw attention to the relevant information in the financial statements in the audit report or, if that information is inadequate, to reflect this fact in our opinion. Our conclusions are based on the evidence obtained up to the date of this report. However, subsequent events or circumstances may result in the Bank ceasing to operate as a going concern;

— We have assessed the presentation, structure and content of the financial statements as a whole, including information and whether the financial statements report underlying transactions and events in a manner that provides a fair representation.

We have informed those responsible for *governance* activities, identified at an appropriate level as required by Italian ISAs, inter alia, of the planned scope and timescale of the audit and the significant results that emerged, including any significant shortcomings in internal control identified during the audit.

We have also issued a declaration to those responsible for *governance* that we complied with the applicable ethical and independence rules and principles according to Italian law and have informed them of any situation that could reasonably have an effect on our independence and, where applicable, the relevant safeguarding measures.

Among the aspects reported to those responsible for *governance*, we identified those that were most significant in the audit of the financial statements for the year under review, which were therefore the key aspects of the audit. We have described these aspects in the audit report.

Additional information pursuant to art. 10, of (EU) Regulation 537/14.

On 30 March 2019, the shareholders' meeting of Banca Popolare dell'Alto Adige SpA appointed us to audit the financial statements of the Bank for the years from 31 December 2019 to 31 December 2027.

We declare that we have not provided prohibited non-audit services, referred to art. 5, paragraph 1, of (EU) Regulation 537/14 and that we remained independent of the Bank while conducting the audit.

We confirm that our opinion on the financial statements expressed in this report is in line with the additional report addressed to the Board of Statutory Auditors, in its role as internal control and auditing Committee, produced pursuant to art. 11 of the aforementioned Regulation.

Report on other provisions of law and regulations

Opinion pursuant to art. 14, paragraph 2, letter e), of Legislative Decree 39/10 - and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The directors of Banca Popolare dell'Alto Adige S.p.A are responsible for producing the report on operations and the report on the corporate governance and ownership structure of Banca Popolare dell'Alto Adige SpA as at 31 December 2019, including their consistency with the relevant financial statements and their compliance with the law.

We carried out the procedures indicated in the auditing standard (SA Italia) 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure indicated in art. 123-bis, paragraph 4, of Legislative Decree 58/98, with the financial statements for the year of Banca Popolare dell'Alto Adige S.p.A. as at 31 December 2019 and on their compliance with laws in force, and to issue a declaration on any significant errors.

In Our opinion, the report on operations and certain specific information contained in the report on corporate governance and ownership structure referred to above are consistent with the financial statements of Banca Popolare dell'Alto Adige S.p.A. as at 31 December 2019 and prepared in accordance with the law.

With reference to the declaration pursuant to art. 14, paragraph 2, letter e), of Legislative Decree 39/10, issued on the basis of knowledge and an understanding of the company and the relevant context acquired during the audit, we have nothing to report.

Declaration pursuant to art. 4 of the Consob Regulation implementing Legislative Decree 254/16

The Directors of Banca Popolare dell'Alto Adige SpA. are responsible for preparing the non-financial disclosure pursuant to Legislative Decree 254/16. We checked that the non-financial disclosure was approved by Directors. Pursuant to art. 3, paragraph 10, of Legislative Decree 254/16, that declaration has to be certified separately by another auditor.

Bolzano, 02 April 2020

KPMG S.p.A.

Pietro Dalle Vedove
Partner

COMPANY REPORTING FORMATS

Balance Sheet

Assets and liabilities		31.12.2019	31.12.2018
(in €)			
10.	Cash and cash equivalents	92,607,476	83,017,850
20.	Financial assets at fair value with impact on profit and loss	149,221,264	290,022,083
	a) financial assets held for trading	7,647,532	3,258,439
	b) financial assets designated at fair value	-	-
	c) other financial assets that must be measured at fair value	141,573,732	286,763,644
30.	Financial assets measured at fair value with impact on overall profitability	629,297,888	829,144,042
40.	Financial assets measured at amortised cost	9,149,466,228	8,488,828,633
	a) due from banks	232,763,327	83,358,663
	b) due from clients	8,916,702,901	8,405,469,970
50.	Hedging derivatives	-	-
60.	Value adjustment of hedged financial assets (+/-)	-	-
70.	Holdings	5,407,078	5,745,476
80.	Tangible fixed assets	148,952,347	135,964,893
90.	Intangible fixed assets	18,466,618	118,731,281
	of which:		
	- goodwill	-	99,601,776
100.	Tax assets	174,962,755	174,704,904
	a) current	56,010,727	54,806,801
	b) anticipated	118,952,028	119,898,103
110.	Non-current assets and asset groups held for sale	17,322,398	12,923,130
120.	Other assets	176,059,420	136,479,833
	Total assets	**10,561,763,472**	**10,275,562,125**

Liabilities and equity items		31.12.2019	31.12.2018
(in €)			
10.	Financial liabilities valued at amortised cost	9,486,467,227	9,101,606,665
	a) due to banks	1,247,847,818	1,418,187,385
	b) due to customers	7,422,665,066	6,985,198,803
	c) securities in issue	815,954,343	698,220,477
20.	Financial liabilities held for trading	1,484,599	1,429,146
30.	Financial liabilities designated at fair value (IFRS 7 par. 8 (e))	-	-
40.	Hedging derivatives	-	-
50.	Value adjustment of hedged financial liabilities (+/-)	-	-
60.	Tax liabilities	23,914,404	31,253,822
	a) current	4,666,138	4,291,065
	b) deferred	19,248,266	26,962,757
70.	Liabilities associated with assets held for sale	-	-
80.	Other liabilities	264,441,238	266,228,646
90.	Employee severance indemnities	18,618,522	19,113,484
100.	Provisions for risks and charges	17,479,916	20,728,394
	a) commitments and guarantees issued	5,052,217	6,848,854
	b) pensions and similar obligations	-	-
	c) other provisions for risks and charges	12,427,699	13,879,540
110.	Valuation reserves	(179,194)	(15,387,236)
120.	Redeemable shares	-	-
130.	Capital instruments	-	-
140.	Reserves	267,883,116	249,733,758
150.	Emission surcharges	383,158,533	383,158,533
160.	Capital	201,993,752	201,993,752
170.	Own shares (-)	(19,126,854)	(18,553,559)
180.	Gain (loss) for the year (+/-)	(84,371,785)	34,256,720
	Total liabilities and equity	**10,561,763,472**	**10,275,562,125**

Profit and Loss Account

Income statement/ Profit and Loss account		31.12.2019	31.12.2018
(in €)			
10.	Interest receivable and similar income	203,261,113	194,394,238
	of which: interest income calculated according to the effective interest method	192,870,938	182,237,147
20.	Interest paid and similar charges	(28,334,217)	(29,021,085)
30.	**Interest revenue**	**174,926,896**	**165,373,153**
40.	Commission income	102,282,759	101,051,801
50.	Commission expense	(10,939,217)	(10,317,098)
60.	**Net commission**	**91,343,542**	**90,734,703**
70.	Dividends and similar income	2,721,609	3,124,468
80.	Net result of trading	3,972,872	2,825,697
90.	Net result of hedging	-	-
100.	Profits (losses) on disposal or repurchase of:	2,317,597	2,731,618
	a) financial assets measured at amortised cost	(5,226,799)	817,935
	b) financial assets measured at fair value with an impact on comprehensive income	7,349,771	1,605,395
	c) financial liabilities	194,625	308,288
110.	Net profit/loss from other financial assets and liabilities measured at fair value with an impact on profit and loss	(18,366,199)	(5,975,153)
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets compulsorily measured at fair value	(18,366,199)	(5,975,153)
120.	**Net interest and other banking revenue**	**256,916,317**	**258,814,486**
130.	Net adjustments/write-backs on credit risk:	(75,933,071)	(39,014,778)
	a) financial assets measured at amortised cost	(76,794,824)	(38,256,256)
	b) financial assets measured at fair value with an impact on comprehensive income	861,753	(758,522)
140.	Gains/losses from contractual amendments without write-downs	-	6,283
150.	**Net profit (loss) from financial activities**	**180,983,246**	**219,805,991**
160.	Administrative expenses:	(176,100,810)	(181,133,400)
	a) personnel expenses	(94,559,326)	(98,330,910)
	b) other administrative expenses	(81,541,484)	(82,802,490)
170.	Net provisions for risks and charges	(5,407,999)	(4,132,648)
	a) for credit risk relating to commitments and guarantees issued	1,796,638	930,522
	b) other net provisions	(7,204,637)	(5,063,170)
180.	Net adjustments/write-backs on physical assets	(11,714,605)	(8,935,743)
190.	Net adjustments/write-backs on intangible assets	(1,765,242)	(1,162,784)
200.	Other operating charges/revenue	17,886,644	17,433,688
210.	**Operating costs**	**(177,102,012)**	**(177,930,887)**
220.	Gains (losses) on equity investments	(304,218)	22,227
230.	Net result of measurement at fair value of tangible and intangible assets	-	-
240.	Goodwill value adjustments	(99,601,776)	-
250.	Gains (losses) on disposal of investments	1,306,499	2,176,467
260.	**Pre-tax profit (loss) for the period from continuing operations**	**(94,718,261)**	**44,073,798**
270.	Income taxes on current operations	10,346,476	(9,817,078)
280.	**Gain (loss) from current operations after tax**	**(84,371,785)**	**34,256,720**
290.	Gain (Loss) on discontinued operations after tax	-	-
300.	**Gain (Loss) for the year**	**(84,371,785)**	**34,256,720**

Statement of comprehensive income

Items *(in €)*		31.12.2019	31.12.2018
10.	**Gain (Loss) for the year**	**(84,371,786)**	**34,256,720**
	Other profit components net of taxes not reversed to the Income statement		
20.	Equity securities designated as at fair value through other comprehensive income	5,028,642	(8,778,021)
30.	Financial liabilities designated at fair value through profit or loss (changes in credit rating)	-	-
70.	Defined benefit plans	(549,024)	(240,683)
	Other income net of taxes reversed to the income statement		
140.	Financial assets (other than equity securities) measured at fair value with an impact on overall profitability	7,841,635	(9,586,786)
160.	Share of valuation reserves of equity accounted investments:	-	-
170.	**Total other income net of taxes**	**12,321,253**	**(18,605,490)**
180.	**Overall profitability (item 10+170)**	**(72,050,533)**	**15,651,230**

Statement of changes in shareholders' equity

Statement of changes in Shareholders' Equity from 1 January to 31 December 2019

(in €)	Balance as at 31.12.2018	Change in opening balances	Balance as at 01.01.2019	Allocation of result for previous year		Changes in the year								Equity at 31.12.2019
				Reserves	Dividends and other allocations	Reserve changes	Transactions on equity						Comprehensive income of year 2019	
							Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Variation to capital instruments	Derivatives on treasury shares	*Stock Options*		
Capital	**201,993,752**	**-**	**201,993,752**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**201,993,752**
a) ordinary shares	201,993,752	-	201,993,752	-	-	-	-	-	-	-	-	-	-	201,993,752
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Emission surcharges	**383,158,533**	**-**	**383,158,533**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**383,158,533**
Reserves	**249,733,758**	**-**	**249,733,758**	**21,036,147**	**-**	**(2,886,789)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**267,883,116**
a) of profits	249,733,758	-	249,733,758	21,036,147	-	(2,886,789)	-	-	-	-	-	-	-	267,883,116
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	**(15,387,236)**	**-**	**(15,387,235)**	**-**	**-**	**2,886,789**	**-**	**-**	**-**	**-**	**-**	**-**	**12,321,253**	**(179,194)**
Capital instruments	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**(18,553,559)**	**-**	**(18,553,559)**	**-**	**-**	**-**	**-**	**(573,294)**	**-**	**-**	**-**	**-**	**-**	**(19,126,853)**
Profit for the year	**34,256,720**	**-**	**34,256,720**	**(21,036,147)**	**(13,220,573)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(84,371,786)**	**(84,371,786)**
Equity	**835,201,968**	**0**	**835,201,969**	**-**	**(13,220,573)**	**-**	**-**	**(573,294)**	**-**	**-**	**-**	**-**	**(72,050,533)**	**749,357,567**

Statement of changes in Shareholders' Equity from 1 January to 31 December 2018

(in €)	Balance as at 31.12.2017	Change in opening balances	Balance as at 01.01.2018	Allocation of result for previous year		Changes in the year								Equity at 31.12.2018
				Reserves	Dividends and other allocations	Reserve changes	Transactions on equity						Comprehensive income of year 2017	
							Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Variation to capital instruments	Derivatives on treasury shares	*Stock Options*		
Capital	**199,439,716**	**-**	**199,439,716**	**-**	**-**	**-**	**2,554,036**	**-**	**-**	**-**	**-**	**-**	**-**	**201,993,752**
a) ordinary shares	199,439,716	-	199,439,716	-	-	-	2,554,036	-	-	-	-	-	-	201,993,752
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Emission surcharges	**383,158,533**	**-**	**383,158,533**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**383,158,533**
Reserves	**284,365,657**	**(46,526,499)**	**237,839,158**	**14,612,166**	**-**	**(124,765)**	**(2,592,801)**	**-**	**-**	**-**	**-**	**-**	**-**	**249,733,758**
a) of profits	284,365,657	(46,526,499)	237,839,158	14,612,166	-	(124,765)	(2,592,801)	-	-	-	-	-	-	249,733,758
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	**681,778**	**2,411,711**	**3,093,489**	**-**	**-**	**124,765**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,605,490)**	**(15,387,236)**
Capital instruments	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**(18,553,559)**	**-**	**(18,553,559)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,553,559)**
Profit for the year	**24,277,481**	**-**	**24,277,481**	**(14,612,166)**	**(9,665,315)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34,256,720**	**34,256,720**
Equity	**873,369,606**	**(44,114,788)**	**829,254,818**	**-**	**(9,665,315)**	**0**	**(38,765)**	**-**	**-**	**-**	**-**	**-**	**15,651,230**	**835,201,968**

Cash flow statement

A. OPERATING ACTIVITY (in €)	31.12.2019	31.12.2018
1. Management	**149,539,739**	**113,904,652**
- interest received (+)	203,261,113	194,394,238
- interest expense paid (-)	(28,334,217)	(29,021,085)
- dividends and similar income (+)	2,721,609	3,124,468
- net fees (+/-)	91,343,543	90,734,703
- personnel costs (-)	(94,559,326)	(98,330,910)
- other costs (-)	(83,455,294)	(85,618,018)
- other revenues (+)	48,215,836	48,438,333
- taxes and duties (-)	10,346,476	(9,817,078)
- costs/revenues relating to discontinued operations net of tax effect (+/-)	-	-
2. Cash generated/utilized by financial assets	**(466,179,222)**	**(753,532,003)**
- financial assets held for trading	(416,221)	3,347,954
- financial assets designated at fair value	-	-
- other assets necessarily measured at fair value	126,823,713	1,042,307
- financial assets designated at fair value with an impact on comprehensive income	220,927,954	(70,878,073)
- financial assets measured at amortised cost	(771,074,600)	(686,091,571)
- other assets	(42,440,068)	(952,620)
3. Cash generated/utilized by financial liabilities	**364,486,711**	**664,747,630**
- financial liabilities measured at amortised cost	385,055,187	601,409,911
- financial liabilities held for trading	55,453	(601,027)
- financial liabilities designated at fair value	-	(1,049,676)
- other liabilities	(20,623,929)	64,988,421
Net cash provided by/used in operating activities	**47,847,228**	**25,120,279**

B. INVESTMENT ACTIVITY		
1. Cash flows generated by	**1,376,499**	**2,246,467**
- sales of equity investments	-	-
- dividends received on equity investments	70,000	70,000
- sales of tangible assets	1,306,499	2,176,467
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash absorbed by	**(25,840,234)**	**(6,003,812)**
- purchases of equity investments	(35,820)	(0)
- purchases of tangible assets	(24,702,059)	(5,323,562)
- purchases of intangible assets	(1,102,355)	(680,250)
- purchases of business units	-	-
Net cash generated/utilized by investment activities	**(24,463,735)**	**(3,757,346)**

C. FUNDING ACTIVITIES		
- issues/Purchases of treasury shares	(573,295)	2,554,036
- issues/Purchases of capital instruments	-	(2,592,801)
- distribution of dividends and other	(13,220,573)	(9,665,315)
Net cash generated/utilized by funding	**(13,793,868)**	**(9,704,080)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	**9,589,625**	**11,658,853**

RECONCILIATION	31.12.2019	31.12.2018
Cash and cash equivalents at beginning of year	83,017,850	71,358,997
Total net cash generated/utilized during the year	9,589,626	11,658,853
Cash and cash equivalents: effect of changes in exchange rates	-	-
Cash and cash equivalents at end of year	**92,607,476**	**83,017,850**

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

PARTE A ACCOUNTING POLICIES

A.1 GENERAL PART

Section 1 DECLARATION OF CONFORMITY WITH THE MAIN INTERNATIONAL ACCOUNTING STANDARDS

These financial statements, prepared in accordance with Legislative Decree 38 of 28 February 2005, were drafted in accordance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and approved by the European Commission in accordance with the procedure set out in Community Regulation 1606 of 19 July 2002.
The financial statements have been drafted in accordance with the approved international accounting standards in force at 31 December 2019, including the SIC and IFRIC interpretations.
The accounting principles adopted for the preparation of the financial statements, with reference to the phases of classification, recognition, measurement and derecognition of financial assets and liabilities, as well as the methods of recognition of revenues and costs, have changed with respect to those adopted for the preparation of the 2018 Financial statements of Volksbank. These changes are essentially the result of the mandatory application, as of 01 January 2019, of the IFRS 16 international accounting standard.
The new standard, IFRS 16, which replaces IAS 17, changes how leases, rental, hire and free use contracts are accounted for, introducing a new definition based on the transfer of "right of use" of the asset leased. In fact, the new standard establishes that all leases be recognised in the Statement of Financial Position by the lessee, as assets and liabilities. It also introduces a new way of recognising costs: whereas for IAS 17 lease instalments were recognised under the Income Statement item for administrative expenses, for IFRS16 the expense is recognised through both amortisation of the asset for "right of use", and as interest expenses on the debt.
For accounting Policies, qualitative and quantitative information related to the first time the new standard is adopted is illustrated and highlights the changes in the lease accounting logics, the main changes made by the Bank and the impact of first application.
In order to read economic results and asset consistencies, please note that reclassified layouts have been marginally modified here in order to take application of the new standard into account. In particular, specific sub-items have been added to the balance sheet, respectively for tangible and intangible Assets, to indicate rights of use acquired with leases separately, and the Other liability items, to highlight lease Payables separately.
Referred to the compared data, please note that, considering the bank's choice to apply IFRS 16 for the first time based on the "modified retrospective" approach, which does not imply repositioning comparative data, it was however decided – only in the reclassified formats – to restate economic and capital data affected by the new standard, to enable comparisons and comments on a uniform basis. In particular, please note that in the reclassified formats of the Balance Sheet and in the relative detailed tables of the report on operations, capital results are compared with the corresponding values as at 1 January 2019, including – if needed – the effects of first application of IFRS 16.
For an overview of the standards endorsed in 2019 or those endorsed in previous years, the application of which is planned or permitted for 2019, reference should be made to the following "Section 4 - Other Aspects", in which the main impacts on the Company are also described.
In addition, the financial statements as at 31 December 2019 have been prepared on the basis of the "Instructions for the preparation of the company's financial statements and the consolidated financial statements of banks and financial companies parent company of banking groups" issued by the Bank of Italy on 22 December 2005. These instructions set out in a binding manner the format of the financial statements and the way in which they are drawn up, as well as the content of the Notes to the Financial Statements.

Section 2 GENERAL DRAFTING PRINCIPLES

The financial statements consist of the Balance Sheet (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 and are accompanied by a report by the directors on operations, the economic results achieved and the financial position of Volksbank.
These financial statements have been prepared using the Euro as the reporting currency.
The amounts in the financial statements are expressed in Euros, while the figures in the tables in the Notes to the Financial Statements are expressed - unless otherwise indicated - in thousands of Euros.
In accordance with provisions applicable, the financial statements must be drawn up clearly and give a true and fair view of the financial position, the results of operations and the cash flows for the year. If the information required by international accounting standards and by the provisions contained in the above Circular is considered insufficient to give a true and fair view, the Notes to the Financial Statements provide the additional information needed for this purpose.
If, in exceptional cases, application of a provision of the international accounting standards is incompatible with a true and fair view of the financial position, the results of operations and the cash flows, it will not be applied. In this case, the reasons for possible derogation and its influence on the presentation of the statement of financial position, financial situation and economic result must be explained in the Notes to the Financial Statements.
The financial statements have been drafted in accordance with the following general principles:

- *Going concern*: the financial statements have been prepared on a going concern basis;
- *Accrual basis for accounting*: the financial statements are drafted in accordance with the principle of accrual, regardless of the settlement date;
- *Consistency of presentation*: the presentation and classification of items in the financial statements is constant from one financial year to the next, except when a standard or an interpretation does not require a change in presentation or when another presentation or classification is deemed more appropriate taking into account the requirements of IAS 8. In the latter case, the explanatory notes provide information on the changes made with respect to the previous year;
- *Relevance and aggregation*: The balance Sheet and the Income statement include items (marked with Arabic numerals), sub-items (marked with letters) and further information (the "of which" items and sub-items). Items, sub-items and related information constitute the accounts of the financial statements. The formats comply with those defined by the Bank of Italy in the above Circular 262 of 22 December 2005 as updated. New items may be added to these schedules if their contents cannot be traced back to any of the items already provided for in the schedules and only if they are significant amounts. The sub-items provided for in the diagrams may be grouped together when one of the following two conditions is met:
  a. the amount of the sub-items is immaterial;
  b. the grouping favours the clarity of the financial statements; in this case, the Notes to the Financial Statements contain the sub-items covered by grouping separately.

  The Balance Sheet and the Income statement do not present accounts that do not show amounts for either the year to which the financial statements refer or the previous year.
- *Prevalence of substance over form*: transactions and other events are recognised and presented in accordance with their substance and economic reality and not also taking into account their legal form;
- *Offsetting*: assets, liabilities, revenue and costs are not offset unless this is permitted or required by an international accounting standard or its interpretation or by the provisions of the above Bank of Italy Circular;
- *Comparative information*: comparative information relating to the previous year is provided for each account of the Balance Sheet and the Income statement, unless an accounting standard or interpretation does not allow or provides otherwise. The figures for the previous financial year may be suitably adjusted, where necessary, to ensure the comparability of information for the year in progress. Any non-comparability, adaptation or impossibility of the latter are indicated and commented on in the Explanatory Notes.

The Notes are divided into parts. Each part of the note is divided into sections, each of which illustrates a single aspect of management.

Uncertainties related to the use of estimates

The preparation of financial information also requires the use of estimates and assumptions that can have a significant effect on the values recorded in the Balance Sheet and the Income statement, as well as on the information relating to potential assets and liabilities recorded in the financial statements. The preparation of such estimates involves the use of information available and adoption of subjective evaluations, also based on historical experience, used to formulate reasonable assumptions for the recognition of operating events. Due to their nature, estimates and assumptions used may vary from year to year and, accordingly, it cannot be excluded that in subsequent years the values recorded in the financial statements may vary significantly as a result of changes in the subjective assessments used.
The main cases for which the use of subjective assessments by management is most required are:

- quantification of impairment losses on loans, equity investments and, in general, other financial assets;
- the use of valuation models for recognition of the *fair value* of financial instruments not listed on active markets;
- the assessment of the fairness of the value of goodwill and other intangible fixed assets;
- quantification of the *fair value* of property;
- quantification of provisions for personnel and provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets;
- estimate of the recoverable value of property held for investment purposes;

For some of the cases listed above, the main factors, subject of estimates, can be identified and accordingly contribute to determining the book value of assets and liabilities in the financial statements. Without claiming to be exhaustive, it should be noted that:

- to calculate the *fair value* of financial instruments not listed on active markets, where it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on the one hand, development of future financial flows (or even revenue flows, in the case of shares), possibly subject to future events and, on the other, the level of certain input parameters not listed on active markets;
- for allocation of receivables and debt securities classified under Financial assets at amortised cost and Financial assets at *fair value* to the three credit risk stages envisaged by IFRS 9 with an impact on total revenue and the calculation of the related expected losses, the main estimates concern:
  a. calculation of parameters for a significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of financial assets and at the Balance Sheet date;
  b. inclusion of forward looking factors, including macroeconomic factors, to calculate PDs and LGDs;
  c. determination of the probability of sale of impaired financial assets, by realising positions on the market;
- to determine estimates of future cash flows from impaired loans, certain elements are taken into consideration: the expected recovery time, the estimated realisable value of any guarantees as well as the costs that are expected to be incurred for the recovery of the credit exposure;
- to determine the use value of intangible fixed assets with an indefinite life (goodwill, brand name, etc.) with reference to Cash Generating Units (CGUs), the future cash flows in the analytical forecast period and the flows used to determine the so-called "terminal value'', generated by the CGU. The cost of capital is also included in the estimates;
- to determine the use value of intangible fixed assets with a finite life ("client relationship"), the useful life is estimated, on the one hand, and the future cash flows from the asset, on the other. In the case of intangible fixed assets with a finite useful life, the cost of capital is also included in the estimates;
- determination of the *fair value* of real estate is performed through the preparation of special valuations. In order to prepare the valuations relating to the properties, the rental prices, sale prices, discount rates and capitalisation rates were estimated; Banca Popolare dell'Alto Adige SpA - Notes to the Financial Statements of the company

- for quantification of provisions for pensions and similar obligations, the present value of obligations is estimated, taking into account the flows, suitably discounted, deriving from historical statistical analyses, and the demographic curve;
- for quantification of provisions for risks and charges, an estimate is made - where possible - of the amount of disbursements needed to meet the obligations, taking into account the actual probability of having to invest resources;
- for determination of the items relating to deferred taxation, the probability of future taxes effectively incurred (taxable temporary differences) is estimated and the degree of reasonable certainty - if any - of future taxable amounts at the time when the tax deductibility will become apparent (deductible temporary differences).

Section 3 EVENTS FOLLOWING THE DATE OF REFERENCE OF THE FINANCIAL STATEMENTS

General management

On 13 February 2020, the Board of Directors of Volksbank chose Alberto Naef as its new General Manager. He replaces Johannes Schneebacher. Alberto Naef boasts managerial experience and top level, banking sector competences, even international. The new General Manager will be flanked by the Deputy Directors Stefan Schmidhammer, already in office and Martin Schweitzer, appointed Deputy General Manager. Johannes Schneebacher will be leaving the Bank on 31 March 2020.

Impact of the spread of the 2019-nCov virus ("Coronavirus")

The corona virus epidemic emerged at the end of the financial year, evolving fast and continuously until the date the draft financial statements were approved by the Board of Directors. At the end of 2019, a group of cases presenting symptoms of "pneumonia from unknown causes" was identified in Wuhan, the capital of the Chinese province of Hubei. On 31 December 2019, China alerted the World Health Organisation (WHO) about this new virus. On 30 January 2020, the International Health Regulation Emergency committee of the WHO declared the epidemic an " international public health emergency". Since then several cases have been diagnosed, even in other Countries. Measures have been adopted and policies imposed by China and other Countries. More information has gradually been made available. On 31 January, the Council of Ministers declared the state of health emergency for the new Corona virus epidemic.
The Corona virus spreads fast – so has a high contagion capacity - and is dangerous, measured by the death rate amongst those infected, with an immediate impact on economic activities. The high level of economic and financial integration between EU countries, from trading intermediate goods to integration of production chains as well the greater opening of capital markets, have a significant impact on the spread of lowered risks due to the economic slowdown both at EU and global level.
The effects of the Corona virus epidemic on the economy are mainly transmitted through the temporary slowdown of private consumption and demand-side investments, and manufacturing and service activities on the offer side. Mobility restriction measures and the block or slowdown of production in several parts of Italy make it reasonable to expect an impact on the economy in terms of a demand and industrial production slowdown.
On how the epidemic will evolve, the hypothesis is that the infection peak could be confined to the first two quarters of the year, with greater intensity in the first and less in the second, being progressively reduced as the summer season approaches. The economic shock caused by the slowdown in private consumption and investments should be followed by a compensatory recovery in the next quarters, mitigating the overall effects of the economic slowdown.
The drop in consumer and investor trust and the effect that has on financial markets will depend on how the epidemic evolves in the next months. The overall economic impact will depend on the peak of infections, difficult to predict, hence on the duration of quarantine measures and mobility restrictions.

Any willingness on the part of central banks to intervene in response to the inevitable cycle slowdown is the main factor that could lead how markets move over the next few weeks and the investor approach.
The most important risks for the Company can mainly concern:

- possible operating tension with potential prejudice, even also localised, to company activities (e.g. possible reduction to the service level of critical suppliers);
- possible liquidity tensions, though there are none at present, attributable to both possible customer conduct (e.g. greater use of cash deposited) and the trend of interbank relations. As was said above, it is felt that any liquidity situations can be effectively contrasted by targeted monetary policy actions;
- possible difficult situations for companies, due to the reduced productivity and consumption.

As the epidemic is still in its initial stages, the high uncertainty level due to the still unforeseeable result of this disease makes it especially difficult to estimate the epidemic's financial effects. So it is currently not possible to make that estimate.
Furthermore, considering the epidemic's current initial stage, there are no material uncertainties that can give rise to significant doubts over the company's capacity to operate as a going concern. With specific reference to measurement of *fair value*, please note that at the financial statement reference date, the hypotheses made using information available did not lead to including elements connected to the epidemic's possible development; also considering the objective of the measurement of the *fair value* to express the exit price at the measurement date from a market operator point of view.
With reference to measurement of expected credit losses ("ECL") for financial assets not measured at fair value recognised in the Income statement, IFRS 9 wants the entity preparing the financial statements to incorporate reasonable, supportable information on past events, on current conditions and on forecasts of future economic conditions. That assessment should be based on information available at the financial statement reference date and adapted to the subsequent information available, if needed. As the first Corona virus cases were notified before 31 December 2019, based on IFRS 9 requirements, we assessed the potential impact of a possible epidemic and whether its gravity could significantly influence the estimated financial asset losses, for any incorporation in the forecast of future economic conditions. The available information considered is what is reasonable and supportable at the financial statement reference date. In the specific case, the above information and assumptions on how the epidemic evolves are characterised by significant uncertainty and insufficient analysis, so do not permit its incorporation in the estimates of macroeconomic prospect factors. Elements that are sufficiently detailed to enable them to be considered in possible scenarios can only emerge as the disease spreads, and enable calculation of probabilities associated to those scenarios.
In the same way, similar considerations could be made referred to checking the *impairment* of financial statement assets, related to the assessment if whether the potential impact of the epidemic evolving could constitute an indicator of *impairment* requiring value adjustments.
From an operating point of view, consistent with public authority Corona virus measures, the Company has adopted some preventive measures to protect its employees and clients. In particular, the Company encourages smart working, where employees have the operational and technological means. Remote communication instruments are being used for meetings with customers, suppliers and external personnel. Missions, transfer and any promotional and internal socialisation events have been suspended.
Alongside protecting the health and well-being of its personnel, business continuity is a priority for Volksbank. Head office and branch activities are taking place regularly.
A work group has been set up to monitor the situation, guaranteeing continual alignment with protection measures in force. The Company has also circulated indications to its employees on hygiene and prevention for asymptomatic subjects, inviting all those who could have respiratory or flu symptoms, even slight, to abstain from working, with special attention for those who have specific certified problem/risk conditions. Employees who need to do so are also allowed to use all coverage of absence offered by laws in force, even in the light of the temporary suspension of school activities in certain areas, asking them - for personal journeys - to comply with national regulations in force.

Section 4 OTHER ASPECTS

Deadlines for the approval and publication of the financial statements

Art. 135-sexies of the Legislative Decree 59/98 (TUF) requires that, within one hundred and twenty days of the end of the financial year, the financial statements be approved and the annual financial report, including the financial statements, the report on operations and the certification referred to in article 154-bis, paragraph 5, be published. The draft financial statements were approved by the Board of Directors on 21 February 2020.

Auditing

The separate financial statements for the year have to be audited, pursuant to Legislative Decree 58/1998, by the company KPMG S.p.A., in application of the mandate conferred to that company for the period 2019 - 2027 through shareholders' meeting resolution of 30 March 2019. The audit report is published in full together with the annual financial report, pursuant to art. 135-septies of Legislative Decree 58/98.

New accounting standards or amendments to existing ones approved by the European Commission

Here below, please find an illustration of the IAS/IFRS accounting standards and relative SIC/IFRIC interpretations approved and to be obligatorily applied when drafting the financial statements for 2019.

IAS/IFRS - SIC/IFRIC interpretation	Amendments
Regulation 1986 of 31 October 2017 - IFRS 16 "Leases	The standard was published by the IASB on 13 January 2016, in order to improve the account reporting of lease contracts. Specifically, the standard introduces new rules for the accounting of lease agreements for both lessees and lessors, superseding the previous standards/interpretations (IAS 17, IFRIC 4, SIC 15, and SIC 27).
Regulation 498 of 22 March 2018 – "Amendments to IFRS 9 Financial instruments – Early payment elements with negative offsetting"	Amendments intend to clarify the classification of certain financial assets repayable early when IFRS 9 is applied. Specifically: - for financial assets enables measurement at the amortised cost or, based on the business model, at fair value through other comprehensive income, even for those loans which, if repaid early, presuppose a payment by the lessor (negative offsetting payment); - for the financial liabilities at amortised cost contain a clarification related to recognising a change that does not involve cancellation from the financial statements. In those cases, it is established that, at the change date, the adjustment at amortised cost of the financial liability, calculated as the difference between original contractual cash flows and the discounted modified cash flows at the effective interest rate, be recognised to Profit and Loss.
Regulation 2018 of 24 October 2018 "Interpretation of IFRIC 23 - Uncertainty on the treatment of income taxes"	The interpretation clarifies how to apply requirements for recognising and measuring IAS 12 when there is uncertainty over treatment to be applied to income taxes. In those circumstances, in order to recognise and measure current and deferred tax assets/liabilities when applying IAS 12, taxable profits/losses, taxable bases, tax losses not used, tax credits not used and tax rates are calculated based on the interpretation provided by IFRIC 23. The entity is asked to use judgement for deciding whether an uncertain tax process has to be considered independently or together with other uncertain tax treatments. Moreover, the entity has to review judgements and estimates if facts and circumstances should change.
Regulation 2019 of 8 February 2019 "Amendments to standard IAS 28 – Long-term interests in associated companies and joint ventures"	The amendments clarify that the IFRS 9 provisions on reduction in value are applied to long-term credits with associated companies or joint ventures which essentially are part of the net investment in the associated company or joint venture itself (for which the entity does not use the equity method).
Regulation 412 of 14 March 2019 – "Projects to improve some IFRS 2015 – 2017 (IFRS 3, IFRS 11, IAS 12 and IAS 23)"	In particular, improvements made clarify the following: - IAS 12 "Income taxes": the entity has to recognise the tax effects of dividends for income tax purposes in profit (loss) for the year, in the other components of Comprehensive income or in net equity, based on where the entity originally recognised the past transactions or events that generated distributable profits; - IAS 23 "Financial expenses": in the case when a specific loan remains in force after the corresponding asset is ready for use or sale, this loan becomes part of provisions considered to calculate the capitalisation rate related to general loans; - IFRS 3 "Company combinations": when the entity obtains control of a business, already a joint operation, it recalculates the interest held in that business; - IFRS11 "Joint control agreements": when an entity obtains the joint control of a business, already joint operation, the entity does not have to recalculate its interest in the business.
Regulation 402 of 13 March 2019 "Amendments to IAS 19 – "Changes, reductions or regulation of pension plans"	The amendments intend to clarify that after the change, reduction or extinction of a defined benefits plan, the entity should apply the hypotheses updated by the recalculation of its net liability (asset) for defined benefits for the rest of the reference period

With the exception of the first-time adoption of IFRS 16, for which reference should be made to the specific chapter "Transition to the IFRS 16 international standard", the other changes or interpretations did not have a significant impact on the Bank's financial position or results of operations.

Here below, please find an illustration of the IAS/IFRS accounting standards and relative SIC/IFRIC interpretations published by IASB and approved by the European Commission on 23 January 2020.

Title of document	Date of issue	Date it came into force	Date of approval	EU Regulation and publication date
Amendments to the references to the conceptual Framework in the IFRS	March 2018	1 January 2020.	29 November 2019	(EU) 2019/2075 06 December 2019
Definition of relevant (Amendments to IAS 1and IAS 8)	October 2018	1 January 2020.	29 November 2019	(EU) 2019/2014 10 December 2019
Reform of the reference indicators for calculating interest rates (Changes to IFRS 9, IAS 39 and IFRS 7)	September 2019	1 January 2020.	15 January 2020	(EU) 2020/34 16 January 2020

Here below, please find an illustration of the IAS/IFRS accounting standards and relative SIC/IFRIC interpretations published by IASB and still awaiting approval by the European Commission.

Title of document	Date of issue by the IASB	Date the IASB document came into force	Date the UE is expected to approve it
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	(1)	(1)
IFRS 17 Insurance Contracts	May 2017	1 January 2021 (2)	TBD
Amendments			
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	September 2014	Deferred until completion of the IASB project on the *equity method*	Put off awaiting conclusion of the IASB project on the*equity method*
Definition of a Business (Amendment to IFRS 3)	October 2018	1 January 2020.	March 2020
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 2020	1 January 2022.	TBD

(1) IFRS 14 came into force on 1 January 2016, but the European Commission decided to suspend the approval process while awaiting the new accounting standard on "*rate-regulated activities*".

(2) Please note that in June 2019, IASB published an exposure draft including some amendments to IFRS 17 and deferring the new accounting standard coming into force on 1 January 2022. At the reference date of this control list (23 January 2020) the amendments to IFRS 17 had not yet been finally approved by the IASB.

Lastly, please note that on 18 May 2017, IASB issued the new accounting standard IFRS 17 which regulates policies issued by insurance companies and which is applicable as of 1 January 2021. On 14 November 2018, IASB decided to propose putting it off for a year, that is to 2022. It also decided to propose an extension to 2022 of the temporary exemption of application of IFRS 9 granted to insurance companies, so that IFRS 9 and IFRS 17 can be applied at the same time. The proposals are still in the discussion stage. No impacts are expected for the Company as it does not perform insurance activities.

THE TRANSITION TO INTERNATIONAL ACCOUNTING STANDARD IFRS 16

Regulatory provisions

As of 1 January 2019, Regulation 1986/2017 replaced IAS 17 "Leasing", IFRIC 4 "Determine whether an agreement contains a lease", SIC 15 "Operating Lease – Incentives" and SIC 27 "Assessment of the substance of transactions in the legal form of a lease", and regulated to requirements for recognising lease contracts.

The new standard requires identification of whether a contract is (or contains) a lease, based on the concept of control of the use of an asset identified for a certain period of time. The result is that the new rules are now applicable to rental, hire, lease or free use contracts.

In the light of the above, significant changes are introduced to the recognition of lease transactions in the financial statements of the lessee/user, foreseeing introduction of a single recognition model for lease contracts for the lessee, based on the right of use model. In detail, the main change consists in overcoming the distinction, foreseen by IAS 17, between operating and financial lease: so all lease contracts must be recognised in the same way by entering an asset or a liability. The recognition model establishes entering the right of use of the asset lease in assets; whereas the payables for lease instalments still to be paid by the lessee are entered in liabilities, hence differing to what was established by the standards in force until 31 December 2018. The way to recognise the Income Statement components have also changed: whereas for IAS 17 lease instalments were entered under the item related to Administrative expenses, in compliance with IFRS 16, the expenses related to amortisation of the "right of use" are recognised together with the debt's interest expense.

The minimum information required of lessee companies also includes:

- the division between the different "classes" of assets leased;
- an analysis by due date of liabilities related to the lease contracts;
- information potentially useful for better understanding of company activities referred to lease contracts (for example the early repayment of extension options).

However, there are no substantial changes, except for more information required, on how leases are recognised by lessors, where the distinction between operating and financial leases is maintained.

Please also note that, based on the requirements of standard IFRS 16 and clarifications of IFRIC (document "Cloud Computing Arrangements" of September 2018), software is excluded from application of IFRS 16; it is recognised following IAS 38 and its requirements.

Since 1 January 2019, effects on financial statements following application of IFRS 16 are identifiable for the lessee – with the same final profitability and cash flows – in an increase in assets recognised in the financial statements (assets leased representing rights of use), an increase in liabilities (the debt for assets leased), a reduction in administrative expenses (lease instalments) and a contextual increase in financial costs (remuneration of the payable recognised) and of amortisation (related to rights of use). With reference to the Income Statement, considering the entire duration of contracts, the economic impact does not change in the lease's time horizon by both applying the previously applied IAS 17, and applying the new IFRS 16, but is displayed by a different time division.

In 2018, the Company started a project to implement IFRS 16 – Leasing, to analyse in-depth and define the qualitative and quantitative impacts, and identify and implement the application and organisational actions needed for consistent, organic, effective adoption of the new rules. A specific instrument was implemented to calculate values in accordance with IFRS 16.

The scope to contracts – lessee side. Classification and analysis of lease transactions in the light of reference regulations

As referred to above, the Standard applies to all types of contract containing a lease, that is contracts that provide the lessee with the right to control use of an identified asset for a certain period of time (use period) in exchange for a fee.
The logic behind the Standard is that the "control" on an asset requires that asset to be identified, for example when it is specified in the contract, or is implicitly specified when its is available to be used by the customer. An asset is not specified when the supplier has the essential right to replace it, or if the supplier is practically able to replace the asset with an alternative one during the entire use period and draws economic benefit from that right.
Once established that the underlying aspect of the contract is an identified asset, we need to assess whether the entity has the right to control it because it has both the right to essentially obtain all the economic benefits from using the asset and the right to decide the use of the asset identified.
Analysis of contracts that the standard applies to specifically concerns those for real estate and hardware. Impacts resulting from real estate lease contracts represent the entire rights of use value. No impacts were recorded resulting from the Hardware segment as the relative contracts are below the relevance threshold set by the standard.
Real estate leases refer entirely to buildings used as offices or at the service of bank branches. The contracts do not normally last longer than 12 months and typically have renewal and extinction options that can be exercised by the lessee based on laws or specific contractual provisions.
These contracts do not usually include the purchase option at the end of the lease or significant reversal costs for the Bank.

Accounting choices

It is necessary to describe some choices made referred to how the effects of first application of the standard are recognised, and some rules to be applied when operational in order to recognise lease contracts.
As has already been said, the decision was to make the First Time Adoption (FTA) of IFRS 16 applying the "modified retrospective" approach; this foresees the right, established by the standard, to enter the cumulative effect of applying the Standard at the first application date and not to restate the comparative data of the financial statements of the first application of IFRS 16. So the figures of accounts for year 2019 will not be comparable referred to measurement of the rights of use and the corresponding lease debt.
Some options established by the standard in paragraph C10 et seq. were exercised at the time of first application. In particular, contracts with a lease term of less that 12 months ("short term") were excluded.
When operational, it was decided not to apply the new standard to contracts with an overall lease term of or for less than 12 months and to contracts with underlying assets value, when new, of less than or equal to €5,000 ("low value"). In this case, instalments related to those leases are entered as cost – as they were in the past - with a constant quota criterion for the lease term or based on another systematic criterion if more representative of how the lessee perceives the benefits.

Contractual duration

The lease duration is decided by the period that cannot be cancelled during which the Bank has the right to use the asset, also considering: (i) the periods covered by the option to extend the lease, if the lessee is reasonably sure to exercise the option; and (ii) the periods covered by the lease termination option, if the lessee is reasonably sure not to exercise that option.

At the transition date and at the starting date of each contract stipulated after 1 January 2019, lease duration was established based on facts and circumstances existing at that date and which have an impact on the reasonable certainty to exercise the options included in the lease agreements.
With specific reference to real estate leases, it was decided to only consider, for all new contracts (and at the data of FTA) the first renewal period as reasonably certain, unless there are specific contractual clauses, facts or circumstances leading to consider additional renewals or decide the end of the lease.
Based on the characteristics of Italian lease contracts and what is set forth in Law 392/1978, if a new rental contract is signed for a six year contractual duration with the tacit from six years to six years renewal option, the total lease duration will be at least twelve years. That general indication is overcome if there are new elements or specific situations in the contract.

Discount rate

Related to the discount rate, based on IFRS 16 requirements, the implicit interest rate is used for each lease contract, when available. In some cases, for example referred to rental contracts, the implicit interest rate cannot always be promptly calculated without using estimates and assumptions, as the lessee does not have enough information on the residual value of the asset leased. A method has been developed to define the incremental interest rate instead of the implicit interest rate in these cases.
The incremental interest rate is the rate at which the lessee would be willing to pay, on a similar deadline and for a similar asset, the funds needed to obtain an asset at a value comparable to the asset with right of use in comparable economic conditions. When calculating the incremental interest rate, the following aspects were considered:
- the interest rate assimilates the rate at which the Bank would borrow funds for the same duration as that of the right of use;
- assimilates the rate at which the Bank would finance itself to purchase an asset of a comparable value to the assets corresponding to the right of use;
- reflects the rate for a loan guaranteed for an asset comparable to one expressed by the right of use.

So that rate, considering the credit merit of the lessee, the lease duration, the type and quality of collateral provided and the economic environment in which the transaction takes place is consistent with what is required by the standard.

Lease and non lease components

Please also note that it was decided not to separate the service components from the lease ones and thus recognise the entire contract as a lease, seeing that the service components are not significant.

The effects of the first-time adoption (FTA) of IFRS 16

Adjustment of the opening balance following application of IFRS 16 using the modified retrospective approach caused an increase in assets following recognition of the new rights of use for €20.1 million at Group level and financial liabilities (payable to the lessor) for the same amount. First adoption of the standard did not lead to impacts on equity as, following the decision to adopt the "modified approach", at the time of first adoption, asset and liability values coincide, net of reclassification of accruals/deferrals and the stating of leases previously classified as financial applying IAS 17.
When IFRS 16 was first applied, we decided not to recalculate the scope of application defined by IAS 17, but to only apply the standard to lease contracts identified based on the IAS 17 and IFRIC 4 (paragraph C3 a) requirements of IFRS 16.

Please also note that in the financial statements as at 31 December 2019 there were no contracts classified as financial leases based on IAS 17. So the scope of application of IFRS 16 only includes rights of use acquired following inclusion of the property rental contracts. Rights of use acquired with leases for property contracts are indicated in the sub-item "b) buildings".

TLTRO

As at 31 December 2019, the Bank was a participant in the conditional refinancing programme TLTRO amounting to €1.0 billion.
Decision EU 810/2016, which governs, inter alia, how to calculate the interest applicable to the loan, provides that the interest rate applicable to the amount borrowed under each TLTRO-II is the one applied to the main refinancing operation at the time the relevant TLTRO-II is awarded. However, if the eligible net loans granted in the reference period 01.02.2016 - 31.01.2018 grow above the reference level set at +2.5%, the interest rate applicable to the amounts borrowed by participants will be equal to the interest rate on deposits with the Central Bank at the time each TLTRO-II is assigned.
Since in March 2016 the ECB has reduced the rate on its main refinancing operations to zero and the rate on its deposits to -0.40%, it follows that for all operations carried out by the Bank, if the threshold is exceeded, the rate of -0.40% is applicable instead of 0.00%.
As at 31 January 2018, the disbursement of eligible net loans on the basis of EU Decision 2016/810 grew, compared to the figure as at 1 February 2016, well above the threshold set at 2.5%.
Accordingly, the negative rate of -0.40% is applicable to the ECB acquisition under the TLTRO-II programme. Applying IFRS 9, the positive interest amount from the TLTRO II loan, recognised applying the effective interest method, was entered under "interest income".

Option for national tax consolidation

Volksbank, together with its subsidiaries Quartiere Brizzi S.r.l., Voba Invest S.r.l. in liquidation and Valpolicella Alta Societa Agricola S.r.l., has opted for application of group taxation (tax consolidation) pursuant to articles 117 et seq.of Presidential Decree. 917/86.
Relations between these companies were regulated by private agreement signed by the parties in June 2014 for the three-year period 2014-2016. The option was last renewed for the three-year period 2017 - 2019 by resolution of the Board of Directors of 22 December 2017. Quartiere Brizzi S.r.l. has been included in the tax consolidation regime since 2018, the year in which the Bank acquired control.
The system allows the single subsidiaries participating in the tax consolidation, having determined the tax burden pertaining to them, to transfer the corresponding taxable revenue (or tax loss) to the parent company, which determines - by making the adjustment for intercompany interest expense provided for in relation to the deductibility of interest expense - a taxable revenue or consolidated tax loss, as the algebraic sum of its own revenue/losses and those of the subsidiaries participating, with identification of the tax payable to or receivable from the tax authorities.
The offsetting of flows relating to transfers resulting from tax profits and losses between the parent company and its subsidiaries is e governed by specific agreements. Those flows are calculated by applying the current IRES rate to the taxable revenue of the companies participating in the consolidation. For companies with tax losses, the compensation, calculated as above, is recognised by the parent company to the subsidiary for losses realised after joining the national tax consolidation system, where those losses are included in the consolidated taxable revenue. Losses realised before joining the national tax consolidation scheme will have to be offset in its taxable revenue only by the consolidated party taking part in accordance with tax rules in force.

A.2 PART RELATING TO THE MAIN BALANCE SHEET ITEMS

The accounting principles applied are shown below, broken down by Balance Sheet item.

1. *Financial assets at fair value through profit or loss (FVTPL)*

Classification criteria

This category includes financial assets other than those classified as Financial assets at *fair value* through profit or loss and as Financial assets at amortised cost. The item, in particular, includes:
- financial assets held for trading, mainly consisting of debt and equity securities and the positive value of derivative contracts held for trading;
- financial assets that must be measured at *fair value*, represented by financial assets that do not meet the requirements for measurement at amortised cost or at *fair value*, with an impact on total revenue. These are financial assets whose contractual terms do not just foresee capital repayments and payments of interest on the capital to be repaid (so-called "SPPI test") or that are not held in a business model whose target is the possession of assets aimed at collecting contractual cash flows (Business model "Hold to Collect") or in a business model whose target is achieved both through the collection of contractual cash flows and through the sale of financial assets (Business model "Hold to Collect and Sell");
- financial assets designated at *fair value*, i.e. the financial assets thus defined at the time of initial recognition, if the conditions are met. In this case, an entity may irrevocably designate a financial asset for recognition as measured at *fair value* through profit or loss if, and only if, by doing so, it eliminates or significantly reduces a valuation inconsistency ("accounting mismatch") that would otherwise emerge from measuring assets or liabilities or from recognising costs and revenues on a different basis.

They find, accordingly, evidence in this entry:
- debt securities and loans that are included in an Other/Trading business model (i.e., 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 which, from the outset, are intended for sale and which are not attributable to a Hold to Collect and Sell business model;
- equity instruments - not qualifying as control, connection or joint control - held for trading purposes or for which it was not decided, on initial recognition, to designate them at *fair value* with an impact on total revenue;
- quotas of UCIs.

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 arising from outstanding transactions with the same counterparty may only be offset if there is a current legal right to offset the amounts recognised in the accounts and it is intended to settle the net positions to be offset on a net basis.

Derivatives also include those embedded in complex financial contracts - in which the primary 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 instruments, 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 Profit and Loss Account.

With regard to classification rules, IFRS 9 does not allow any reclassification for equity securities. For the other categories of financial assets, reclassifications are also not permitted unless the entity changes its business model for management of financial assets. In those cases, expected to be highly infrequent, financial assets may be reclassified from the category measured at *fair value* with an impact on the Profit and Loss Account into one of the other two categories provided for by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at *fair value* with an impact on total revenue). The transfer value is represented by the *fair value* at the

time of reclassification and the effects of the reclassification operate prospectively from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is calculated based on its *fair value* at the reclassification date and this date is considered as the initial recognition date for allocation to the various stages of credit risk (stage assignment) for the purposes of *impairment.*
For further information on the criteria for the classification of financial instruments, reference should be made to the following chapter "Criteria for the classification of financial assets".

Entry criteria

Financial assets are initially recognised on the settlement date for debt and equity securities, on the disbursement date for loans and on the subscription date for derivatives.
Upon initial recognition, financial assets measured at *fair value* with an impact on the Profit and Loss Account are recognised at *fair value*, without considering transaction costs or revenue directly attributable to the instrument itself.

Evaluation criteria

Subsequent to initial recognition, financial assets measured at *fair value* with an impact on the Profit and Loss Account are measured at *fair value*. The effects of applying this valuation criterion are charged to the Profit and Loss Account.
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 used, which take into account all the risk factors related to the instruments and which are based on market data such as: valuation of quoted instruments with similar characteristics, discounted cash flow calculations, option pricing models, values recorded in recent comparable transactions, etc. For equity securities and derivative instruments involving equity securities not listed on an active market, the cost criterion 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 valuation 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.

Cancellation criteria

Financial assets are derecognised only if the disposal has resulted in the substantial transfer of all the risks and rewards associated with the assets. On the other hand, if a significant portion of the risks and rewards relating to the financial assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of the assets has actually been transferred.
In the event that it is not possible to ascertain the substantial transfer of risks and rewards, financial assets are derecognised from the financial statements if no type of control has been retained over them. Otherwise, retention, even in part, of this control entails maintaining the assets in the financial statements to the extent of the residual involvement, measured by the exposure to changes in the value of the assets sold and to changes in the financial flows of the same.
Finally, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows are retained, with the simultaneous assumption of an obligation to pay those flows, and only they, without significant delay to other third parties.

A.1. FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH AN IMPACT ON TOTAL REVENUE (FVOCI)

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 target is achieved both through the collection of contractual cash flows and through the sale (Business model "Hold to Collect and Sell"), and
- the contractual terms of the financial asset provide, at certain dates, for cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (passing the so-called "SPPI test").

The item also includes equity instruments, not held for trading purposes, for which the option to be designated at *fair value* with an impact on total revenue was exercised at the time of initial recognition.
In particular, they are included in this item:
- debt securities that are part of a "Hold to Collect and Sell" business model and passed the SPPI test;
- equity interests, not qualifying as controlling, related or jointly controlled, that are not held for trading purposes, for which the option to be designated at *fair value* has been exercised with an impact on total revenue;
- loans that are linked to a "Hold to Collect and Sell" business model and that have passed the SPPI test, including the portions of syndicated loans subscribed to that, from the outset, are intended for sale and that are linked to a "Business model Hold to Collect and Sell".

Reclassifications to other categories of financial assets are allowed only if the entity changes its business model to manage the financial assets. In those cases, expected to be highly infrequent, financial assets may be reclassified from the category measured at *fair value* with an impact on total revenue into one of the other two categories provided for by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at *fair value* with an impact on the Profit and Loss Account).
The transfer value is represented by the*fair value* at the time of reclassification and the effects of the reclassification operate prospectively from the date of reclassification. If the asset is reclassified from the category concerned to amortised cost, the *fair value* of the financial asset at the reclassification date is adjusted by the accumulated gain (loss) presented in the valuation reserve. In the case of reclassification to the *fair value* category with an impact on the Profit and Loss Account, the accumulated profit (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss) for the year.
No reclassification is permitted for equity securities.
For further information on the criteria for the classification of financial instruments, reference should be made to the following chapter "Criteria for the classification of financial assets".

Entry criteria

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

Evaluation criteria

Subsequent to initial recognition, assets classified at *fair value* value with an impact on total revenue, other than equity securities, are measured at *fair value*, with the impact of the application of amortised cost, the effects of *impairment* and any exchange rate effect recognised in the Profit and Loss Account, while other gains or losses arising from a change in *fair value* are recognised in a specific equity reserve until the financial asset is derecognised. Upon disposal, in whole or in part, the gain or loss accumulated in the valuation reserve is reversed, in whole or in part, to the Profit and Loss Account.

The equity instruments chosen for classification in this category are measured at *fair value* and the amounts recognised as a contra-entry to equity (Overall Revenue Statement) must not be subsequently transferred to the Profit and Loss Account, even in the event of disposal. The only component relating to the equity securities in question that is recognised in the Profit and Loss Account is the related dividends.
Fair value is calculated on the basis of the criteria already described for Financial assets measured at *fair value* with an impact on the Profit and Loss Account.
For equity securities included in this category, not listed on an active market, the cost criterion is used as a *fair value* estimate only to a residual extent and limited to a few circumstances, i.e. in the event of the non-applicability of all the valuation methods mentioned above, or in the presence of a wide range of possible *fair value* measurements, in which the cost represents the most significant estimate.
Financial assets measured at *fair value* with an impact on total revenue - both in the form of debt securities and loans are subject to *impairment* testing, as is the case for assets at amortised cost, with the consequent recognition in the Profit and Loss Account of an impairment loss to cover expected losses. More specifically, on instruments classified as stage 1 (i.e. on financial assets at the time of origination, if not impaired, and on instruments for which there has been no significant increase in credit risk compared to the initial recognition date), an expected loss of one year is recorded at the initial recognition date and at each subsequent reporting date. On the other hand, for instruments classified as stage 2 (*performing* instruments for which there has been a significant increase in credit risk since the date of initial recognition) and stage 3 (impaired exposures), an expected loss is recognised for the entire residual life of the financial instrument.
Conversely, equity securities are not subject to *impairment*.
Reference should be made to the following chapter “Impairment of financial assets” for further details.

Cancellation criteria

Financial assets are derecognised only if the disposal has resulted in the substantial transfer of all the risks and rewards associated with the assets. On the other hand, if a significant portion of the risks and rewards relating to the financial assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of the assets has actually been transferred.
In the event that it is not possible to ascertain the substantial transfer of risks and rewards, financial assets are derecognised from the financial statements if no type of control has been retained over them. Otherwise, retention, even in part, of this control entails maintaining the assets in the financial statements to the extent of the residual involvement, measured by the exposure to changes in the value of the assets sold and to changes in the financial flows of the same.
Finally, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows are retained, with the simultaneous assumption of an obligation to pay those flows, and only they, without significant delay to other third parties.

A.2. FINANCIAL ASSETS MEASURED AT AMORTISED COST

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 within a business model whose objective is achieved by collecting contractual cash flows ("*Hold to Collect*" Business Model), and
- the contractual terms of the financial asset provide, at certain dates, for cash flows represented solely by payments of principal and interest on the amount of principal to be repaid "*SPPI test*").

More specifically, they are recognised under this heading:
- loans to banks in the different technical forms that meet the requirements set out in the previous paragraph;
- loans to customers in the various 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 receivables connected with the provision of financial activities and services as defined by the T.U.B. and the T.U.F. (e.g. for distribution of financial products and servicing activities).
According to the general rules provided for by IFRS 9 on the reclassification of financial assets, reclassifications to other financial assets categories are not permitted unless the entity changes its business model for the management of financial assets. In these cases, which are expected to be very infrequent, the financial assets may be reclassified from the category measured at amortised cost to one of the other two categories under IFRS 9 (Financial assets at *fair value* through other comprehensive income or Financial assets at *fair value* through profit or loss).
The transfer value is represented by the *fair value* at the time of reclassification and the effects of the reclassification operate prospectively from the date of reclassification. Gains or losses resulting from the difference between the amortised cost of the financial asset and its *fair value* are recognised in the Profit and Loss Account in the case of reclassification to financial assets measured at *fair value* through profit or loss and to equity, in the appropriate valuation reserve, and in the case of reclassification to financial assets measured at *fair value* through profit or loss.
For further information on the criteria for the classification of financial instruments, reference should be made to the following paragraph "Criteria for the classification of financial assets".

Entry criteria

Financial assets are initially recognised on the settlement date for debt securities and on the disbursement date for loans. On initial recognition, assets are recorded at *fair value*, including transaction costs or revenue directly attributable to the instrument itself.
In particular, as far as credits are concerned, the date of disbursement normally coincides with the date the contract is signed. If such a coincidence does not occur, a commitment to disburse funds is recorded at the time of signing the contract, which closes on the date of disbursement of the loan. The receivable is recognised on the basis of its *fair value*, equal to the amount disbursed, or subscription price, including costs/revenue directly attributable to the individual receivable and determinable from the start of the transaction, even if settled at a later date.
Costs that, despite having the above characteristics, are subject to reimbursement by the debtor counterpart or are classifiable as normal internal administrative costs are excluded.

Evaluation criteria

Subsequent to initial recognition, the financial assets in question are valued at amortised cost, using the effective interest rate method. In these terms, the asset is recognised in the financial statements at an amount equal to its initial recognition value less any capital repayments, plus or minus the cumulative amortisation (calculated using the above- mentioned effective interest rate method) of the difference between this initial amount and the amount at maturity (typically attributable to costs/revenue charged directly to the single asset) and adjusted by any provision to cover losses. The effective interest rate is determined by calculating the rate that equals the present value of the future flows of the asset, for principal and interest, to the amount disbursed including costs/revenue associated with the financial asset itself. This accounting method, using a financial logic, makes it possible to distribute the economic effect of costs/revenue directly attributable to a financial asset over its expected residual life.
The amortised cost method is not used for assets - valued at cost - whose short duration makes the effect of applying the discounting logic negligible, for those without a defined maturity and for revoked receivables.
The valuation criteria, as better indicated in the chapter “Impairment of financial assets”, are closely linked to the inclusion of the instruments in question in one of the three stages (stages of credit risk) provided for 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 accounting recognition of the above-mentioned valuation effects, the value adjustments referring to this type of asset are recorded in the Profit and Loss Account:

- at the time of initial recognition, for an amount equal to the expected loss at twelve months;
- at the time of the subsequent valuation of the asset, where the credit risk has not significantly increased with respect to the initial recognition, in relation to changes in the amount of value adjustments for losses expected in the following twelve months;
- at the time of the subsequent valuation of the asset, where the credit risk has significantly increased with respect to the initial recognition, in relation to the recognition of value adjustments for expected losses relating to the entire residual life of the asset as provided for in the contract;
- at the time of the subsequent valuation of the asset, where - after there was a significant increase in credit risk compared to the initial recognition - the “significance” of this increase ceased to exist, in relation to the adjustment of the cumulative value adjustments to take account of the transition from an expected loss over the entire residual life of the instrument (“lifetime”) to one to twelve months.

If the financial assets in question are *performing*, they are valued in order to determine the value adjustments to be recognised in the financial statements at the level of the individual loan ratio (or “tranche” of the security), based on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD).
If, in addition to a significant increase in credit risk, there is also objective 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 counterpart - and the present value of estimated future cash flows discounted at the original effective interest rate. The amount of the loss, to be recorded in the Profit and Loss Account, is defined on the basis of an analytical valuation process or determined by homogeneous categories and, accordingly, analytically attributed to each position and takes into account, as detailed in the chapter “Impairment of financial assets”, “*forward looking*” information and possible alternative recovery scenarios.
Impaired assets include financial instruments that have been granted the status of non-performing, probable default or past due/overdue by more than ninety days according to the rules of the Bank of Italy, consistent with the IAS/IFRS and European Supervision regulations.
The expected cash flows take into account the expected recovery time and the estimated realisable value of any guarantees.
The original effective rate of interest for each asset remains unchanged over time, even if the relationship has been restructured, resulting in a change in the contractual rate, and even if the relationship becomes, in practice, without contractual interest

If the reasons for the loss in value are removed as a result of an event subsequent to recognition of the reduction in value, the value is reinstated and charged to the Profit and Loss Account. The write-back may not exceed the amortised cost that the financial instrument would have had in the absence of previous adjustments.
Reversals of write-backs related to the passage of time are recognised in net interest revenue.
In some cases, during the life of the financial assets in question and in particular of the receivables, the original contractual conditions are subject to subsequent change at the request of the contractual parties. When, over the life of an instrument, the contractual clauses are amended, it is necessary to check whether the original asset should continue to be recognised in the financial statements or, on the contrary, whether the original instrument should be derecognised and a new financial instrument recognised.
In general, changes to a financial asset lead to the derecognition of the financial asset and the recognition of a new asset when they are "material". The assessment of the "substantiality" of the change must be made considering both qualitative and quantitative elements. In some cases, in fact, it may be clear, without recourse to complex analyses, that the changes introduced substantially modify the characteristics and/or contractual flows of a given activity while, in other cases, further analyses (including quantitative analyses) will have to be carried out in order to appreciate the effects of the same and verify the need to proceed or not with the cancellation of the activity and the registration of a new financial instrument.
The analyses (qualitative-quantitative) define the "substantiality" of contractual changes made to a financial asset, will accordingly have to consider:

- the purposes for which the changes were made: for example, renegotiations for commercial reasons and concessions due to the financial difficulties of the counterpart:
    a) the first, aimed at "retaining" the customer, involve a debtor who is not in financial difficulty. This case includes all renegotiations to adjust the cost of debt to market conditions. These transactions involve a change in the original terms of the contract, usually requested by the debtor, which relates to aspects related to the cost of the debt, with a consequent economic benefit for the debtor. In general, it is considered that, whenever the Company renegotiates in order to avoid losing its customer, this renegotiation should be considered as substantial since, if not done, the customer could finance himself/herself from another intermediary and the Bank would suffer a decrease in expected future revenues;
    b) the latter, carried out for "credit risk reasons" (forbearance measures), are linked to maximising the recovery of cash flows. As a rule, the underlying risks and rewards are not substantially transferred following the changes and, consequently, the accounting representation is based on the "modification accounting" which provides for the recording in the Profit and Loss Account of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate, without derecognition;
- the presence of specific target elements ("triggers") that affect the characteristics and/or contractual flows of the financial instrument (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.

Cancellation criteria

Financial assets are derecognised only if the disposal has resulted in the substantial transfer of all the risks and rewards associated with the assets. On the other hand, if a significant portion of the risks and rewards relating to the financial assets sold has been retained, they continue to be recorded in the financial statements, even though legally the ownership of the assets has actually been transferred.
In the event that it is not possible to ascertain the substantial transfer of risks and rewards, financial assets are derecognised from the financial statements if no type of control has been retained over them. Otherwise, retention, even in part, of this control entails maintaining the assets in the financial statements to the extent of the residual involvement, measured by the exposure to changes in the value of the assets sold and to changes in the financial flows of the same.

Finally, the financial assets sold are derecognised from the financial statements if the contractual rights to receive the related cash flows are retained, with the simultaneous assumption of an obligation to pay those flows, and only they, without significant delay to other third parties.

A.3 HEDGING TRANSACTIONS

The Company has no hedging transactions in place at the time. The choice made, for new hedging transactions, allowed when IFRS 9 was introduced, is to continue to fully apply the provisions of IAS 39 on "hedge accounting" (in the carved out version approved by the European Commission) for each type of hedge (for both specific hedges and macro hedges).

Classification criteria: type of hedge

The purpose of risk hedging transactions is to neutralise potential losses attributable to a given risk and recognised on a given element or group of elements, should that particular risk actually arise.
The types of hedging used are as follows:

- *fair value* hedge: the target is to hedge exposure to changes in *fair value* (attributable to different types of risk) of assets and liabilities recorded in the Balance Sheet or portions thereof, groups of assets/liabilities, irrevocable commitments and portfolios of financial assets and liabilities, including core deposits, as permitted by IAS 39 approved by the European Commission. General *fair value* hedges ("macro hedges") are designed to reduce fluctuations in *fair value*, attributable to interest rate risk, by a monetary amount deriving from a portfolio of assets or liabilities;
- cash flow hedges: these are designed to hedge exposure to changes in future cash flows attributable to particular risks associated with items in the financial statements. This type of hedge is used essentially to stabilise the flow of interest on variable-rate deposits to the extent that the latter finance fixed-rate loans. In some circumstances, similar transactions are carried out in relation to certain types of variable rate loans;
- hedging of an investment in foreign currency: this refers to the hedging of the risks of an investment in a foreign company expressed in foreign currency.

Given the choice made to make use of the possibility of continuing to fully apply the rules of IAS 39 for hedging relationships, it is not possible to designate equity instruments classified under Financial assets measured at *fair value* with an impact on total revenue (FVOCI) as hedged items for price or exchange rate risk, since these instruments do not impact the Profit and Loss Account, even in the event of a sale (except for dividends which are recognised in the Profit and Loss Account).

Entry criteria

Hedging derivatives, like all derivatives, are initially recognised and subsequently measured at *fair value.*

Evaluation criteria

Hedging derivatives are measured at *fair value*. Specifically:

- in the case of a *fair value* hedge, the change in the *fair value* of the hedged item is offset by the change in the *fair value* of the hedging instrument. This compensation is recognised through recognition in the Profit and Loss Account of the changes in value, referring both to the hedged item (as regards the changes produced by the underlying risk factor) and to the hedging instrument. Any difference, representing the partial ineffectiveness of the hedge, accordingly constitutes the net economic effect. In the case of generic *fair value* hedging transactions ("macro hedges"), changes in *fair value* with reference to the hedged risk of the hedged assets and liabilities are recorded in the Balance Sheet under item 60 of the assets "Value adjustment of financial assets subject to generic hedging" or 50 of the liabilities "Value adjustment of financial liabilities subject to generic hedging", respectively;

- in the case of cash flow hedges, changes in the *fair value* of the derivative are recognised in equity, for the effective portion of the hedge, and are recognised in the Profit and Loss Account only when, with reference to the hedged item, there is a change in the cash flows to be offset or if the hedge is ineffective;
- hedges of an investment in foreign currency are accounted for in the same way as cash flow hedges.

The derivative instrument is designated as a hedge if there is formal documentation of the relationship between the hedged instrument and the hedging instrument and if it is effective at the time the hedge commences and, prospectively, throughout its life.

The effectiveness of the hedge depends on the extent to which the changes in the *fair value* of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Effectiveness is accordingly appreciated by comparing the above changes, taking into account the intention pursued by the company when the hedge was set up. It is effective when changes in the *fair value* (or cash flow) of the hedging instrument neutralise almost entirely, i.e. within the limits set by the range 80--125%, changes in the hedged instrument for the hedged risk element.

The evaluation of effectiveness is carried out at each Financial Statement or interim statement closing using:

- prospective tests, which justify the application of hedge accounting, as they demonstrate its expected effectiveness;
- retrospective tests, which show the degree of effectiveness of the hedge achieved in the period to which they refer, or rather, measure how far the actual results have deviated from the perfect hedge.

If the tests do not confirm the effectiveness of the hedge, from that moment on the hedge accounting, according to the above, is interrupted, the hedging derivative contract is reclassified among the trading instruments and the hedged financial instrument regains the valuation criterion corresponding to its classification in the financial statements.

In the event of the interruption of a generic *fair value* hedging relationship, the cumulative revaluations/write-downs recorded under item 60. “Value adjustment of financial assets subject to generic hedging” or 50. “Value adjustments of financial liabilities subject to generic hedging” are recorded in the Profit and Loss Account under interest revenue or expense over the remaining life of the original hedging relationship, subject to verification that the conditions are met.

A.4 HOLDINGS

Classification, recognition and measurement criteria

This item includes interests held in joint ventures and associates.

Joint ventures are entities for which, on a contractual basis, control is shared between the Bank and one or more other parties, or when decisions concerning significant activities require the unanimous consent of all parties sharing control.

Companies subject to significant influence (“associated companies”) are those in which the Bank holds at least 20% of the voting rights (including “potential” voting rights) or in which - although with a lower percentage of voting rights - it has the power to participate in determining the financial and operating policies of the subsidiary by virtue of particular legal ties such as participation in shareholders” agreements.

Certain interests of more than 20%, in which the Bank only holds equity rights to a portion of the investment revenue, has no access to management policies and may exercise governance rights limited to the protection of equity interests, are not considered to be subject to significant influence.

If there is objective evidence that an equity investment may be impaired, the entity shall estimate its recoverable amount, taking into account, when available, the present value of the future cash flows that it could generate, including from its ultimate disposal.

If the recoverable amount is lower than the carrying amount, the difference is recognised in the Profit and Loss Account.
If the reasons for the loss in value are removed as a result of an event subsequent to recognition of the reduction in value, the value is reinstated and charged to the Profit and Loss Account.

Cancellation criteria

Equity investments are derecognised when the contractual rights to cash flows from the assets expire or when the investment is sold, essentially transferring all the risks and rewards associated with it.

A.5. TANGIBLE FIXED ASSETS

Classification criteria

Tangible fixed assets include land, buildings used for business purposes, investment property, valuable artistic assets, technical equipment, furniture and fittings, as well as equipment of any kind that is expected to be used for more than one period.
Tangible assets held for use in the production or supply of goods and services are classified as "assets for functional use" in accordance with IAS 16. Real estate held for investment purposes (in order to earn rent or for capital appreciation) is classified as "assets held for investment purposes" in accordance with IAS 40.
The item also includes tangible fixed assets classified in accordance with IAS 2 - Inventories, which refer both to assets deriving from the enforcement of guarantees or from the purchase at auction that the company intends to sell in the near future (normally on the basis of IFRS 5), without carrying out significant restructuring work, and which do not have the conditions to be classified in the previous categories, and to the real estate portfolio, including building land, real estate under construction, completed properties for sale and real estate development initiatives, held with a view to disposal.
Finally, assets used under financial lease contracts are recorded under tangible fixed assets, even though their legal ownership remains with the lease company.

Entry criteria

Tangible fixed assets are initially recognised at cost, which includes, in addition to the purchase price, any additional charges directly attributable to the purchase and commissioning of the asset.
Extraordinary maintenance costs that increase future economic benefits are recognised as an increase in the value of assets, while other ordinary maintenance costs are recognised in the Profit and Loss Account.
Pursuant to IFRS 16, leases are recognised based on the "right of use" model. According to that, at the staring date, the lessee has a financial obligations yo make payments due to the lessor to offset its right of use the asset during the lease duration. When the asset is made available to the lessee to be used (initial date), the lessee recognises both the liability and the asset consisting in the right of use.

Evaluation criteria

Tangible fixed assets are valued at cost, less any depreciation and impairment losses, with the exception of functional properties and fine art assets, which are valued using the revaluation method.
Real estate held for investment purposes is valued at cost.
In the case of tangible assets subject to valuation using the revaluation method:

- if the carrying amount of an asset is increased as a result of a revaluation, the increase will be recognised in other total revenue and accumulated in equity under the heading of revaluation surplus; instead; if the increase restores a decrease due to a revaluation of the same asset previously recognised in Profit or Loss, it will be recognised as revenue;
- if the carrying amount of an asset is decreased as a result of the revaluation, the decrease will be recognised in other total revenue as a reduction of the revaluation surplus to the extent that there are any credit balances in the revaluation surplus in respect of that asset; otherwise, that reduction will be recognised in Profit or Loss.

At the financial statement date, the Company holds no tangible assets subject to valuation using the revaluation method.
Tangible fixed assets are systematically depreciated using the constant percentage method as the amortisation criteria, over their useful lives. The depreciable amount is represented by the cost of the assets (or by the net re-determined value if the valuation method adopted is the re-determination of value) net of the residual value at the end of the depreciation process, if significant.
Properties are depreciated for a portion deemed appropriate in order to represent the deterioration of the assets over time following their use, taking into account extraordinary maintenance costs, which are added to the value of the assets.
The following are not amortised:

- land, whether acquired singly or incorporated into the value of buildings, as it has an indefinite useful life;
- valuable artistic heritage, other historical, artistic and decorative assets because their useful life cannot be estimated and their value is normally destined to increase over time;
- investment properties for which the *fair value* method has been chosen, with a balancing entry in the Profit and Loss Account.

If there is any indication that a tangible asset measured at cost may have suffered a loss in value, the carrying amount of the asset is compared with its recoverable amount. Any adjustments are recognised in the Profit and Loss Account.
If reasons for the loss cease to exist, the value is written back, which may not exceed the value that the asset would have had, net of the calculated depreciation, in the absence of previous losses in value.

Cancellation criteria

A tangible asset is derecognised from the Balance Sheet at the time of disposal or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal.

A.6. INTANGIBLE FIXED ASSETS

Classification criteria

Intangible fixed assets are recognised as such if they are identifiable and originate from legal or contractual rights. Intangible fixed assets also include goodwill, which represents the positive difference between the purchase cost and the *fair value* of the assets and liabilities of an acquired company.

Recognition and measurement criteria

Intangible fixed assets are recognised at cost, adjusted for any incidental expenses, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the asset can be measured reliably Otherwise, the cost of the intangible asset is recognised in the Profit and Loss Account in the year in which it is incurred.
For assets with a finite useful life, the cost is amortised on a linear basis or in decreasing amounts, determined on the basis of the inflow of economic benefits expected from the asset. Assets with an indefinite useful life are not amortised on a linear basis, but are tested periodically to determine whether their carrying amount is adequate.
If there is any indication that an asset may be impaired, its recoverable amount is estimated. The loss amount, recorded in the Profit and Loss Account, is equal to the difference between the book value of the asset and its recoverable value.
In particular, intangible fixed assets include:

- technology-based intangible fixed assets, such as application software, which are amortised on the basis of their expected technological obsolescence and in any case no longer than a maximum period of seven years. In particular, costs incurred internally for the development of software projects are intangible fixed assets and are recognised as assets only if all the following conditions are met: i) the cost attributable to the development activity is reliably determinable, ii) there is the intention, availability of financial resources and technical capacity to make the asset available for use or sale, iii) it is demonstrable that the activity is capable of producing future economic benefits. Capitalised software development costs include only those expenses incurred that can be attributed directly to the development process. Capitalised software development costs are systematically amortised over the estimated life of the related product/service to reflect the way in which the future economic benefits arising from the asset are expected to be consumed by the entity from the start of production over the estimated life of the product;
- intangible fixed assets linked to clients, represented by the valuation, on the occasion of aggregation transactions, of asset management relationships. These assets, with a finite life, are originally valued by discounting back, using a rate representing the time value of money and the risks specific to the asset, the cash flows representing profit margins over a period expressing the residual duration, contractual or estimated, of the relationships existing at the time of the combination. They are amortised, for asset management relationships, on a linear basis over the most significant inflow period of the expected economic benefits in the case of relationships not having a predetermined maturity and, for relationships linked to insurance contracts, in decreasing amounts corresponding to the duration period of the contracts in the case of relationships with a defined maturity (residual life of the policies);
- intangible fixed assets related to marketing, represented by the enhancement of the brand name, also registered on the occasion of aggregation operations. This asset is considered to have an indefinite life as it is believed that it can contribute for an indefinite period to the formation of revenue.

Finally, intangible fixed assets include goodwill.
Goodwill can be recognised as part of a business combination when the positive difference between the consideration transferred and any recognition at *fair value* of the assets acquired is representative of the future earnings capacity of the investment ("*goodwill*").
If this difference is negative ("*badwill*") or if the goodwill is not justified by the future earnings capacity of the investee company, the difference is recorded directly in the Profit and Loss Account.

A test to verify the adequacy of the value of goodwill is carried out annually (or whenever there is evidence of impairment). To this end, the cash-generating Unit to which goodwill is attributed is identified. In Volksbank, the cash-generating unit is the same as the entire business entity. The amount of any impairment is determined on the basis of the difference between the carrying amount of the goodwill and its recoverable amount, if lower. This recoverable amount is equal to the higher of the *fair value* of the cash-generating Unit, net of any selling costs, and its value in use. The resulting value adjustments are recognised in the Profit and Loss Account.

Cancellation criteria

An intangible asset is derecognised from the Balance Sheet at the time of disposal or when future economic benefits are no longer expected.

A.7 OTHER ASSETS

Other assets essentially include items awaiting settlement and items that do not relate to other Balance Sheet items, including receivables arising from the supply of non-financial goods and services, tax items other than those recognised under own account (for example, related to withholding tax), gold, silver and precious metals and accrued revenue other than those that should be capitalised on the related financial assets, including those arising from contracts with clients pursuant to IFRS 15, paragraphs 116 et seq.

A.8 NON-CURRENT ASSETS OR DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups held for sale" and "Liabilities associated with assets held for sale" are classified under assets and liabilities as non-current assets or disposal groups for which a disposal process has been initiated and their sale is considered highly probable. These assets/liabilities are valued at the lower of their book value and their *fair value* net of disposal costs, with the exception of certain types of assets (e.g. financial assets falling within the scope of application of IFRS 9) for which IFRS 5 specifically provides that the valuation criteria of the relevant accounting standard must be applied.
Revenue and expenses (net of the tax effect), relating to groups of assets being disposed of or recognised as such during the year, are shown in the Profit and Loss Account as a separate item.

A.9 CURRENT AND DEFERRED TAXATION

Revenue taxes, calculated in compliance with national tax legislation, are recorded as costs on an accruals basis, in line with the method of recording the costs and revenues that generated them in the financial statements. They accordingly represent the balance of current and deferred taxes relating to revenue for the year. Current tax Assets and Liabilities include the net balance of the Company's tax positions with the Italian 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 tax incurred or other tax credits from previous years for which the Company has requested offsetting with taxes from subsequent years.
Current tax Assets also include tax credits for which the Company has requested a refund from the competent tax authorities, as well as amounts paid provisionally in the course of a dispute with the tax Authorities. The risk inherent in these proceedings, as well as the risks inherent in proceedings that did not require provisional payments, is assessed according to the logic of IAS 37 in relation to the probability of the use of economic resources for their fulfilment.

Taking into account the adoption of the national tax consolidation by the Company, the tax positions relating to the companies included in consolidation are managed in a separate way from an administrative point of view.
Deferred taxation is calculated on the basis of the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of assets and liabilities and their tax value, which will determine taxable or deductible amounts in future periods. For these purposes,"taxable temporary differences" are those that in future periods will determine taxable amounts and "deductible temporary differences" are those that in future years will determine deductible amounts.
Deferred taxes are calculated by applying the tax rates established by the laws in force to taxable temporary differences for which there is a reasonable probability that taxes will actually be borne and to deductible temporary differences for which there is a reasonable certainty that there will be future taxable amounts at the time when the related tax deductibility will become apparent (so-called "probability test"). Deferred tax assets and liabilities relating to the same tax and falling due in the same period are offset.
If the deferred tax assets and liabilities refer to items that have affected the Profit and Loss Account, the contra entry is represented by revenue taxes.
In cases where deferred tax assets and liabilities relate to transactions that directly affect equity without affecting the Profit and Loss Account (such as first-time adoption adjustments of IAS/IFRS, valuations of financial instruments recognised at *fair value* with an impact on total revenue or derivative contracts hedging cash flows), they are recorded as a balancing entry in equity, involving specific reserves when required (e.g. valuation reserves).
Deferred taxes on balance sheet items suspended for tax purposes that are "taxable in any case of use" are entered in the financial statements as a reduction in equity. Deferred tax liabilities related to revaluation for conversion to the Euro, directly assigned to a specific Reserve pursuant to art. 21 Legislative Decree 213/98 suspended for tax purposes, are recognised in financial statements by reducing the Reserve itself. Deferred taxes relating to balance sheet items suspended for tax purposes "taxable only in the event of distribution" are not recorded in the financial statements, since the amount of available reserves already subject to taxation makes it possible to believe that no transactions involving their taxation will be carried out.
Deferred taxes relating to companies included in the tax consolidation are recorded in the financial statements by the same, in application of the accrual basis of accounting and in consideration of the value of the tax consolidation limited to payment of current tax positions.

A.10 PROVISIONS FOR RISKS AND CHARGES

Provisions for pensions and similar obligations

Provisions for pensions are established in accordance with company agreements and qualify as defined-benefit plans. The liability relating to these plans and the related pension cost of current employment services are determined on the basis of actuarial assumptions applying the "Projected Unit Credit Method", which provides for the projection of future disbursements on the basis of historical statistical analyses and the demographic curve and the financial discounting of these flows on the basis of a market interest rate. Contributions paid in each financial year are considered as separate units, recognised and valued individually to calculate the final obligation. The discount rate used is based on the market yields recorded at the valuation dates of primary company bonds, taking into account the average residual duration of the liability. The present value of the obligation at the Balance Sheet date is also adjusted by the *fair value* of any plan assets.
Actuarial gains and losses (i.e. changes in the present value of the obligation arising from changes in actuarial assumptions and adjustments based on past experience) are recognised in the statement of comprehensive income.

Provisions for risks and charges against commitments and guarantees given

The sub-item "Provisions for risks and charges" includes the provisions for credit risk recognised for commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules on *impairment* in accordance with IFRS 9. In principle, the same methods of allocation between the three stages (credit risk stages) and calculation of the expected loss shown with reference to financial assets measured at amortised cost or at *fair value* with an impact on total revenue are adopted for these cases.
The aggregate also includes provisions for risks and charges set up to cover other types of commitments and guarantees given which, by virtue of their specific nature, do not fall within the scope of application of the *impairment* test pursuant to IFRS 9.

Other provisions

Other provisions for risks and charges include provisions relating to legal obligations or those related to employment relationships or to disputes, including tax disputes, arising from a past event for which it is probable that economic resources will be disbursed to meet the obligations, provided that a reliable estimate can be made of the relative amount.
Consequently, a provision is recognised if and only if:
- there is a current obligation (legal or implicit) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount resulting from fulfilment of the obligation.

The amount recognised as a provision represents the best estimate of the expenditure required to meet the obligation existing at the financial statement date and reflects the risks and uncertainties that inevitably characterise a number of facts and circumstances. Where the time element is significant, provisions are discounted using current market rates. Provisions and increases due to the time factor are recorded in the Profit and Loss Account.
The provision is reversed when use of resources that can produce economic benefits to fulfil the obligation becomes unlikely or when the obligation is extinguished.
The item also includes long-term employee benefits, the charges for which are determined using the same actuarial criteria as those described for the provision for pensions. Actuarial gains and losses are all recognised immediately in the Profit and Loss Account.

A.11 FINANCIAL LIABILITIES VALUED AT AMORTISED COST

Classification criteria

Amounts due to banks, amounts due to clients and securities issued include the various forms of interbank and client funding, repurchase agreements and funding through certificates of deposit, bonds and other outstanding funding instruments, net of any amounts repurchased.
It also includes debts recorded by the company as a lessee under finance leases.

Entry criteria

These financial liabilities are first recognised on the date the contract is signed, which normally coincides with the date of receipt of the sums collected or the issue of the debt securities.
Initial recognition is based on the *fair value* of the liabilities, normally equal to the amount received or the issue price, plus any additional costs/revenue directly attributable to the individual funding or issue transaction. Internal administrative costs are excluded.

Evaluation criteria

After initial recognition, financial liabilities 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 to the scope of the contract), that is not recognised/considered as a separate contract.

Cancellation criteria

Financial liabilities are derecognised when they expire or are extinguished. Cancellations are also made when previously issued bonds are repurchased. The difference between the carrying amount of the liability and the amount paid to purchase it is recognised in the Profit and Loss Account.
Placement on the market of own securities after their repurchase is considered as a new issue with registration at the new placement price.

A.12 FINANCIAL LIABILITIES HELD FOR TRADING

Entry criteria

These financial instruments are recorded at the date of subscription or issue at a value equal to the *fair value* of the instrument, without considering any transaction costs or revenue directly attributable to the instruments themselves.
This liability category includes, in particular, 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. It also includes liabilities arising from technical overdrafts generated by trading in securities and certificates

Evaluation criteria

All trading liabilities are measured at *fair value* with the measurement result recognised in the Profit and Loss Account.

Cancellation criteria

Financial liabilities held for trading are derecognised when the contractual rights to the related cash flows expire or when the financial liability is transferred with the substantial transfer of all the risks and rewards of ownership.

A.13 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

Classification criteria

This item includes financial liabilities designated at *fair value* with a balancing entry in the Profit and Loss Account, based on the option granted to companies (so-called "*fair value option*") by IFRS 9 and in compliance with relevant legislation provisions.

Entry criteria

These liabilities are recognised at the issue date at their *fair value*, including the value of any embedded derivative, net of placement fees paid.

Evaluation criteria

These liabilities are measured at *fair value* and the result is recognised in accordance with the following rules set out in IFRS 9:

- changes in*fair value* that are attributable to changes in creditworthiness must be recognised in the Statement of comprehensive income (equity);
- the remaining changes in *fair value* must be recognised in the Profit and Loss Account.

The amounts recognised in the Statement of comprehensive income are not subsequently reclassified to the Profit and Loss Account. This method of accounting does not have to be applied when recognition of the effects of one's creditworthiness under equity leads to or accentuates an accounting mismatch in the Profit and Loss Account. In this case, the gains or losses linked to the liability, including those determined as a result of the change in its creditworthiness, must be recorded in the Profit and Loss Account.

Cancellation criteria

Financial liabilities measured at *fair value* are derecognised when the contractual rights to the related cash flows expire or when the financial liability is transferred with the substantial transfer of all the risks and rewards of ownership.

A.14 FOREIGN CURRENCY TRANSACTIONS

Initial recognition criteria

At initial recognition, foreign currency transactions are recognised in the money of account, applying the exchange rate at the date of the transaction.

Subsequent recognition criteria

At each Balance Sheet or interim reporting date, foreign currency Balance Sheet items are valued as follows:

- monetary items are converted at the exchange rate on the closing date;
- non-monetary items valued at historical cost are converted at the exchange rate in force at the date of the transaction;
- non-monetary items measured at *fair value* are translated using the exchange rates in force at the closing date.

Exchange differences arising from the settlement of monetary items or from the translation of monetary items at rates other than the initial conversion rate, or the conversion rate of the previous financial statements, are recognised in the Profit and Loss Account for the period in which they arise.
When a gain or loss on a non-monetary item is recognised in equity, the exchange difference relating to that item is also recognised in equity. Conversely, when a gain or loss is recognised in the Profit and Loss Account, the related exchange difference is also recognised in the Profit and Loss Account.

A.15 OTHER LIABILITIES

Other liabilities essentially include items awaiting settlement and those that do not relate to other balance sheet items.

A.16 OTHER INFORMATION

Treasury shares

Any treasury shares held are deducted from equity. Similarly, their original cost and the gains or losses from their subsequent sale are recognised as movements in equity.

Accruals and deferrals

Accruals and deferrals that include revenue and expenses for the period accrued on assets and liabilities are recorded in the financial statements as an adjustment to the assets and liabilities to which they refer.

Leasehold improvements

Costs for the renovation of real estate not owned by the company are capitalised in view of the fact that, for the duration of the rental contract, the user company has control of the assets and can gain future economic benefits from them. These costs, classified as Other assets in accordance with Bank of Italy instructions, are amortised over a period not exceeding the duration of the lease agreement.

Employee severance indemnities

The provision for employee severance indemnities is classified as a "post-employment benefit":
- "defined-contribution plan" for employee severance indemnities accruing from 1 January 2007 (date of entry into force of the supplementary pension reform pursuant to Legislative Decree no. 252 of 5 December 2005), both in the case of an employee opting for supplementary pension schemes and in the case of allocation to the treasury fund at INPS. For these portions, the amount recorded under personnel costs is calculated on the basis of the contributions due without application of actuarial calculation methods;
- "defined-benefit plan" recorded on the basis of its actuarial value calculated using the "Projected Unit Credit Method", for the portion of employee severance indemnities accrued up to 31 December 2006.

These portions are recorded on the basis of their actuarial value determined using the projected unit credit method, without application of the pro-rata of the service provided, since the current service cost of the employee severance indemnity has almost entirely matured and its revaluation, for the years to come, is not considered to give rise to significant benefits for employees.
For discounting purposes, the rate used is determined with reference to the market yield on bonds of primary companies, taking into account the average residual duration of the liability, weighted on the basis of the percentage of the amount paid and advanced, for each maturity, with respect to the total to be paid and advanced until the final extinction of the entire obligation.
Plan service costs are recognised as personnel costs, while actuarial gains and losses are recognised in the Statement of comprehensive income.

Share-based payments

Employee remuneration plans based on shares are recorded in the Profit and Loss Account, with a corresponding increase in equity, on the basis of the *fair value* of the financial instruments assigned at the assignment date, dividing the cost over the period envisaged by the plan.
In the presence of options, their *fair value* is calculated using a model that considers, in addition to information such as the exercise price and the life of the option, the current price of the shares and their expected volatility, the expected dividends and the risk-free interest rate, also the specific characteristics of the existing plan. In the valuation model, the option and the probability of achieving the conditions on the basis of which the options were assigned are assessed separately.
The combination of the two values provides the *fair value* of the instrument assigned.
Any reduction in the number of financial instruments granted is accounted for as the cancellation of part of them.

Employee benefits

Employee benefits are all types of remuneration paid by the company in exchange for the work performed by employees. Employee benefits are divided between:
- short-term benefits (other than termination benefits and equity compensation) that are expected to be paid in full within twelve months of the end of the period in which the employees render the service and are recognised in full in the Profit and Loss Account at the time of vesting (for example, “extraordinary” wages, salaries and benefits fall into this category);
- post-employment benefits due after the end of the employment relationship which oblige the company to make future payments to employees. These include severance indemnities and pension funds, which in turn are divided into defined-contribution plans and defined-benefit plans or company pension funds;
- termination benefits, i.e. compensation that the company pays to employees as a counterpart to the termination of the employment relationship, following the company's decision to terminate the employment relationship before the normal retirement date;
- long-term benefits, other than the previous ones, which are not expected to be fully extinguished within the twelve months following the end of the financial year in which the employees worked.

Recognition of income and costs

Revenue can be recognised:
- at a specified time, when the entity fulfils its obligation to do so by transferring the promised good or service to the client, or
- over time, as the entity fulfils its obligation to do so by transferring the promised good or service to the client.

The asset is transferred when, or during the period in which, the client acquires control of it. Specifically:
- the interest payments are recognised pro rata temporis on the basis of the contractual interest rate or the effective interest rate if the amortised cost is applied. Interest revenue (or interest expense) also includes differentials or margins, positive (or negative), accrued up to the Balance Sheet date, relating to financial derivative contracts (i) hedging assets and liabilities that generate interest; (ii) classified in the Balance Sheet in the trading portfolio but linked to financial assets and/or liabilities measured at *fair value* (*fair value option*); (iii) linked to assets and liabilities classified in the trading portfolio that require the settlement of differentials or margins at more than one maturity;
- interest on arrears, which may be provided for by contract, is only recognised in the Profit and Loss Account when it is actually collected;
- dividends are recognised in the Profit and Loss Account in the year in which their distribution is approved;
- commission for revenues from services are recognised, on the basis of the existence of contractual agreements, in the period in which the services were provided. The commission considered in the amortised cost to calculate the effective interest rate is recognised under interest;

- revenues from the sale of financial instruments, determined by the difference between the consideration paid or received for the transaction and the *fair value* of the instrument, are recognised in the Profit and Loss Account upon recognition of the transaction;
- gains and losses arising from trading in financial instruments are recognised in the Profit and Loss Account at the time of completion of the sale, on the basis of the difference between the consideration paid or received and the book value of the instruments themselves;
- revenues from the sale of non-financial assets are recognised when the sale is completed, or when the obligation to do so vis-a-vis the client is fulfilled.

Costs relating to the obtaining and fulfilment of contracts with clients are recorded in the Profit and Loss Account in the periods in which the related revenues are recorded.

Use of estimates and assumptions in the preparation of financial statements

The preparation of financial information also requires the use of estimates and assumptions that can have a significant effect on the values recorded in the Statement of financial position and the Profit and Loss account, as well as on the information relating to potential assets and liabilities recorded in the financial statements.
The preparation of such estimates involves the use of information available and adoption of subjective evaluations, also based on historical experience, used to formulate reasonable assumptions for the recognition of operating events. Due to their nature, the estimates and assumptions used may vary from year to year and, accordingly, it cannot be excluded that in subsequent years the values recorded in the financial statements may vary significantly as a result of changes in the subjective assessments used.
The main cases for which the use of subjective assessments by management is most required are:

- quantification of impairment losses on loans, equity investments and, in general, other financial assets;
- the use of valuation models for recognition of the *fair value* of financial instruments not listed on active markets;
- the assessment of the fairness of the value of goodwill and other intangible fixed assets;
- quantification of the *fair value* of the properties and artistic heritage of value;
- quantification of provisions for personnel and provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets;
- the demographic (linked to the prospective mortality of the insured population) and financial (deriving from the possible evolution of the financial markets) assumptions used in structuring the insurance products and in defining the bases for calculating the supplementary reserves.

For some of the cases listed above, the main factors that are the subject of estimates can be identified and accordingly contribute to determining the book value of assets and liabilities in the financial statements. Without claiming to be exhaustive, it should be noted that:

- to calculate the *fair value* of financial instruments not listed on active markets, where it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on the one hand, development of future financial flows (or even revenue flows, in the case of shares), possibly subject to future events and, on the other, the level of certain input parameters not listed on active markets;
- for allocation of receivables and debt securities classified under Financial assets at amortised cost and Financial assets at *fair value* to the three credit risk stages envisaged by IFRS 9 with an impact on total revenue and the calculation of the related expected losses, the main estimates concern:
    a) calculation of parameters for a significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of financial assets and at the financial statement date;
    b) inclusion of forward looking factors, including macroeconomic factors, to calculate PDs and LGDs;
    c) determination of the probability of sale of impaired financial assets, by realising positions on the market;
- to determine estimates of future cash flows from impaired loans, certain elements are taken into consideration: the expected recovery time, the estimated realisable value of any guarantees as well as the costs that are expected to be incurred for the recovery of the credit exposure;

- to determine the value of use of intangible fixed assets with an indefinite life (goodwill, brand name, etc.) with reference to Cash Generating Units (CGUs), the future cash flows in the analytical forecast period and the flows used to determine the so-called "terminal value'', generated by the CGU. The cost of capital is also included in the estimates;
- to determine the value in use of intangible fixed assets with a finite life (asset management and insurance portfolios) with reference to the CGUs, the useful life is estimated, on the one hand, and the future cash flows from the asset, on the other. In the case of intangible fixed assets with a finite useful life, the cost of capital is also included in the estimates;
- determination of the *fair value* of real estate and valuable artistic heritage is carried out through the preparation of special valuations by qualified and independent companies or through internal experts. For the preparation of valuations relating to properties, rental fees, sale prices, discount rates and capitalisation rates were estimated, while for preparation of valuations relating to the valuable artistic heritage, the estimate of the value was derived from the trend of exchanges of similar works (by technique, size, subject) by the same author, or of schools and regional movements next in style and technique;
- for quantification of provisions for pensions and similar obligations, the present value of obligations is estimated, taking into account the flows, suitably discounted, deriving from historical statistical analyses, and the demographic curve;
- for quantification of provisions for risks and charges, an estimate is made - where possible - of the amount of disbursements needed to meet the obligations, taking into account the actual probability of having to invest resources;
- for determination of the items relating to deferred taxation, the probability of future taxes effectively incurred (taxable temporary differences) is estimated and the degree of reasonable certainty - if any - of future taxable amounts at the time when the tax deductibility will become apparent (deductible temporary differences).

A.17 THE CRITERIA FOR CLASSIFYING FINANCIAL ASSETS

The classification of financial assets in the three categories provided for by IFRS 9 depends on two classification criteria, or drivers: i) the business model with which the financial instruments are managed (or Business Model) and ii) the contractual characteristics of the financial flows of the financial assets (or SPPI Test).
The combined provisions of the two drivers mentioned above give rise to the classification of financial assets, as described below:

- Financial assets valued at amortised cost: assets that pass the SPPI test and fall within the Hold to collect (HTC) business model;
- Financial assets measured at *fair value* with impact on total revenue (FVOCI): assets that pass the SPPI test and fall within the Hold to collect and sell (HTCS) business model;
- Financial assets measured at *fair value* through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test on the characteristics of contractual flows (SPPI test not passed).

SPPI tests

In order for a financial asset to be classified at amortised cost or at FVOCI - in addition to the analysis relating to the business model - the contractual terms of the asset itself must provide, on certain dates, for cash flows represented solely by payments of principal and interest on the amount of capital to be repaid ("solely payment of principal and interest" - SPPI). This analysis must be carried out, in particular, for loans and debt securities.
The SPPI test must be carried out on each individual financial instrument at the time of budgeting.
After initial recognition, and as long as it is recognised in the financial statements, the asset is no longer subject to new valuations for the purposes of the SPPI test. If a financial instrument is derecognised and a new financial asset is recognised, the SPPI test on the new asset must be carried out.
To apply the SPPI test, the following definitions will apply

- Capital: is the *fair value* of the financial asset at the time of initial recognition. This value may change over the life of the financial instrument, for example as a result of repayments of part of the principal;
- Interest: is the consideration for the time value of money and for the credit risk associated with the outstanding principal in a particular period of time. It may also include remuneration for other basic risks and costs associated with lending and a profit margin.

When assessing whether the contractual flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a "basic lending arrangement", which is independent of the legal form of the asset. When contractual clauses introduce exposure to risks or volatility of contractual cash flows that are not consistent with the definition of basic lending arrangements, such as exposure to changes in share or commodity prices, contractual flows do not meet the definition of SPPI. Application of the classification driver based on contractual cash flows sometimes requires subjective judgement and, accordingly, definition of internal application policies.
In cases where the time value of money is modified - for example, when the interest rate of the financial asset is periodically recalculated, but the frequency of restatement or the frequency of coupon payments does not reflect the nature of the interest rate (e.g. the interest rate is revised monthly on the basis of a one-year rate) or when the interest rate is periodically revised on the basis of an average of particular short or medium/long-term rates - it is assessed, using both quantitative and qualitative elements, whether the contractual flows still meet the definition of SPPI (c. the interest rate is adjusted to reflect the nature of the interest rate).d. benchmark cash flows test). If the test shows that the contractual cash flows (not discounted) are "significantly different" from the cash flows (also not discounted) of a benchmark instrument (i.e. without the modified time value element), the contractual cash flows cannot be considered as meeting the definition of SPPI
Special analysis (so-called "look through test") are required by the principle and are consequently also implemented for contractually linked instruments ("CLIs") that create concentrations of credit risk for debt settlement and for non recourse assets, for example in cases where the receivable can only be claimed in relation to certain assets of the debtor or to cash flows from certain assets.
The presence of contractual clauses that may change the frequency or amount of contractual cash flows must also be considered to assess whether these flows meet the requirements to be considered as SPPI (e.g. prepayment options, possibility of deferring contractual cash flows, instruments with embedded derivatives, subordinated instruments, etc.).
However, as required by IFRS 9, a feature of the contractual cash flows does not affect the classification of the financial asset if it can only have a de minimis effect on the contractual cash flows of the financial asset (in each period and cumulatively). Similarly, if a feature of the cash flows is unrealistic ("not genuine"), or if it affects the contractual cash flows of the instrument only on the occurrence of an extremely rare, very unusual and very unlikely event, it does not affect the classification of the financial asset.
In order to carry out the SPPI test, the Company makes use of the services provided by well-known info-providers for debt security transactions.
A tool based on an internally developed methodology (decision trees) has been developed for the SPPI test in the context of the credit granting processes. In particular, given the significant differences in characteristics, differentiated management is envisaged for products that can be traced back to a contractual standard (typically retail loan portfolio) and for "tailor made" loans (typically corporate loan portfolio).

For standard products, the SPPI test is carried out during structuring of the contractual standard and the result of the test is extended to all individual reports related to the same product. For "tailor made" products, the SPPI test is carried out for each new credit line/relationship submitted to the decision-making body through the use of the proprietary tool.

Business model

As far as the business model is concerned, IFRS 9 identifies three cases in relation to the way in which cash flows and sales of financial assets are managed:

- Hold to Collect (HTC): this is a business model whose target is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated with it. Inclusion of a portfolio of financial assets in this business model does not necessarily mean that it is impossible to sell the instruments, even if it is necessary to consider the frequency, value and timing of sales in previous years, the reasons for sales and expectations regarding future sales;
- Hold to Collect and Sell (HTCS): is a mixed business model, whose target is achieved both through the collection of contractual cash flows from the financial assets in the portfolio and through a sales activity that is an integral part of the strategy. Both activities (collection of contractual flows and sale) are functional to achieving the business model target. Accordingly, sales are more frequent and significant than an HTC business model and are an integral part of the strategies pursued;
- Others/Trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that cannot be traced back to the previous categories (Hold to Collect and Hold to Collect and Sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured at *fair value*.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by top management through the appropriate involvement of business units.

The business model is observed considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of financial assets or from both of these assets. Assessment is not made on the basis of scenarios which, according to reasonable forecasts of the entity, are not likely to occur, such as the so-called worst-case or stress-case scenarios. For example, if the entity expects to sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the assessment of the entity's business model for those assets if that scenario, based on the entity's reasonable expectations, is not expected to occur.

The business model does not depend on the intentions management has with reference to a single financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business target.

In summary, the business model:

- reflects the way in which financial assets are managed to generate cash flows;
- is defined by top management, through the appropriate involvement of business structures;
- must be observable in view of the way in which financial activities are managed.

In operational terms, the assessment of the business model is carried out in accordance with the company organisation, the specialisation of the business functions, the risk model and the assignment of delegated powers (limits).

In relation to management purposes for which the financial assets are held, it should be noted that a specific document - approved by the competent levels of governance - defines and sets out the elements constituting the business model in relation to the financial assets included in the portfolios managed in the performance of operations on the business structures.

For the Hold to Collect portfolios, the Company has defined the eligibility thresholds for sales that do not affect the classification (frequent but not significant, individually and in aggregate, or infrequent even if of significant amount) and, at the same time, the parameters have been established to identify sales consistent with this business model as they are attributable to an increase in credit risk.

More specifically, sales are allowed under an HTC business model:

- in the event of an increase in credit risk, which occurs:
    a) for securities, when there is a downgrade of predetermined notches to the origination rating. The approach adopted envisages that the number of notches is differentiated according to the origination rating, in line with the methodology in use for the identification of "significant deterioration", i.e. for the staging transition;
    b) in the case of credits, in the case of sale of bad debts or of credits classified as stage 2;
- when they are frequent but not significant in terms of value or occasional even if significant in terms of value. In order to determine these aspects, frequency and significance thresholds have been defined:
    a) the frequency is defined as the percentage ratio between the number of positions sold (ISINs or ratios) during the observation period and the total number of positions in the portfolio during the observation period;
    b) significance is defined as the percentage ratio of the nominal value of sales to the total nominal value of the instruments in the portfolio over the period considered.

Where both frequency and significance thresholds are exceeded at the same time, an additional assessment is required to confirm the consistency of the HTC business model (e.g. to assess whether sales are made close to maturity).

Methods of determining amortised cost

The amortised cost of a financial asset or liability is the value at which, on initial recognition, the financial asset or liability was measured net of principal repayments, increased or decreased by the total amortisation calculated using the effective interest method, by the differences between the initial value and the maturity value and net of any loss in value.
The effective interest rate is the rate that equals the present value of a financial asset or financial liability to the contractual flow of future payments in cash or received until maturity or the next date of price recalculation. To calculate the present value, the effective interest rate is applied to the flow of future cash receipts or payments over the entire useful life of the financial asset or financial liability or for a shorter period under certain conditions (e.g. revision of market rates).
Subsequent to initial recognition, the amortised cost makes it possible to allocate revenues and costs deducted from or increased by the instrument over its expected life through the amortisation process. Calculation of the amortised cost differs according to whether the financial assets/liabilities being valued are at a fixed or variable rate and - in the latter case - according to whether the variability of the rate is known in advance or not. For fixed rate instruments or fixed rate ones by time band, future cash flows are quantified on the basis of the known interest rate (single or variable) over the life of the loan. For variable rate financial assets/liabilities, the variability of which is not known in advance (for example because it is linked to an index), cash flows are determined on the basis of the last known rate. At each rate revision date, the amortisation plan and the effective rate of return are recalculated over the entire useful life of the instrument, i.e. up to the expiry date. The adjustment is recognised as a cost or revenue in the Profit and Loss Account.
Amortised cost measurement is carried out for financial assets measured at amortised cost and for those measured at *fair value* with an impact on total revenue, as well as for financial liabilities measured at amortised cost.
Financial assets and liabilities traded at market conditions are initially recognised at their *fair value*, which normally corresponds to the amount disbursed or paid inclusive, since they are instruments valued at amortised cost, transaction costs and directly attributable commissions.
Transaction costs are marginal internal or external costs and revenue attributable to the issue, acquisition or disposal of a financial instrument and not chargeable back to the client. These fees, which must be directly attributable to the individual financial asset or liability, affect the original effective yield and make the effective interest rate associated with the transaction different from the contractual interest rate.

Costs/revenue relating indistinctly to several transactions and components related to events that may occur during the life of the financial instrument, but which are not certain at the time of the initial definition, such as, for example: commission for retrocession, for non-use, for early repayment, are excluded. Moreover, the amortised cost does not include costs that the company would have to bear independently of the transaction (e.g. administrative, stationery, communication costs), those that, although specifically attributable to the transaction, fall within the normal practice of managing the loan (e.g. activities aimed at disbursement of the credit), as well as commission for services collected following the performance of Structured Finance activities that would have been collected independently of the subsequent financing of the transaction (such as, for example, facility and arrangement commission).
With particular reference to loans, the following are considered costs attributable to the financial instrument: commission paid to distribution channels, fees paid for consultancy/assistance for the organisation of and/or holding in syndicated loans and, finally, up-front commissions related to loans granted at rates higher than market rates; while revenues considered in the calculation of the amortised cost are up-front commissions related to loans granted at rates lower than market rates, those for holding in syndicated transactions and brokerage commission linked to commission paid by brokerage firms.
With regard to securities not valued at *fair value* with an impact on the Profit and Loss Account, transaction costs are considered to be commission for contracts with brokers operating on Italian stock markets, those disbursed to brokers operating on foreign stock markets and bonds defined on the basis of commission tables. Stamps are not considered to be attracted by the amortised cost, as they are not significant.
For the securities issued, commission on the placement of bonds paid to third parties, shares paid to stock exchanges and fees paid to auditors for the work carried out for each individual issue are considered in the calculation of the amortised cost, while commission paid to rating agencies, legal and advisory/revision fees for the annual updating of prospectuses, costs for the use of indices and commission originating during the life of the bond issued are not considered to be attracted by the amortised cost.
Amortised cost is also applied to the valuation of the loss in value of the financial instruments listed above and to the recognition of those issued or purchased at a value other than their *fair value*. The latter are recorded at *fair value*, rather than for the amount received or paid, calculated by discounting future cash flows at a rate equal to the effective rate of return of similar instruments (in terms of creditworthiness, contractual maturities, currency, etc.), with simultaneous recognition in the Profit and Loss Account of a financial charge or revenue. Subsequent to initial valuation, they are valued at amortised cost, with actual interest greater or lesser than nominal interest. Finally, structured liabilities that are not measured at *fair value* are also measured at amortised cost and recognised in the Profit and Loss Account because the derivative contract embedded in the financial instrument has been separated and recognised separately.
As indicated by IFRS 9, in some cases, a financial asset is considered impaired at the time of initial recognition because the credit risk is very high and, in the case of purchase, is purchased with large discounts (compared to the initial disbursement value). If the financial assets in question, based on the application of the classification drivers (i.e. SPPI test and Business model), are classified as assets valued at amortised cost or *fair value*with an impact on overall profitability, they are classified as "Purchased or Originated Credit Impaired Assets" (in short "POCI") and are subject to special treatment with regard to the *impairment* process. In addition, on financial assets classified as POCI, an effective interest rate adjusted for the loan is calculated at the date of initial recognition (so-called "credit-adjusted effective interest rate"), for which initial expected losses must be included in financial flow estimates in order to identify it. For the application of the amortised cost, and consequent calculation of the interest, the effective interest rate corrected for the loan is applied.
The amortised cost method does not apply to hedged financial assets/liabilities for which changes in *fair value* relating to the risk hedged are recognised in the Profit and Loss Account. The financial instrument is, however, revalued at amortised cost in the event of termination of the hedge, at which point the previously recorded changes in *fair value* are amortised, calculating a new effective interest rate of return that considers the value of the loan adjusted by the *fair value* of the part subject to the hedge, until the expiry of the hedge originally envisaged. Moreover, as already mentioned in the paragraphs relating to financial assets and liabilities valued at amortised cost, valuation at amortised cost does not apply to financial assets/liabilities whose short duration makes the economic effect of discounting negligible, nor to receivables without a defined maturity or revoked.

A.18 METHODS OF DETERMINING IMPAIRMENT LOSSES

impairment of financial assets

At each financial statement date, in accordance with IFRS 9, financial assets other than those measured at *fair value* through profit or loss are assessed to determine whether there is any evidence that the book value of the assets may not be fully recoverable. A similar analysis is also carried out for commitments to disburse funds and guarantees issued that fall within the scope of *impairment* pursuant to IFRS 9.
If that evidence exists (so-called ("evidence of *impairment*"), the financial assets in question - consistent, where they exist, with all the remaining assets pertaining to the same counterpart - are considered impaired and are included in stage 3. These exposures, represented by financial assets classified - in accordance with the provisions of Bank of Italy Circular 262/2005 - in the categories of non-performing loans, probable default and exposures past due by more than ninety days, must be subject to value adjustments equal to the expected losses relating to their entire residual life.

impairment of performing financial assets

For financial assets for which there is no evidence of *impairment* (non-impaired financial instruments), it is necessary, instead, to verify whether there are indicators such that the credit risk of the individual transaction is significantly increased compared to the time of initial recognition. The result of that audit implies classifying the instrument, based on the result, in two different categories (more correctly called "stages"):

- where the indicators exist, the financial asset is included in stage 2. In this case, the valuation, in accordance with international accounting standards and even in the absence of a manifest loss in value, provides for the recognition of value adjustments equal to the expected losses over the entire residual life of the financial instrument. These adjustments are reviewed at each subsequent reporting date both to periodically check their consistency with the constantly updated loss estimates and to take into account - in the event that the indicators of a "significantly increased" credit risk are no longer available - the changed forecast period for calculating the expected loss;
- where these indicators do not exist, the financial asset is included in stage 1. In this case, the valuation, in accordance with the international accounting standards and even in the absence of a manifest loss of value, provides for the recognition of expected losses, for the specific financial instrument, over the following twelve months. Those adjustments are reviewed at each subsequent financial statement date both to periodically check their consistency with the constantly updated loss estimates, and to take into account - in the event of indicators of a "significantly increased" credit risk - the changed forecast period for calculating the expected loss.

With regard to the valuation of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset being valued in stage 2), the elements that - pursuant to the principle and its operating articulation by the Company - constitute the main determinants to be taken into consideration are as follows:

- the change in the probability of lifetime default compared to the time of initial recognition of the financial instrument in the financial statements. It is, accordingly, an evaluation carried out by adopting a "relative" criterion, which is configured as the main "driver";
- the possible presence of an overdue one that - without prejudice to the thresholds of significance identified by the regulations - is such as to be at least 30 days old. In this case, in other words, the credit risk of the exposure is presumed to be "significantly increased" and, accordingly, the "passage" in stage 2 follows (if the exposure was previously included in stage 1);
- the possible presence of forbearance measures, which - again on a presumption basis - entail the classification of exposures among those whose credit risk is "significantly increased" with respect to initial recognition;
- the presence, if any, of "observation" master notes, which classify exposures as "Watch lists" or those whose credit risk is "significantly increased" with respect to initial recognition.

The significant increase in credit risk ("SICR"), measured by the change in the probability of default lifetime, is calculated by comparing the relative change in the probability of default lifetime recorded between the date of first recognition of the report and the observation date (Delta PD Lifetime) with predetermined thresholds of significance. The assignment of a PD Lifetime to single relationships is carried out by bringing back the ratings for each segment both on the date of first registration and on observation. Ratings are determined on the basis of internal models, where available, or management models.

This "relative" change in PD is an indicator of the increase or decrease in credit risk during the reference period. In order to determine whether, in accordance with IFRS 9, any increase in credit risk can be considered "significant" (and accordingly involve the transition between stages), it is necessary to define specific thresholds. Lifetime PD increases below these thresholds are not considered significant and, consequently, do not involve the transfer of individual lines of credit/debit tranches from stage 1 to stage 2; such a transfer is, however, necessary in the presence of relative PD increases above the thresholds in question. The thresholds used were estimated on the basis of a process of simulations and optimization of predictive performance, developed using historical granular portfolio data. Specific thresholds are defined for Private, Small business and Corporate models.

The determination of the thresholds has been calibrated in order to find a correct balance between the performance indicators relating to the capacity of the thresholds themselves:

- intercept stage 2 positions before they move to default;
- identify the positions for which the return to stage 1 is synonymous with an effective improvement in creditworthiness.

Some specific considerations apply to the so-called "staging" of securities. Unlike loans, in fact, for this type of exposure, buying and selling operations subsequent to the first purchase (carried out with reference to the same ISIN) can usually fall within the ordinary activity of managing positions (with the consequent need to identify a methodology to be adopted to identify sales and repayments in order to determine the residual quantities of single transactions to which to associate a credit quality/rating to the origination to be compared with that of the reporting date). In this context, it was considered that use of the "first-in-first-out" or "FIFO" method (for the reversal to the Profit and Loss Account of the ECL recorded, in the event of sales and refunds) contributes to more transparent management of the portfolio, also from the point of view of front office operators, allowing, at the same time, a continuous updating of the creditworthiness assessment on the basis of new purchases.

Once allocation of exposures to the various credit risk stages has been defined, expected losses (ECL) are calculated, at the level of single transactions or tranches of securities, based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), on which appropriate corrective action is taken to ensure compliance with the specific requirements of IFRS 9.

The following definitions apply to PD, LGD and EAD:

- PD ("Probability of Default"): probability of going from *performing* to impaired credit status within a one-year time horizon. In models consistent with supervisory requirements, the PD factor is typically quantified through the rating. PD values are derived from the internal rating model where available, supplemented by external ratings or average segment/portfolio data;
- LGD ("Loss Given Default"): percentage of loss in the event of default, quantified through historical experience of recoveries discounted to present value on practices that have been transferred to impaired loans;
- EAD ("Exposure At Default") or credit equivalent: amount of the exposure at the time of default.

In relation to multi-period EAD, in line with the provisions of IFRS 9, reference is made to plans at amortised cost for both loans and debt securities, regardless of the related valuation methods (amortised cost or *fair value* with an impact on total revenue). For commitments to disburse funds (margins), the EAD is, on the other hand, assumed to be the weighted nominal value for a specific Credit Conversion Factor (CCF).

The valuation of financial assets also reflects the best estimate of the effects of future conditions, especially economic conditions, on the basis of which PD and LGD forward looking are conditioned. In the context of IFRS 9, also on the basis of the indications of the international Regulators, information on future macroeconomic scenarios in which the Company may find itself operating and which influence the situation of debtors with reference to both the "riskiness" of migration of exposures to lower quality classes (accordingly concerning the "staging") and the recoverable amounts (accordingly concerning the determination of the expected loss on exposures)

are of particular importance. The macroeconomic scenario is obtained from external info providers. Alternative improvement and worsening scenarios are determined by stressing variables in input to forecasting models.

Impairment of non-performing financial assets

Impaired loans classified as non-performing are subject to the following valuation methods:
- analytical-statistical assessment, which is adopted for exposures below certain thresholds, based on the application of specific LGD grids, to which an add-on may be added in order to take account of forward looking information, in particular that relating to the impact of future macroeconomic scenarios;
- analytical-specific valuation, which is adopted for clients with exposures above certain thresholds and is based on the depreciation percentages attributed by the manager, following specific analysis and valuation processes, to which an Add-On component can be added in order to take account of “forward looking” information, in particular that relating to the impacts of future macroeconomic scenarios (with the exception of non-performing loans with mortgage guarantees, for which the impacts of future scenarios are included through the methods of determining the “haircuts” at the value of the properties under warranty);
- inclusion of sales scenarios for assignable non-performing loans: regardless of the division of these exposures between those subject to analytical-statistical evaluation and those subject to analytical-specific evaluation (as identified above), the valuation of assignable non-performing loans also includes the additional components relating to future sales scenarios.

The assessment of unlikely to pay (UTP) defaults is also based on two different approaches:
- analytical-statistical evaluation, for cash exposures below certain thresholds, based on the application of specific statistical grids of LGD to which is added a component of Add-On in order to understand the impacts of future macroeconomic scenarios;
- analytical-specific assessment, for cash exposures above certain thresholds, based on the devaluation percentages attributed by the operator, plus an add-on component in order to take into account, also in this case, the impacts of future macroeconomic scenarios.

Impaired loans classified as past due and/or in excess of limits are, on the other hand, subject to analytical valuation on a statistical basis, regardless of the amount of cash exposure. Again, however, the adjustment defined on the basis of the LGD statistical grids is supplemented to take account of the Add-On component attributable to the effect of future macroeconomic scenarios.

Referred to the alternative recovery scenarios, related to objectives to reduce the non-performing stock held, included in business plans, and any commitments taken with Supervisory Bodies, also specifically referred to the so-called NPL Strategy, the Company considers the sale of certain portfolios is the strategy that can, under certain conditions, maximise the recovery of cash flows, also considering recovery times.

In particular, the Bank of Italy in the document “Guidelines for Italian Less Significant Banks in the Management of Impaired Loans”, which refers to the document “Guidance to banks on non-performing loans” published by the SSM, asked Banks to define a strategy to achieve a progressive reduction of the same.

Further regulatory evolutions have been added to those initial indications, including the measures introduced by the European Union in the first part of the year to reduce risks connected with Non Performing Loans, aimed at calculating minimum prudential allocation levels for bad debts. Due to the overall context, the strategy to reduce aggregates through internal “work-out” had to be strengthened and flanked by other more effective measures, specifically through the sale of a bad debt probable defaulting portfolio.

As a result, the “ordinary” scenario, which envisages a recovery strategy based on collecting the receivable typically through legal actions, mandates to recovery companies, and the realisation of mortgage guarantees, was accompanied - as a recovery strategy - by the scenario of the sale of the receivable itself. In light of this, for a defined perimeter of non-performing loans with the characteristics of assignability, in order to determine the overall expected loss of the exposures, the recoverable values based on the ordinary internal recovery process and the amounts recoverable from the sale, estimated on the basis of market valuations, have been weighted according to the share of the portfolio destined for sale, as envisaged by the NPL strategy, with respect to the total of the assignable portfolio.

In particular, the recoverable value of assignable non-performing loans was quantified as the average of (i) the "*fair value*" and (ii) the value in the event of recovery through an internal work-out - the "value in the event of collection". It should be noted that the "collection hypothesis value" was determined according to the ordinary logic followed for the *impairment* of non-performing loans, i.e. on the basis of an analytical assessment for exposures above a defined threshold and on the basis of an analytical-statistical assessment for the others.
As already mentioned, it should also be noted that the financial assets purchased or originated already impaired (POCI) have particular characteristics with regard to *impairment*. In this regard, value adjustments equal to the ECL lifetime must be recorded for the instruments in question from the date of initial recognition and for their entire life. At each subsequent financial statement date, the amount of the lifetime ECL must accordingly be adjusted, recording in the Profit and Loss Account the amount of any change in expected losses over the life of the loan as a gain or loss due to impairment. In the light of the above, the POCI financial assets are initially entered in stage 3, without prejudice to the possibility of being subsequently moved to performing loans, on which, however, an expected loss equal to the ECL lifetime will continue to be recorded.
In addition, with regard to impaired loans, non-collectible accounting entries are derecognised/withdrawn and the remainder not yet adjusted is charged to losses, also taking into account the following cases:

- irrecoverable debt, resulting from certain, precise elements (such as, by way of example, unavailability and nullity of the debtor, failure to recover from securities and real estate executions, negative seizures, insolvency proceedings closed with no complete relief for the Bank, if there are no further guarantees usefully enforceable, etc.);
- sale of credit;
- waiver of the claim, as a consequence of unilateral remission of the debt or residue against settlement contracts;
- without waiver of the receivable in the event of very marginal possibilities of recovery, even without any of the elements referred to in the previous points, in the presence of adequate valuation elements, it may be necessary to proceed with the full or partial write-off for non-recoverability of the receivable even without closure of the legal file, thus maintaining the full right to collection of the balances subject to cancellation. The write-off may only affect the portion of the credit covered by provisions.

Impairment of investments

At each financial statement date, investments are tested for *impairment* in order to determine whether there is objective evidence that the carrying amount of the assets in question may not be fully recoverable.
The *impairment* detection process involves verifying the presence of indicators of possible reductions in value and determining any write-downs. *Impairment* indicators can be divided into two main categories: qualitative indicators and quantitative indicators.
Among the qualitative ones, we would like to point out:
- the achievement of negative economic results or, in any case, a significant deviation from budget targets or those set out in long-term plans communicated to the market;
- the announcement/initiation of bankruptcy proceedings or restructuring plans;
- the downward revision of the "rating" of more than two classes;
- failure to meet the obligations of timely, full payment of the debt securities issued;
- the use of industrial policy instruments to deal with serious crises or enable companies to face restructuring/ reorganisation processes.

Quantitative indicators include:
- the reduction of the *fair value* below the carrying amount by a significant difference percentage or on a lasting basis;
- market capitalization lower than the book net equity of the company, in the case of securities listed on active markets, or by a book value of the investment in the separate financial statements higher than the book value in the consolidated financial statements of the net assets and goodwill of the subsidiary or by the distribution by the latter of a dividend higher than its total revenue.

The presence of *impairment* indicators entails recognition of a write-down, to the extent that the recoverable value is lower than the book value, to be determined by means of a specific valuation.
The recoverable amount is the higher of *fair value* less costs of sale and value in use.
Value in use is the present value of the expected cash flows from the asset; it reflects an estimate of the expected cash flows from the asset, an estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the price that remunerates the riskiness of the asset and other factors that may influence the appreciation by market participants of the expected cash flows from the asset.
When calculating value in use, the future cash flow discounting method is used.

Impairment of other non-financial assets

Tangible fixed assets and intangible fixed assets with a finite useful life are subject to *impairment* testing if there is an indication that the book value of the asset can no longer be recovered. The recoverable value is determined by reference to the *fair value* of the tangible or intangible asset net of disposal costs or to the value in use if determinable and if it is higher than the *fair value*.
With regard to real estate, in order to verify the presence of *impairment* indicators, an analysis of the different scenarios of the real estate markets is carried out annually. If these analyses reveal indicators of *impairment*, an expert opinion is prepared on the properties for which this presence has been verified.
For other tangible and intangible fixed assets (other than those recorded as a result of aggregation transactions) it is assumed that the book value normally corresponds to the value in use, since it is determined by an amortisation process estimated on the basis of the actual contribution of the asset to the production process and the determination of a *fair value* is extremely uncertain. The two values differ, giving rise to *impairment*, in the event of damage, exit from the production process or other similar non-recurring circumstances.
Intangible fixed assets recognised as a result of acquisitions and in accordance with IFRS 3 at each financial statement date are subject to an *impairment* test, in order to verify whether there is objective evidence that the asset may be impaired.
Intangible fixed assets with a finite useful life are subject to a new valuation process to verify the recoverability of the values recorded in the financial statements if there are indicators of *impairment*. The recoverable value is

determined on the basis of the value in use, or the present value, estimated using a rate representing the time value of money and the specific risks of the asset, the profit margins generated by the relationships existing at the valuation date over a time horizon expressing the expected residual duration of the same.
Intangible fixed assets with an indefinite life, represented by goodwill, which do not have independent cash flows, are subject to an annual assessment of the adequacy of the value recorded among the assets with reference to the Cash Generating Unit (CGU) to which the values were attributed during the business combination transactions. The amount of any impairment is determined on the basis of the difference between the carrying amount of the CGU and its recoverable amount, represented by the higher of its *fair value*, net of any costs of sale, and its value in use.
The value in use of a CGU is determined by estimating the present value of the future cash flows expected to be generated by the CGU. These cash flows are determined using the latest available public company plan or, failing that, through the formulation of an internal anticipatory plan by management or through other available external evidence. Normally, the analytical forecast period covers a maximum period of five years. The flow of the last analytical forecast year is projected in perpetuity, through an appropriate growth rate "g" for the purposes of the so-called "Terminal value". The "g" rate is determined assuming as growth factor the lower of the average growth rate recorded in the analytical forecast period and the average development rate of the Gross Domestic Product in the countries where the flows are generated.
In determining value in use, cash flows must be discounted at a rate that reflects current valuations of the time value of money and the risks specific to the asset. In particular, the discount rates used incorporate the risk free component and equity related risk premiums observed over a sufficiently long period of time to reflect different market conditions and economic cycles.

A.19 BUSINESS COMBINATIONS

IFRS 3 is the accounting standard of reference for business combinations.
The transfer of control of a business (or of a group of integrated activities and assets, conducted and managed as a unit) constitutes a business combination.
For this purpose, control is deemed to have been transferred when the investor is exposed to, or has rights over, variable returns arising from his relationship with the investee and at the same time has the ability to affect returns by exercising his power over that entity.
IFRS 3 requires a purchaser to be identified for all aggregation transactions. The latter will be identified as the entity that obtains control over another entity or group of activities. If it is not possible to identify a controlling party according to the definition of control described above, as for example in the case of transactions for the exchange of equity interests, the identification of the purchaser must be made using other factors such as: the entity whose *fair value* is significantly higher, the entity that may pay a cash consideration, the entity that issues the new shares.
The acquisition, and accordingly the first consolidation of the acquired entity, will be accounted for on the date on which the purchaser effectively obtains control over the acquired undertaking or assets. When the transaction takes place through a single exchange transaction, the exchange date normally coincides with the acquisition date. However, it is always necessary to check whether there are any agreements between the parties which may involve a transfer of control before the date of the exchange.
The consideration transferred as part of a business combination must be determined as the sum of the *fair value*, at the date of exchange, of the assets sold, the liabilities incurred or assumed and the equity instruments issued by the purchaser in exchange for control.
In transactions involving payment in cash (or when payment is envisaged by means of financial instruments similar to cash), the price is the agreed consideration, which may be discounted if an instalment payment is envisaged for a period longer than the short term; if payment is made by means of an instrument other than cash, i.e. by means of the issue of equity instruments, the price is equal to the *fair value* of the means of payment net of costs directly attributable to the capital issue transaction.

The consideration for the business combination at the acquisition date includes adjustments subject to future events, if provided for in the agreements and only when they are probable, can be reliably determined and are realised within twelve months of the date of acquisition of control, while compensation for reduction in the value of the assets used is not considered because it is already considered either in the *fair value* of the equity instruments or as a reduction in the premium or an increase in the discount on the initial issue in the case of the issue of debt instruments.
These include, for example, professional fees paid to auditors, experts, legal advisers, costs for valuations and auditing of accounts, preparation of information documents required by law, as well as consultancy fees incurred to identify potential targets to be acquired if it is contractually established that payment will be made only in the event of a positive outcome of the combination, and the costs of registering and issuing debt securities or shares.
The purchaser will account for acquisition-related costs as expenses in the periods in which those costs are incurred and the services are received, except for the costs of issuing equity or debt securities which will be recognised in accordance with IAS 32 and IFRS 9.
Business combinations are accounted for using the “acquisition method”, whereby the identifiable assets acquired (including any intangible fixed assets previously not recognised by the acquired company) and the identifiable liabilities assumed (including potential liabilities) are recognised at their *fair values* at the acquisition date.
In addition, for each business combination, any minority interests in the acquired company may be recorded at *fair value* (with a consequent increase in the consideration transferred) or in proportion to the share of the minority interest in the identifiable net assets of the acquired companies.
If control is achieved through subsequent purchases, the purchaser must recalculate its previous interest in the acquired company at its *fair value* at the acquisition date and recognise any difference from the previous carrying amount in the Profit and Loss Account.
The excess of the consideration transferred (represented by the *fair value* of the assets transferred, the liabilities incurred or the equity instruments issued by the purchaser), possibly integrated by the value of the minority interests (determined as above) and by the *fair value* of the interests already held by the purchaser, and the *fair value* of the assets and liabilities acquired must be recorded as goodwill; if, on the other hand, the latter are higher than the sum of the consideration, the minority interests and the *fair value* of the shares already held, the difference must be recorded in the Profit and Loss Account.
The accounting for the combination transaction may be provisionally completed by the end of the financial year in which the combination is realised and must be completed within twelve months of the acquisition date.
Entries of further shareholdings in companies already controlled are considered, in accordance with IFRS 10, as a capital transaction, i.e. transactions with shareholders acting in their capacity as shareholders. Accordingly, the differences between the acquisition costs and the book value of the acquired minority interests are entered in the equity; likewise, the sales of minority interests without loss of control do not generate profits/losses in the Profit and Loss Account but changes in the equity.
Transactions aimed at controlling one or more companies that do not constitute a business activity or at controlling on a transitory basis do not constitute business combinations, or, finally, if the business combination is carried out for reorganisation purposes, accordingly between two or more companies or business activities already controlled, and that does not involve a change in the control structures regardless of the percentage of third party rights before and after the transaction (so-called business combinations of companies subject to common control). These operations are considered to lack economic substance. Accordingly, in the absence of specific indications provided for by IAS/ IFRS and in compliance with the assumptions of IAS 8, which requires that - in the absence of a specific principle - the company must make use of its own judgement in applying an accounting principle that provides relevant, reliable and prudent information and that reflects the economic substance of the transaction, they are accounted for safeguarding the continuity of the values of the acquired in the financial statements of the purchaser.
Mergers are part of transactions between companies, representing the most complete form of business combination, as they involve both legal and economic unification of the parties involved.

Mergers, whether they be specific, i.e. by the creation of a new legal entity or by "incorporation" with the confluence of a company into another existing company, are treated according to the criteria set out above, in particular:

- if the transaction involves the transfer of control of an entity, it is treated as a combination transaction in accordance with IFRS 3;
- if the transaction does not involve the transfer of control, it is accounted for by giving priority to the continuity of the values of the company being acquired.

A.3 INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest revenue

No reclassifications of financial assets were made in 2019.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on total revenue

No reclassifications of financial assets were made in 2019.

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

No reclassifications of financial assets were made in 2019.

A.4 FAIR VALUE INFORMATION

QUALITATIVE INFORMATION

In terms of financial instrument classification and measurement rules, IFRS 9 indicates that an instrument is measured at *fair value* based on the business model adopted or if it, based on the contractual characteristics of its financial flows, does not pass the SPPI test (Solely Payment of Principal and Interest).
Paragraph 24 of IFRS 13 defines *fair value* as the amount that could be received to sell an asset, or paid to transfer a liability, in an ordinary transaction between market counterparts, in the principal market.
In the case of financial instruments listed on active markets, the *fair value* is determined on the basis of the official listings of the main market, or the most advantageous, to which the Bank has access ("Mark-to-Market"). A market is active if the transactions relating to the asset or liability occur with a frequency and volume sufficient to provide information useful for the determination of the price on an ongoing basis.
In the absence of a listing on an active market or in the absence of regular functioning of the market, i.e. when the market does not have a sufficient and continuous number of transactions, bid-ask spreads and volatility are not sufficiently contained, valuation models fed by market input are used, in particular:

- valuation of listed instruments with similar characteristics;
- discounted cash flow calculations;
- option pricing models, values recorded in recent comparable transactions, prudentially adjusted to take account of the illiquidity of certain market data and other risks associated with specific transactions (reputational, replacement, etc.).

In the absence of market input, valuation models will be based on data estimated internally.
The *fair value* is reported according to a hierarchy based on the quality of the input parameters used to determine it.

The *fair value* hierarchy, in line with IFRS 13 and repeated by Bank of Italy Circular no. 262, gives decreasing priority to valuations based on different market parameters: the highest priority (Level 1) is assigned to valuations based on prices quoted on an active market for identical assets or liabilities; the lowest priority (Level 3) is assigned to those deriving significantly from parameters that cannot be observed.
The *fair value* hierarchy associated with assets and liabilities is defined as the minimum level of all significant inputs used. The following levels can be distinguished:

- Level 1: listings (unique and without adjustment) recorded on an active market for the single financial instrument being valued.
- Level 2: inputs other than the quoted prices referred to in the previous point, which are observable directly (prices) or indirectly (derived from prices) on the market. In this case, the *fair value* is measured through a comparable approach or through use of a pricing model that does not leave too large a margin of subjectivity and normally used by other financial operators.
- Level 3: significant inputs not observable on the market and/or complex pricing models. In this case, the *fair value* is determined on the assumption of future cash flows that could lead to different estimates for the same financial instrument between different valuers.

The Bank maximises the use of Level 1 market prices, or when not available, models with observable inputs (Level 2). In the case of Level 3 instruments, subjective parameters and judgements based on experience are used and consequently adjustments to the valuations may be made taking into account the bid-ask spread, liquidity or counterpart risk, as well as the type of valuation model adopted.

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

For assets and liabilities measured at *fair value* on a recurring basis, for which prices directly observable on active markets are not available, *fair value* is determined on the basis of valuation models or on the basis of prices observed for financial instruments with similar characteristics. These instruments are those belonging to *fair value* classes 2 and 3.
To measure the *fair value* of level 2 instruments, a model for discounting expected future cash flows is used; this mainly uses the risk-free curve (in its various forms, i.e. based on swap rates versus Euribor 6 months or 3 months and other inputs such as swaps versus eonia with the same *risk-free* curve) directly observable on the market.
In particular, in the case of instruments denominated in euros, three *risk-free* curves are concretely: a curve for simple discounting (based in part on 3 months or on 3 months Euribor *futures*, in part on 6 months for medium-long maturities), 2 curves (one on 3 months and one on 6 months) for the calculation of *forwards* in securities with 3 months Euribor indexed rate or 6 months Euribor rate.
The discounting calculation also applies the *credit spread*, quantified on the basis of prices directly observable on the market (even if not on the stock exchange) and provided by external *contributors*. If no prices are available, it is quantified on the basis of *comparables*, i.e. by analogy with homogeneous securities in terms of duration and credit quality of the issuer, as well as the sector to which they belong.
The following table provides a summary of the main types of instruments in place, with evidence of the relative evaluation models and the main inputs:

Category of financial instruments	Product	Evaluation model	Input of evaluation models
Debt securities	Government securities, corporate bonds	Discounting of flows expected using market parameters, corrected for the issuer risk. For structured securities the optional component is also measured.	Interest rate curves, credit spread communicated by contributors, credit spread from comparables
Unquoted equity securities	Holding fees	Method of transactions observed directly on the same instrument or, in the absence thereof, on similar instruments. Alternatively method of market multiples of comparable companies. In the alternative, financial, revenue and equity valuation methods.	Price data provided by contributors, latest available financial statements
Investments in UCIs	Hedge funds, private equity funds, real estate funds	NAV made available by the fund administrator or the management company.	n/a
OTC derivatives	Interest rate derivatives - SWAP	Discounting of expected flows	Interest rate curves
	Financial derivatives on interest rates - Cap-floor	Model of Black	Volatility matrices, risk free rates

Banca Popolare dell'Alto Adige SpA - Notes to the Financial Statements of the company Securities classified level 3 are typically structured securities; in the specific case of the portfolio owned by the institution, these are CMS indexed securities ("*constant maturity swap*") or structured *inflation linked* securities or securities for which the quantification of the *credit spread* is not practicable with the qualitative level mentioned above.
In the case of CMS securities, it should be noted that, in theory, the *forward* rates themselves would be directly observable on the market (implicit in the valuations): however, it is considered that the quality of these forward rates cannot be compared with the quality of the 3-month or 6-month Euribor forwards rate widely used by the market to price similar securities indexed to 3 or 6 months respectively.
In the pricing phase of CMS securities, accordingly, these forwards are used, despite the critical issues highlighted above, without the application of *convexity adjustment* and resorting for the rest (discounting curve and credit spread) to the same operating methods mentioned for Level 2 securities.
For structured, *inflation linked* securities indexed to the Euribor and inflation, *forward* curves are used for the Euribor as well as *forward* inflation curves based on the swap rate curves of the inflation itself.
For level 3 securities, the *credit spread* is defined on a case-by-case basis by referring to any external contributions or by converting the results of the creditworthiness analysis based on the latest available financial statements into *credit spreads*.
With reference to the calculation of the *Credit Value Adjustment* ("CVA"), it should be noted that the calculation determines the future credit exposure, taking into account the probability that in the future the current value of the contract, if positive, may increase or, if negative, may turn into a credit position. This probability is linked to the volatility of the underlying market factors and to the residual duration of the contract. Future credit exposure is determined with reference to all contracts, regardless of the portfolio to which they are allocated - with both positive and negative *fair values* - by multiplying the nominal value of each contract by a percentage determined on the basis of the type of contract and the residual duration of the transactions.
As at 31 December 2019, exposure at default ("EAD") in derivatives was essentially null. Existing derivative contracts were fairly small: the sole exposure with positive market value (for a few thousand euro) is a cap contract on interest rates for notional €20 million; the residue is related to two management hedges, one on a bond loan in liabilities (notional €2 m), one on the Bank's securities proprietary portfolio in assets (notional €10 m): both management hedges are swaps against Euribor 3 months, at 31/12/2019 with negative market value and notional of limited importance.
Measurement at *fair value* of loans is by calculating the current value of future expected cash flows using an appropriate credit spread, identified from the following sources:

- contribution funding on the market;
- rating/specific funding market sector curves;

- contribution securities of the same issuer;
- credit default swaps on the same reference entity.

In any case considering the different seniority of the instrument to be priced related to the issuer's debt structure.
In the loan pricing spread application stage, if the 'fair' credit curve estimated should not repeat the same characteristics as the instrument, corrective factors would be considered.
Moreover, if reference is made to curves created through bonds to calculate the loan credit spread, a Loan – Bond base will need to be applied, to capture any different market structure and the different technical form.
In order to consider the premium requested by the market for illiquid and/or structured instruments, some adjustments are applied to the credit spread also based on specific debtor solvency information.
The *fair value* of real estate investments held for investment purposes is mainly determined by external valuations, the reference point for which is the current prices for similar assets (value per square metre, prices of similar transactions).
The *fair value* obtained is classified at level 3 in the *fair value* hierarchy.

A.4.2 Evaluation processes and sensitivity

Valuation techniques are applied by the Risk Management Service.
The Risk Management Service, hierarchically independent of the *front-office* function, checks prices at least on a monthly basis.
The validation activity consists in verifying the theoretical correctness of the chosen evaluation model as well as the autonomous repricing of single instruments.
The Risk Management Service also validates the newly introduced valuation models, also in relation to acquisition of new financial instruments.
Among the tools used by the Risk Management Service is the ICVS function for the construction of risk-free curves.
The Risk Management Service also validates, on a daily basis, similar curves adopted by the Investment Service.
In addition, the BVAL (Bloomberg Valuation) tool is used to directly validate the prices themselves. These Bloomberg prices have the following characteristics:

- in the case of liquid securities, BVAL prices can be considered as a weighted average of the existing prices provided by the different *contributors* (in addition, of course, to the stock exchange itself, in the case of a security listed on a regulated market);
- in the cases in which the Stock is not liquid, Bloomberg provides to exploit the contained information in Stock of analogous characteristics, but liquid (and accordingly endowed with reliable prices), in order to correctly price the illiquid Stock. In fact, where existing, it uses the few "liquid" prices of the stock to compare the historical trend of the spread of the stock itself with the analogous of securities belonging to the same *peer group* (defined on a sector basis, duration and cds): by leveraging on simple linear regressions, it then reconstructs the spread and the price at the new date;
- when instead the security to be priced is completely, or almost, devoid of significant prices, then BVAL falls back on the direct use of credit proxies of the security to derive either a par *coupon curve* (using issues of identical creditworthiness) or a *spread curve* (using the data obtained in the previous step or, where possible, issues of the same issuer of the target security), with which then to price the bond.

In the presence of highly complex structured securities (e.g. "CMS delta"), in relation to which level 2 prices are not available (such as the prices offered by Bloomberg contributors), the Risk Management Service makes an estimate based on Monte Carlo simulations in order to provide adequate validation of these market values.
With regard to the sensitivity analysis to be carried out on the "not directly observable" inputs relating to the valuations of level 3 securities, given the above with regard to the CMS indexed securities and the small number of exposures to structured securities, sensitivity analyses were carried out on level 3 debt instruments issued by unlisted entities.
In the latter case, the impact of changes in the input not directly observable, represented by the issuer's credit spread, is quantified (which for securities of more "liquid" issuers, on the contrary, can be determined with reasonable effectiveness by using similar securities or comparables directly observable on the market).

A.4.3 Fair Value Hierarchy

The main factors contributing to transfers between *fair value* levels include changes in market conditions, refinements in valuation models or unobservable inputs. The passage of an instrument from Level 1 to Level 2 and vice versa mainly results from the loss of significance of the price expressed by the active market of reference for the instrument.
The degree of significance of the input data, in particular of the weight that the non-observable ones assume with respect to the observable ones, determines instead the passage from Level 2 to Level 3 or vice versa. No instruments were reclassified during the year.

A.4.4 Other information

As at 31 December 2019, in relation to the requirements of IFRS 13, paragraphs 51, 93 (i) and 96, the following should be noted:

- recurring and non-recurring *fair value* valuations on the basis of maximum and best use relate to certain properties acquired and for which the Bank has not yet begun operations because, as a rule, the relative planning and operational valuations are still in progress;
- the possibility of measuring *fair value* at the level of total portfolio exposure was not used, in order to take into account the offsetting of credit risk and market risk of a given group of financial assets or liabilities.

QUANTITATIVE INFORMATION

A.4.5 Fair Value Hierarchy

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

(thousands of €)		**31.12.2019**			**31.12.2018**	
Financial assets/liabilities measured at fair value	**L1**	**L2**	**L3**	**L1**	**L2**	**L3**
1. Financial assets currency at fair value through profit or loss						
a) financial assets held for trading	48	7,600	-	2,253	1,004	1
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets that must be measured at fair value	-	104,557	37,017	5	238,452	48,307
2. Financial assets measured at fair value with impact on overall profitability	453,215	166,585	9,498	506,068	313,099	9,977
3. Hedging derivatives	-	-	-	-	-	-
4. Tangible fixed assets	-	-	-	-	-	-
5. Intangible fixed assets	-	-	-	-	-	-
Total	**453,263**	**278,742**	**46,515**	**508,326**	**552,555**	**58,285**
1. Financial liabilities held for trading	669	816	-	259	1,170	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**669**	**816**	**-**	**259**	**1,170**	**-**

	Legend	
L1	=	Level 1
L2	=	Level 2
L3	=	Level 3

Financial assets measured at fair value on a recurring basis

Financial assets valued on the basis of prices derived from active markets (Level 1) or determined on the basis of observable market parameters (Level 2) represent 94.0% of the carrying amount of financial assets measured at *fair value* on a recurring basis.
Instruments measured significantly on the basis of parameters that cannot be observed on the market (Level 3) represent a marginal share, equal to 6.0%, of total assets measured at *fair value* on a recurring basis, and are represented by a limited number of minority equity investments measured on the basis of internal models classified as financial assets measured at *fair value* with an impact on total revenue and by loans classified at *fair value* with an impact on the Profit and Loss Account that have not passed the SPPI test, for which *fair value* is measured using internal models.
Financial assets held for trading consist mainly of debt securities held for trading; these are over-the-counter (OTC) contracts whose valuation is carried out using valuation models that significantly use parameters that can be observed on the market or drawn from independent sources (Level 2).

Financial liabilities measured at fair value on a recurring basis

Financial liabilities held for trading are represented by derivative instruments mainly for trading purposes, the *fair value* of which is obtained through valuation techniques that use observable market parameters (Level 2).

Transfers between fair value levels (Level 1 and Level 2)

No transfers of assets or liabilities measured at *fair value* from level 2 to level 1 or transfers of financial assets or liabilities measured at *fair value* from level 1 to level 2 were recorded in 2019.

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

		Financial assets at fair value with impact on total on Profit and loss				**Financial assets measured at fair value with impact on overall profitability**	**Hedging derivatives**	**Tangible fixed assets**	**Intangible fixed assets**
		Total	of which: a) financial assets held for trading	of which: b) financial assets designated as at fair value	of which: c) other financial assets that must be measured at fair value				
(thousands of €)									
1.	**Opening balance**	**48,307**	**-**	**-**	**48,307**	**9,977**	**-**	**-**	**-**
2.	**Increases**	**10,305**	**2,000**	**-**	**8,305**	**307**	**-**	**-**	**-**
2.1	Purchasing	2,000	2,000	-	-	300	-	-	-
2.2	Profits attributed to:	129	-	-	129	7	-	-	-
2.2.1	Profit and Loss	129	-	-	129	7	-	-	-
	- of which capital gains	129	-	-	129	-	-	-	-
2.2.2	Net Equity	-	X	X	X	-	-	-	-
2.3	Transfers from other levels	-	-	-	-	-	-	-	-
2.4	Other increases	8,176	-	-	8,176		-	-	-
3.	**Decreases**	**21,595**	**2,000**	**-**	**19,595**	**786**	**-**	**-**	**-**
3.1	Sales	3,925	2,000	-	1,925	-	-	-	-
3.2	Refunds	31	-	-	31	-	-	-	-
3.3	Losses attributed to:	14,274	-	-	14,274	777	-	-	-
3.3.1	Profit and Loss	14,274	-	-	14,274	777	-	-	-
	- of which capital losses	12,594	-	-	12,594	777	-	-	-
3.3.2	Net Equity	-	X	X	X	-	-	-	-
3.4	Transfers to other levels	-	-	-	-	-	-	-	-
3.5	Other decreases	3,365	-	-	3,365	9	-	-	-
4.	**Closing inventories**	**37,017**	**-**	**-**	**37,017**	**9,498**	**-**	**-**	**-**

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

At the financial statement date, there were no financial liabilities measured at level 3 *fair value* on a recurring basis.

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

(thousands of €)	31.12.2019				31.12.2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	9,149,466	1,693,374	50,468	7,947,390	8,488,829	1,104,516	84,716	7,764,386
2. Tangible assets held for investment purposes	14,445	-	-	18,955	13,769	-	-	-
3. Non-current assets and asset groups held for sale	17,322	-	-	12,923	12,923	-	-	12,923
Total	**9,181,233**	**1,693,374**	**50,468**	**7,979,268**	**8,515,521**	**1,104,516**	**84,716**	**7,777,309**
1. Financial liabilities valued at amortised cost	9,486,467	-	685,117	8,360,893	9,101,607	-	567,461	7,999,729
2. Liabilities associated with assets held for sale	-	-	-	-	-	-	-	-
Total	**9,486,467**	**-**	**685,117**	**8,360,893**	**9,101,607**	**-**	**567,461**	**7,999,729**

Legend		
BV	=	Book value
L1	=	Level 1
L2	=	Level 2
L3	=	Level 3

Assets and liabilities not valued at fair value

For "Non-current assets held for sale and disposal groups held for sale" and "Liabilities associated with assets held for sale", the *fair value* should only be indicated in cases where the amount of the valuation corresponds to the *fair value* or the *fair value* net of costs of sale (as it is lower than the cost).

Assets and liabilities measured at fair value on a non-recurring basis

For "Non-current assets held for sale and disposal groups held for sale" and "Liabilities associated with assets held for sale", the *fair value* should only be indicated in cases where the amount of the valuation corresponds to the *fair value* or the *fair value* net of costs of sale (as it is lower than the cost).
It should be noted that at 31 December 2019 there were assets measured at *fair value* on a non-recurring basis amounting to €17.3 million, relating to properties acquired as part of "foreclosure" transactions.
As at 31 December 2019 there were no liabilities measured at *fair value* on a non-recurring basis.

A.5 INFORMATION ON THE SO-CALLED "DAY ONE PROFIT/LOSS"

On the basis of IFRS 7, paragraph 28, we need to provide evidence of the amount of the "*Day One Profit or Loss*" recorded in the Profit and Loss Account as at 31 December 2019, as well as a reconciliation with the initial balance. "*Day One Profit or Loss*" means the difference between the l *fair value* of a financial instrument acquired or issued at the time of initial recognition (transaction price) and the amount determined at that date using a valuation technique.
In this regard, it should be noted that there are no cases that should be disclosed in this section.

PART B INFORMATION ON THE BALANCE SHEET

ASSETS

Section 1 CASH AND CASH EQUIVALENTS - ITEM 10

1.1 *Cash and cash equivalents: composition*

(thousands of €)		31.12.2019	31.12.2018
a)	Cash	92,607	83,018
b)	Free deposits with central banks	-	-
	Total	**92,607**	**83,018**

This item consists of cash and cash equivalents.

Section 2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 20

2.1 *Financial assets held for trading: breakdown by type*

(thousands of €)	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	-	-	-	2,079	964	1
1.1 Structured	-	-	-	-	-	1
1.2 Other debt securities	-	-	-	2,079	964	-
2. Equity securities	5	7,597	-	-	-	-
3. UCITS units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**5**	**7,597**	**-**	**2,079**	**964**	**1**
B. Derivative instruments						
1. Financial derivatives	43	3	-	174	40	-
1.1 held for trading	43	3	-	174	40	-
1.2 related to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 related to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**43**	**3**	**-**	**174**	**40**	**-**
Total (A+B)	**48**	**7,600**	**-**	**2,253**	**1,004**	**1**

.2 Financial assets held for trading: breakdown by debtor/issuer/counterpart

(thousands of €)	31.12.2019	31.12.2018
A. CASH ASSETS		
1. Debt securities	**-**	**3,044**
a) Central Banks	-	-
b) Public Administrations	-	2,079
c) Banks	-	964
d) Other finance companies	-	-
of which: insurance companies		-
e) Non-finance companies	-	1
2. Equity securities	**7,602**	**-**
a) Banks	7,602	-
b) Other finance companies	-	-
of which: insurance companies	-	-
c) Non-finance companies	-	-
d) Other issuers	-	-
3. UCITS units	**-**	**-**
4. Financing	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other finance companies	-	-
of which: insurance companies	-	-
e) Non-finance companies	-	-
f) Households	-	-
Total A	**7,602**	**3,044**
B. DERIVATIVE INSTRUMENTS		
a) Banks	-	-
b) Others	46	214
Total B	**46**	**214**
Total (A+B)	**7,648**	**3,258**

2.3 Financial assets measured at fair value: breakdown by type

At the reporting date there were no financial assets designated at *fair value*.

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

At the reporting date there were no financial assets designated at *fair value*.

2.5 Financial assets obligatorily measured at fair value: breakdown by type

(thousands of €)	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured securities	-	-		-	-	-
1.2 Other debt securities	-	-	470	-	-	487
2. Equity securities	**-**	**-**	**-**	**4**	**7,802**	**-**
3. UCITS units	**-**	**50,416**	**9**	**-**	**47,880**	**8**
4. Financing	**-**	**-**	**-**	**-**	**-**	**-**
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	54,140	36,539	-	182,771	47,812
Total A	**-**	**104,556**	**37,018**	**4**	**238,453**	**48,307**

2.6 Other financial assets obligatorily measured at fair value: breakdown by debtor/issuers

(thousands of €)	31.12.2019	31.12.2018
1. Equity securities	**-**	**7,806**
a) Governments and Central Banks	**-**	**7,806**
b) Other public bodies	-	-
c) Banks	-	-
2. Equity securities	**470**	**487**
a) Central Banks	-	-
b) Public administrations:	-	-
c) Banks	-	-
d) Other finance companies	470	487
- of which: insurance companies	-	-
e) Non-finance companies	-	-
3. UCITS units	**50,425**	**47,888**
4. Financing	**90,679**	**230,583**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other finance companies	54,140	182,771
- of which: insurance companies	54,140	182,771
e) Non-finance companies	35,917	47,210
f) Households	622	602
Total	**141,574**	**286,764**

Section 3 FINANCIAL ASSETS AT FAIR VALUE WITH AN IMPACT ON COMPREHENSIVE INCOME - ITEM 30

3.1 Financial assets measured at fair value with impact on comprehensive income: composition by type

(thousands of €)	31.12.2019			31.12.2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	453,215	166,585	510	453,439	313,100	511
1.1 Structured securities	-	9,571	-	-	62,473	-
1.2 Other debt securities	453,215	157,014	510	453,439	250,627	511
2. Equity securities	-	-	8,988	52,629	-	9,465
4. Financing	-	-	-	-	-	-
Total	**453,215**	**166,585**	**9,498**	**506,068**	**313,100**	**9,976**

3.2 Financial assets at fair value with an impact on comprehensive income: composition by debtors/issuers

(thousands of €)	31.12.2019	31.12.2018
1. Debt securities	**620,311**	**767,051**
a) Central Banks	-	-
b) Public Administrations	459,333	458,457
c) Banks	118,828	191,190
d) Other finance companies	42,150	65,472
- of which: insurance companies	-	-
d) Non-finance companies	-	51,932
2. Equity securities	**8,987**	**62,093**
a) Banks	2,519	6,206
b) Other issuers:	6,468	55,887
- other finance companies	2,920	11,258
of which insurance companies	1,155	5,840
- non-finance companies	3,548	44,629
- other	-	-
3. Financing	**-**	**-**
a) Central Banks	-	-
b) Public Administrations	-	-
c) Banks	-	-
d) Other finance companies	-	-
- of which insurance companies	-	-
e) Non-finance companies	-	-
f) Households	-	-
Total	**629,298**	**829,144**

3.3 Financial assets measured at fair value with an impact on comprehensive income: gross value and total value adjustments

	Gross value				Overall value adjustments			
	First stage	of which: instru-ments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	**Write-offs**
(thousands of €)								
Debt securities	620,310	-	-	-	478	-	-	-
Financing	-	-	-	-	-	-	-	-
Total 31.12.2019	**620,310**	**-**	**-**	**-**	**478**	**-**	**-**	**-**
Total 31.12.2018	**767,051**				**1,340**			
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

Section 4 FINANCIAL ASSETS MEASURED AT AMORTISED COST - ITEM 40

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

	Total 31.12.2019						**Total 31.12.2018**					
	Book value			Type/Amounts			Book value			Type/Amounts		
Transaction Type/Values	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
(thousands of €)												
A. Loans to Central Banks	228,272	-	-	-	-	228,272	44,984	-	-	-	-	44,984
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	228,272	-	-	X	X	X	44,984	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	4,491	-	-	-	-	4,491	38,375	-	-	-	34,534	49,024
1. Financing	4,491	-	-	-	-	4,491	3,945	-	-	-	-	49,024
1.1. Current accounts and demand	2,823	-	-	X	X	X	2,049	-	-	X	X	X
1.2. Term deposits	50	-	-	X	X	X	50	-	-	X	X	X
1.3. Other loans:	1,618	-	-	X	X	X	1,846	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Loans for leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	1,618	-	-	X	X	X	1,846	-	-	X	X	X
2. Debt securities	-	-	-	-	-	-	34,430	-	-	-	34,534	-
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	-	-	-	-	-	-	34,430	-	-	-	34,534	-
Total	232,763	-	-	-	-	232,763	83,359	-	-	-	79,518	49,024

Legend

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

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

Transaction Type/Values	Total 31.12.2019						Total 31.12.2018					
	Book value			Type/Amounts			Book value			Type/Amounts		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
(thousands of €)												
1. Financing	**6,878,686**	**259,589**	**30**	**-**	**-**	**7,608,416**	**6,769,704**	**370,807**	**46**	**-**	**-**	**7,627,966**
1.1. Current accounts	997,036	96,595	10	X	X	X	1,163,272	146,711	46	X	X	X
1.2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgages	5,227,197	157,362	-	X	X	X	5,001,315	218,817	-	X	X	X
1.4. Credit cards, personal	123,271	1,791	-	-	-	-	-	-	-	-	-	-
loans and salary-backed loans	-	-	-	X	X	X	117,338	2,528	-	X	X	X
1.5. Loans for leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	531,182	3,841	20	X	X	X	487,779	2,751	-	X	X	X
2. Debt securities	**1,778,428**	**-**	**-**	**1,693,374**	**50,468**	**106,210**	**1,264,959**	**-**	**-**	**1,104,516**	**50,181**	**87,396**
2.1. Structured securities	9,010	-	-	-	-	9,107	7,183	-	-	-	-	7,203
2.2. Other debt securities	1,769,418	-	-	1,693,374	50,468	97,103	1,257,776	-	-	1,104,516	50,181	80,193
Total	**8,657,114**	**259,589**	**30**	**1,693,374**	**50,468**	**7,714,626**	**8,034,663**	**370,807**	**46**	**1,104,516**	**50,181**	**7,715,362**

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

Transaction Type/Values	Total 31.12.2019			Total 31.12.2018		
	First and second stage	Third stage	of which: impaired acquired or originated	First and second stage	Third stage	of which: impaired acquired or originated
(thousands of €)						
1. Debt securities	**1,778,429**	**-**	**-**	**1,264,959**	**-**	**-**
a) Public Administrations	1,633,647	-	-	1,125,754	-	-
b) Other financial companies	27,605	-	-	40,377	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	117,177	-	-	98,828	-	-
2. Loans to:	**6,878,684**	**259,590**	**30**	**6,769,705**	**370,806**	**46**
a) Public Administrations	26,680	-	-	26,828	-	-
b) Other financial companies	133,465	1,691	-	112,664	21,144	-
of which: insurance companies	-	-	-	121	-	-
c) Non-financial companies	3,503,711	175,204	10	3,604,361	245,701	46
d) Households	3,214,828	82,695	20	3,025,852	103,961	-
Total	**8,657,113**	**259,590**	**30**	**8,034,664**	**370,806**	**46**

4.4 Financial assets measured at amortised cost: gross amount and overall adjustments in value

	Gross value				Overall value adjustments			**Write-offs**
	First stage	of which: instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
(thousands of €)								
Debt securities	1,779,959	-	-	-	1,530	-	-	-
Financing	6,373,654	6,373,654	795,679	555,044	24,000	33,884	295,455	18,286
Total 31.12.2019	**8,153,613**	**6,373,654**	**795,679**	**555,044**	**25,530**	**33,884**	**295,455**	**18,286**
Total 31.12.2018	**7,507,681**	**-**	**673,698**	**662,550**	**31,448**	**31,908**	**291,744**	**19,598**
of which: financial assets impaired acquired or originated	X	X	8	8	X		3	-

Section 5 HEDGING DERIVATIVES - ITEM 50

5.1 Hedging derivatives: breakdown by type of hedge and levels

There were no hedging derivatives at the reporting date.

5.2 Hedging derivatives: breakdown by hedged portfolios and by type of hedge

There were no hedging derivatives at the reporting date.

Section 6 VALUE ADJUSTMENT OF FINANCIAL ASSETS SUBJECT TO MACRO HEDGING - ITEM 60

6.1 Adjustments in value of hedged assets: breakdown by hedged portfolios

At the reporting date there were no financial assets subject to macro hedging.

Section 7 SHAREHOLDINGS - ITEM 70

7.1 Equity investments: information on shareholding relations

Name		Location	Investment %	Voting rights %
A. Wholly controlled subsidiaries				
1.	Voba Invest S.r.l. in liquidation	- Bolzano	100.00%	100.00%
2.	Valpolyella Alta Societa Agricola S.r.l.	- Bolzano	100.00%	100.00%
3.	Quartiere Brizzi S.r.l.	Chienes	100.00%	100.00%
B. Jointly controlled subsidiaries				
C. Companies subject to significant influence				
1.	Casa di cura Villa S. Anna S.r.l.	Merano	35.00%	35.00%
2.	Three S.r.l.	Trento	30.00%	30.00%
3.	Voba CB S.r.l.	Conegliano (TV)	60.00%	60.00%

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

The company had no significant interests at the reporting date.

7.3 Significant equity investments: accounting information

The company had no significant interests at the reporting date.

7.4 *Non-significant equity investments: accounting information*

Name	Book value of invest-ments	Total assets	Total lia-bilities	Total reve-nues	Gain (loss) from current operations after tax	Profit (Loss) of groups of assets held for sale after tax	Profit (Loss) for the year (1)	Other income components after tax (2)	Overall prof-itability (3) = (1)+(2)
(thousands of €)									
A. Wholly controlled subsidiaries									
1. Voba Invest S.r.l. in liquidation	2,206	2,295	89	241	128	-	128	-	128
2. Valpolyella Alta Societa Agricola S.r.l.	2,275	4,631	4,021	988	585	-	585	-	585
3. Quartiere Brizzi S.r.l.	-	6,477	6,307	431	(30)	-	(30)		(30)
B. Jointly controlled subsidiaries									
C. Companies subject to significant influence									
1. Casa di cura Villa S. Anna S.r.l.	755	8,735	6,255	6,545	438	-	438	-	438
2. Three S.r.l. (*)	165	367	285	1	(2)	-	(2)		(2)
3. Voba CB S.r.l. (*)	6	57	47	50	-	-	-		-

(*) The data on the investee companies refers to the last available financial statements.

7.5 *Equity investments: annual changes*

(thousands of €)	31.12.2019	31.12.2018
A. Opening balance	**5,745**	**5,793**
B. Increases	**802**	**123**
B.1 Purchasing	6	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	796	123
C. Decreases	**1,140**	**171**
C.1 Sales	-	-
C.2 Value adjustments	-	-
C.3 Write-downs	1,140	-
C.4 Other changes	-	171
D. Closing inventories	**5,407**	**5,745**
E. Total revaluations	**-**	**-**
F. Total adjustments	**-**	**-**

Items B.4 and C.4 "Other changes" are due to changes in the value of equity investments as a result of profits or losses recorded by investee companies and recognised in the net assets.

Results of *impairment* tests on equity investments
As described in "Part A - Accounting policies", equity investments are tested for *impairment* in order to assess the recoverability of the book value indicated in the financial statements.
On identifying signs of potential *impairment*, particular significance was attributed to the analysis of financial performance after the date of acquisition of control and, where available, the outlook for future income.

To reveal any situations of *impairment*, the book value of the investment was compared with its recoverable amount. Based on what is established by 1AS 36, the recoverable amount is the higher between *fair value* less costs of sale and value in use.
On the basis of the above, the *impairment* test on the values as at 31 December 2019 did not determine a need to make value adjustments.

7.6 Commitments referred to equity investments in joint ventures

At the reporting date there were no commitments to equity investments in joint ventures.

7.7 Commitments referred to investments in companies subject to significant influence

At the reporting date there were no commitments to invest in companies subject to significant influence.

7.8 Significant restrictions

On the reporting date, there were no significant restrictions on equity investments.

7.9 Other information

For most equity investments, the closing times of the year-end financial statements are not compatible with the closing times of Volksbank's financial statements. Application of the equity method refers to the latest available accounting report, consisting in most cases of the half-yearly financial report or, if not available, the financial statements for the previous year.
If the accounting reports of the investee company used in the application of the equity method refer to a date other than the date of reference of the Volksbank financial statements, any adjustments made take into account the known effects of significant transactions or events that occurred between the date of the accounting statement and the date of reference of the financial statements.

Section 8 TANGIBLE FIXED ASSETS - ITEM 80

8.1 Tangible assets for functional use: breakdown of assets measured at cost

(thousands of €)		31.12.2019	31.12.2018
1	**Owned assets**	**119,810**	**123,512**
	a) Land	34,939	34,949
	b) Buildings	73,725	77,956
	c) Furniture	2,285	2,404
	d) Electronic systems	5,954	5,251
	e) Other	2,907	2,952
2	**Rights of use acquired with leases**	**15,981**	**-**
	a) Land	-	-
	b) Buildings	15,981	-
	c) Furniture	-	-
	d) Electronic systems	-	-
	e) Other	-	-
	Total	**135,791**	**123,512**

8.2 Tangible assets held for investment purposes: breakdown of assets measured at cost

Assets/Amounts		Total 31.12.2019				Total 31.12.2018			
(thousands of €)		BV	L1	L2	L3	BV	L1	L2	L3
1.	Owned assets	13,161	-	-	13,161	12,453	-	-	12,453
	a) Land	1,239	-	-	1,239	1,239			1,239
	b) Buildings	11,922	-	-	11,922	11,214			11,214
2.	Rights of use acquired with leases	-	-	-	-	-	-	-	-
	a) Land	-	-	-	-	-	-	-	-
	b) Buildings	-	-	-	-	-	-	-	-
	Total	**13,161**	**-**	**-**	**13,161**	**12,453**	**-**	**-**	**12,453**
	of which: obtained through enforcement of guarantees received	-	-	-	-	-	-	-	-

8.3 Tangible assets for functional use: breakdown of revalued assets

At the reporting date there were no revalued tangible assets for functional use.

8.4 Tangible assets held for investment purposes: breakdown of assets measured at fair value

There were no tangible assets held for investment purposes at *fair value*.

8.5 Inventories of tangible assets governed by IAS 2: breakdown

At the reporting date there were no inventories of tangible assets subject to IAS 2.

8.6 Tangible assets for functional use: annual changes

(thousands of €)		Land	Buildings	Furniture	Electronic equipment	Others	Total
A.	**Gross opening balances**	**34,949**	**144,025**	**43,041**	**36,228**	**42,495**	**280,613**
	A.1 Total net impairment losses	-	45,944	40,637	30,977	39,543	157,101
	A.2 Net opening balances	34,949	98,081	2,404	5,251	2,952	143,637
B.	**Increases:**	**-**	**725**	**276**	**2,795**	**1,018**	**4,814**
	B.1 Purchasing	-	-	276	2,795	1,018	4,089
	B.2 Capitalised improvement costs	-	725	-	-	-	725
	B.3 Write-backs	-	-	-	-	-	-
	B.4 Fair value gains recognised in:	-	-	-	-	-	-
	a) Net equity	-	-	-	-	-	-
	b) Profit and Loss	-	-	-	-	-	-
	B.5 Exchange rate gains	-	-	-	-	-	-
	B.6 Transfers from properties held for investment purposes	-	-	X	X	X	-
	B.7 Other changes	-	-	-	-	-	-
C.	**Decreases**	**10**	**9,101**	**395**	**2,092**	**1,062**	**12,660**
	C.1 Sales	-	1,243	-	-	-	1,243
	C.2 Amortisation	-	7,858	395	2,092	1,061	11,406
	C.3 Impairment losses recognised in:	-	-	-	-	1	1
	a) net equity	-	-	-	-	-	-
	b) Profit and Loss	-	-	-	-	1	1
	C.4 Fair value losses taken to:	-	-	-	-	-	-
	a) net equity	-	-	-	-	-	-
	b) Profit and Loss	-	-	-	-	-	-
	C.5 Exchange rate losses	-	-	-	-	-	-
	C.6 Transfers to:	-	-	-	-	-	-
	a) tangible assets held for investment purposes	-	-	X	X	X	-
	b) assets held for sale	-	-	-	-	-	-
	C.7 Other changes	10	-	-	-	-	10
D.	**Net closing balance**	**34,939**	**89,705**	**2,285**	**5,954**	**2,908**	**135,791**
	D.1 Total net depreciation and impairment losses	-	52,016	41,033	32,392	40,344	165,785
	D.2 Gross closing balances	**34,939**	**141,721**	**43,318**	**38,346**	**43,252**	**301,576**
E.	Valuation at cost	-	-	-	-	-	-

Following introduction of IFRS 16, the initial gross balances of the column Buildings for relative rights of use, amounting to € 20.1 million were modified.

8.7 Tangible assets held for investment purposes: annual changes

(thousands of €)		Land	Buildings
A.	**Opening balance**	**1,239**	**11,214**
B.	**Increases:**	**-**	**1,017**
	B.1 Purchasing	-	-
	B.2 Capitalised improvement costs	-	1,017
	B.3 Fair value gains	-	-
	B.4 Write-backs	-	-
	B.5 Exchange rate gains	-	-
	B.6 Transfers from properties for functional use	-	-
	B.7 Other changes	-	-
C.	**Decreases**	**-**	**310**
	C.1 Sales	-	-
	C.2 Amortisation	-	310
	C.3 Negative changes in fair value	-	-
	C.4 Impairment losses	-	-
	C.5 Negative foreign exchange differences	-	-
	C.6 Transfers to other asset portfolios	-	-
	a) properties for functional use	-	-
	b) Non-current assets held for sale	-	-
	C.7 Other changes	-	-
D.	**Closing inventories**	**1,239**	**11,922**
E.	**Measurement at fair value**	**-**	**-**

8.8 Commitments to purchase tangible assets (IAS 16/74.c)

There were no commitments at the reporting date for the purchase of tangible assets.

Section 9 INTANGIBLE FIXED ASSETS – ITEM 90

9.1 Intangible assets: breakdown by asset type

(thousands of €)	31.12.2019		31.12.2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill:	X	-	X	99,602
A.2 Other intangible assets	18,467	-	19,129	-
A.2.1 Assets measured at cost:	18,467	-	19,129	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	18,467	-	19,129	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally generated intangible assets	-	-	-	-
b) Other assets	-	-	-	-
Total	**18,467**	**-**	**19,129**	**99,602**

Information on intangible assets and goodwill

Application of the accounting standard IFRS 3 when recognising acquisition transactions can imply recognition of intangible assets and goodwill in the financial statements. For Volksbank, the purchase made on 25 February 2008 of the company branch of 6 branches of Banca Intesa Group and the merger through incorporation, on 1 April 2015 of the Banca Popolare di Marostica Group were of a certain importance and implied recognition of intangible assets and goodwill.
The following table sums up the values of intangible assets and goodwill entered in the financial statements, with relative dynamics, during the year, divided by Cash Generating Unit (CGU).

CGU	31.12.2018	Amortisation	Other changes	31.12.2019
(thousands of €)				
Client relationship former Popolare Marostica Group	18,443	(971)	-	17,472
Goodwill	99,601	-	(99,601)	-
Other	687	(794)	1,102	995
Total	**118,731**	**(1,765)**	**(98,499)**	**18,467**

For intangible assets with a defined useful life, constituted by Customer Relationship and software, the Profit and Loss account was attributed the amortisation quota for the year (included under item "190. Adjustments/net write-backs on intangible assets") for a total of €1.8 million gross of the tax effect. Please note that the client relationship entered as part of the incorporation of Banca Popolare di Marostica Group is amortised over a 23-year period (residue 18).
IAS 36 establishes that intangible assets with an indefinite useful life and goodwill be subjected to an *impairment* test at least once a year. Moreover, for intangible assets with a defined useful life the *impairment* test must be performed each time there is a loss indicator presence. The *impairment* test ascertains whether the recoverable value is the same or greater than the book value. IAS 36 specifies that the recoverable value is represented by the higher between use value and the *fair value*, net of sales costs.
IAS 36 also establishes that, when the use value of intangible assets subjected to the *impairment* test is calculated, reference must be made to cash flows related to the intangible in its current condition recognised at the *impairment* date, with no distinction between cash flows referred to the asset originally recognised when IFRS 3 was applied and those related to assets existing at the time of the *impairment* test; as it would be difficult, especially with extraordinary transactions between businesses or asset changes following significant turnovers of assets, customers, contracts, etc., to distinguish flows referred to the original assets from the others.
That concept can also be repeated for the calculation, for the *impairment* test purposes for goodwill, the CGU use Value, whose cash flows must be considered with reference to all assets and liabilities included in the CGU and not just for the assets and liabilities for which goodwill was recognised when IFRS 3 was applied.
With reference to the *impairment* tests for the 2019 Financial Statements to, as with previous financial statements, in consideration of financial market volatility and values retractable from them, reference was made to use values to calculate the recoverable value.
Please note that the methods and assumptions that the *impairment* test procedure is based on for intangible assets and goodwill, defined by management, were approved by the Board of Directors prior to the financial statements 2019 being approved.

a) Impairment test for goodwill

With specific reference to the goodwill*impairment* test, please note that the measurements carried out when the interim financial statements were prepared as at 30 June 2019 led to a full adjustment of goodwill. The following considerations are those adopted for the *impairment* resolution adopted when preparing those interim financial statements, still valid when drafting these financial statements.

The definition of Cash Generating Units (CGU)

The use Value estimate, in order to perform the *impairment* test for intangible assets with an indefinite life (including goodwill), that do not generate financial flows except together with other intangible assets, requires preliminary attribution of those intangible assets to business units that are essentially independent in the management profile; able to generate financial resource flows amply independent of those produced by other activity areas, but interdependent in the business unit generating them.
In IAS/IFRS terminology those business units are called Cash Generating Units (CGU). The meaning of the*impairment* test is important when identifying the CGUs
The goodwill *impairment* test requires identifying the CGUs at a level related with the internal reporting level at which management controls management dynamics. Defining that level strictly depends on the organisation models and attribution of management responsibilities to define the operating activity directions and resulting monitoring. The organisation models can be separate from the structure of the legal entities through which operations are developed and, very often, are strictly related with the definition of the operating segments of the business that reporting for sectors foreseen by IFRS 8 is based on.
Criteria for deciding the CGUs for the goodwill *impairment* test are also consistent with the definition of the recoverable value of an activity - whose determination is the base of the *impairment* tests - according to which the amount the company expects to recover from that activity is important, considering synergies with other activities.
In the Volksbank organisational model:
- management choices are strongly centred with the Board of Directors and General Management;
- strategies, commercial initiatives, product and service policies are identified and managed centrally;
- planning and control processes and reporting systems are managed at a central level;
- transversal support and product development functions are performed centrally, to the benefit of the commercial functions and structures in direct contact with customers;
- financial risk management is very centralised, also to manage as a whole the balance between capital allocation policies and the financial risks taken on.

Because of that unitary, centralised governance structure, revenue flows are heavily dependent on the policies formulated at Board of Directors and General Management level, in order to ensure the company's organic development as a whole, without autonomous operating divisions or operating areas standing out from a management point of view.
The company complex as a whole corresponds to the Bank CGU and constitutes the elementary operations area that the *impairment*test refers to; so the company entity as a unit constitutes the smallest group of activities generating independent incoming financial flows and also, as was said, the minimum level at which the planning and internal reporting processes are managed by the Bank. It constitutes the minimum level at which goodwill can be allocated based on non arbitrary, monitored criteria.

The book value of the CGU

The book value of the CGUs must be calculated consistently with the criterion by which their recoverable value is estimated. For a banking enterprise it is not possible to identify the flows generated by a CGU without considering those resulting from financial assets/liabilities, seeing that the latter are the company's core business. Therefore, the recoverable value of CGUs is influenced by those flows; so their book value must be calculated consistently with the scope of the estimate of recoverable value and must therefore also include financial assets/liabilities.
In the case of Volksbank, as the CGU coincides with the company as a whole, the book value of the CGU can be identified as the sum of the book values of the capital assets and liabilities resulting from the financial statements for the year, including goodwill and the other intangible assets associated with the CGU.

Criteria for estimating the Value of use of the CGUs

The value of use of the CGUs is determined by estimating the present value of the future cash flows expected to be generated by the CGUs. Those financial flows are normally estimated using the last business plan available or, if lacking, through analysis and measurements developed internally by management, using, to the extent available, public forecasting figures and estimates.
The analytical forecast period normally includes a maximum period of five years. The flow of the last analytical forecast year is projected in perpetuity by using a perpetual return formula, enhanced by applying a perpetual growth rate "g" to calculate the so-called "Terminal Value". The "g" rate is calculated, in line with the current Italian market measurement practice, in accordance with long-term inflation expectations for the Italian economy.
When calculating the Value of use, financial flows are discounted at a rate, estimated based on the Capital Asset Pricing Model (CAPM), which reflects the current valuation of the time value of money and the specific asset risks, to express the cost of capital in the configuration consistent with the cash flow growth hypothesis. In particular, the discount rate incorporates the current market values with reference to the risk free component and the premium for the risk related to the share component observed on a sufficiently wide time scale to reflect market conditions and economic cycles and to consider the riskiness of specific banking operations, the Beta ratio.

An estimate of cash flows

Cash flows expected in the specific period are calculated starting with perspective economic-asset data, considering the minimum capitalisation level set by the SREP year applicable to the bank at the *impairment* test date, compared to the expected evolution of risk-weighted assets.
The estimated cash flows for the period 2019 - 2023 took the Plan approved by the Board of Directors on 22 December 2018 as its reference, as it presents the Bank's strategic position.
However, that Plan incorporates a significantly different macroeconomic outlook to the one that then occurred, following the evolution recorded in the last part of the first half-year period.
As a whole, the global macroeconomic outlook was progressively penalised by growing uncertainties linked to the commercial tension between the USA and China, by the increased fears of a currency war between the different global central banks, and the growing uncertainty linked to Brexit effects.
In Europe, the anticipator indicators that emerged in the first half year do not provide indications of an economic cycle recovery, with the domestic component stable and the one linked to production and exports dropping.
Unlike the perspective framework outlined at the end of 2018, the new scenario, also as outlined in the forecasts made by important institutions, foresees ongoing highly expansive monetary policy choices for a prolonged period of time.
In June, the ECB declared that the economic Outlook had not improved so it confirmed that additional stimulus would be needed and further interest rate cuts could have been part of the instruments available.
In its meeting of 25 July 2019, the European Central Bank's Governing Council decided that the interest rates on the main refinancing transactions, on the marginal refinancing transactions and on deposits with the central bank, will remain unchanged at respectively 0.00%, 0.25% and -0.40%.
Still in the last meeting, expectations were confirmed that the key ECB interest rates will remain at their current or lower levels until at least the first half of 2020 and in any case as long as it is necessary to ensure that inflation continues to converge steadily to the medium term value pursued.
It was also confirmed that the Governing Council intends to continue to fully reinvest the principal repaid on maturing securities as part of the asset repurchase program for an extended period of time after the date on which it starts to raise the key ECB interest rates; in any case as long as it is necessary to maintain favourable liquidity conditions and a broad degree of monetary accommodation. Those guidelines were also confirmed for all the second half of 2019.

Lastly, the ECB confirmed the need for a highly accommodating monetary policy for a prolonged period of time, seeing that the effective and foreseen inflation rates have persistently placed themselves below levels in line with the target value. Consequently, if medium-term inflation prospects carry on being lower than the target value, the ECB confirmed its decision to intervene, consistent with its commitment based on a symmetric inflation target. The ECB also confirmed its intention to use all the policy instruments available to it, if suitable, to ensure that inflation stably approaches the target level.
The current outlook of growth lower than that potential and the evolution of inflation that is still far from the target to maintain inflation rate below, but close to, 2% medium-term, is therefore the main justification supporting an extended expansive scenario period.
The result is that, on the one hand, the expectation that the official ECB rates remain at levels equal to or lower than the current one for an extended period and, on the other, the hypothesis of further actions to ensure, if needed, an expansive monetary policy.
For the more long-term rates the prolonged highly accommodating monetary policy period is expected to justify a flattened returns curve, also considering the prospective extraordinary monetary policy measures to contrast that trend.
On tracing the aforementioned elements back to the impacts on planning, it emerges that the significantly extended very low market rate level period, going well beyond what was expected when the business plan was prepared, together with the increased uncertainties on economic growth prospects for the following years, cause an increased risk related to the capacity to effectively achieve the Plan's economic targets, especially perspectively. So it would be opportune, for the *impairment* test purposes, to consider that greater risk by lowering expected revenue flows.
As the rate level is the main variable able to influence Bank profitability, the analytical estimates in the 2019 – 2023 business plan were reviewed projecting the impact resulting from low market rates foreseen at the current date on all the years foreseen. Considering the continuing uncertainty and volatility of the macroeconomic scenario, the new outlook was built adopting a rigorous, prudent perspective, incorporating the most recent macroeconomic scenario trend forecasts and rates processed by external companies in July 2019.
As part of financial matrix measurement criteria, such as the one used to estimate the use Value, the value of an enterprise at the end of the flow analytical forecast period (so-called "Terminal Value") is generally calculated by endlessly capitalising, at a suitable rate, the cash flow achievable "when operational".
For what concerns the terminal value estimate, consistent with the plan's time period, an "operational" flow was considered for the last year forecast so was projected perpetually That value, 1.5%, was calculated in continuity with criteria adopted in previous *impairment* tests.

Flow discount rates

When calculating the value in use, cash flows must be discounted at a rate that reflects current market valuations of the time value of money and the specific asset risks.
The current market conditions are translated into the calculation of all parameters based on the most updated information available at the estimate reference date, in order to best consider current market values. In particular, aspects connected to inflation, Country risk and other risk factors that could be expressed, based on IAS 36, in flows or the rate are important. Please note that as goodwill has, by definition, an indefinite useful life, its expected cash flows are normally projected perpetually.
That long-term prospect should be reflected in all discount rate parameters through a suitable choice for each one, so that they express "normal" long term conditions.
For banking companies, the rate is estimated with "equity side" in mind, only considering the cost of own capital (Ke), consistently with methods used to calculate flows which, as was said above, include those from financial assets and liabilities.
In this case, the cost of capital was calculated using the "Capital Asset Pricing Model" (CAPM). Based on that model, the cost of capital is calculated as the sum of risk-free investment returns and a premium for the risk, in turn depending on the asset's specific riskiness (meaning both the riskiness of the operating sector and geographical risk represented by the so-called "Country risk").

Going into the detail of the different components contributing to calculating the discount rate, please note that the cost of own capital, assumed as 9.8%, was estimated based on the Capital Asset Pricing Model (CAPM) considering the following parameters:

- Risk free rate of 2.87% (annual average of the gross returns of BTP at 10 years);
- Beta equal to 1.21 (average of the ratio calculated on a sample of comparable companies recognised based on observations at 5 years);
- Market risk premium of 5.70% (in line with the current measurement practice on the Italian market).

The Terminal Value was estimated based on the dividend considered sustainable after the explicit period and on a long-term growth rate assumed as 1.5%, in line with the current Italian market measurement practice and with long-term inflation expectations for the Italian economy.
The cost of capital was estimated in full method continuity with previous *impairment* tests and consistent with what is set forth in accounting standard IAS 36 and the guidelines issued by the Italian Valuation Body (OIV).

Impairment test results

The*impairment* test results highlighted, even when the interim financial statements were prepared as at 30 June 2019, the need to fully adjust the indefinite life intangible asset value represented by goodwill (CGU coinciding with the Bank as a whole). In particular, the reasons leading to recognition as at 30 June 2019 of the value adjustment can be fully attributed to changes in the reference scenario.

Test of the presence of lasting losses in value (Impairment Test) of defined life intangible assets

Client relationship

The "*client relationship*" intangible assets recognised in the Volksbank financial statements due to incorporation of the Banca Popolare di Marostica Group occurring effectively on 1 April 2015, is considered "at defined life".
Customers considered to measure the *client relationship* only concerned those relationships established before the acquisition date. The intangible asset is therefore linked to the status quo before the acquisition date and its *fair value* is of a limited duration, following the duration observed for relationships between the company acquired and its clients. No value is given to the capacity to generate new relationships that cannot be separated and transferred to third parties, except by transferring the company as a whole. The *client relationship* was calculated by measuring the following components:

- indirect funding (funding managed net of own securities, funding managed, insurance funding);
- *core deposits* (ordinary free savings deposits, ordinary current accounts).

The *client relationship* was measured by discounting its net future economic flows.
The value of that asset was calculated with reference to 1 April 2015, effective merger date. The value calculation process for that asset was completed prior to the financial statement approval resolution.
The *impairment* tests related to that asset are mainly based on analysing the main value indicators of the asset itself (including, trend of core deposit and indirect funding assets, evolution of relationship closure probability ("*lifting curve*"), variations to profitability, operating expense level, cost of capital).
During 2019, no changes to the above parameters were noted that would require an *impairment* test. So those analyses did not lead to identifying *impairment* indicators for the *client relationship* intangible asset.

9.2 Intangible assets: annual changes

(thousands of €)	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. Gross opening balances	**99,602**	**-**	**-**	**30,235**	**-**	**129,837**
A.1 Total net impairment losses	-	-	-	11,106	-	11,106
A.2 Net opening balances	**99,602**	**-**	**-**	**19,129**	**-**	**118,731**
B. Increases	**-**	**-**	**-**	**1,102**	**-**	**1,102**
B.1 Purchasing	-	-	-	1,102	-	1,102
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Fair value gains	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to Profit and loss	X	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**99,602**	**-**	**-**	**1,765**	**-**	**101,367**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	99,602	-	-	1,765	-	101,367
- Amortisation expense	X	-	-	1,765	-	1,765
- Impairment	99,602	-	-	-	-	99,602
+ net equity	X	-	-	-	-	-
+ Profit or loss	99,602	-	-	-	-	99,602
C.3 Negative changes in fair value		-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to Profit and loss	X	-	-	-	-	-
C.4 Transfer to non-current assets under disposal	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balances	**-**	**-**	**-**	**18,466**	**-**	**18,466**
D.1 Total net value adjustments	-	-	-	5,607	-	5,607
E. Gross closing balances	**-**	**-**	**-**	**24,073**	**-**	**24,073**
F. Valuation at cost	-	-	-	-	-	-

Legend

DEF = at defined duration

INDEF = at indefinite duration

9.3 Intangible assets Other information

At the financial statement date there are no commitments referred to intangible assets.

Section 10 TAX ASSETS AND LIABILITIES - ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 Deferred tax assets: breakdown

IRES	31.12.2019		31.12.2018	
(thousands of €)	amount of temporary differences	tax effect	amount of temporary differences	tax effect
- Value adjustments to customer receivables (including signature credits)	225,925	62,129	227,722	62,623
- Provisions for risks and charges	6,874	1,890	13,882	3,818
- Misalignment administrative statutory/fiscal on tangible and intangible assets	385	106	567	156
- Banca di Treviso Goodwill (freed by BPM)	7,904	2,173	7,904	2,173
- BPM+BTV merger goodwill (freed by BPAA)	41,447	11,398	47,368	13,026
- "Mimosa" goodwill	13,001	3,575	-	-
- Client Relationship PPA BPM+BTV merger freed	971	267	971	267
- IRES tax losses that can be carried forward	-	-	6,914	1,901
- IRES tax losses that can be carried forward (at 24%)	8,259	1,982	2,922	701
- IRES tax losses that can be carried forward (at 3.5%)	4,879	171	-	-
- ACE surpluses to be carried forward (at 3.5%)	2,572	90	805	221
- Real estate write-downs (buildings and land)	9,832	2,704	7,646	2,103
- Write-downs of bank receivables (item 40a SP)	12	3	49	13
- Write-downs of receivables at FVTPL	15,640	4,301	3,568	981
- Change to accounting criteria (adoption of IFRS 9)	51,896	14,272	51,923	14,279
- Others	438	120	2,544	699
- Negative OCI reserve measurement of security bonds FVOCI/HTCS (*)	810	223	9,494	2,611
- Components entered in OCI table (*)	2,185	601	1,639	451
Total	**393,030**	**106,005**	**385,918**	**106,024**

IRAP	31.12.2019		31.12.2018	
(thousands of €)	amount of temporary differences	tax effect	amount of temporary differences	tax effect
- Value adjustments to customer receivables (including signature credits)	120,195	6,145	120,195	6,145
- Provisions for risks and charges	6,874	351	13,882	710
- Banca di Treviso Goodwill (freed by BPM)	7,904	404	7,904	404
- BPM+BTV merger goodwill (freed by BPAA)	41,447	2,119	47,368	2,421
- "Mimosa" goodwill	13,001	665	-	-
- Client Relationship PPA BPM+BTV merger freed	874	45	874	45
- Real estate write-downs (buildings and land)	1,968	101	-	-
- Change to accounting criteria (adoption of IFRS 9)	52,880	2,703	52,907	2,705
- Others	6,516	333	8,495	434
- Negative OCI reserve measurement of security bonds FVOCI/HTCS (*)	810	41	9,494	485
- Negative OCI reserve measurement of investments FVOCI/HTCS (*)	778	40	10,265	525
Total	**253,247**	**12,947**	**271,384**	**13,874**

Deferred tax assets ("DTA"), recognised referred to temporary deductible differences, amounted to 119.0 million of which 99.2 for taxes entered through profit and loss and 0.9 million for taxes entered through equity.
The former mainly refer to the share not yet offset by benefits connected to deductibility in future years of adjustments on receivables from customers in prior years (before 2016) and provisions to risks and charges, and the benefit resulting from alignment of the tax value of goodwill and other intangible assets pursuant to art. 15, paragraph 10 of D.L.185/2008 and D.L. 98/2011.
Law no.145 of 30.12.2018 (2019 Budget Law) established that income components resulting solely from adoption of the recognition model for losses on receivables "IFRS 9", entered at first time adoption of that standard, are deductible based on taxable IRES and IRAP for 10% of their amount in the first IFRS 9 adoption tax period and for the remaining 90% in constant percentages in the nine following tax periods.
Law no.160 of 27.12.2019 (2020 Budget law) deferred deduction of the 10% share related to first application of IFRS 9 due for the 2019 tax period to the tax period in progress as at 31 December 2028 so the balance of deferred tax assets as at 31 December 2019 include €51,896 thousand of DTA referable to deferred deductibility components based on that regulatory provision.
Deferred tax assets through equity refer almost solely to taxes allocated for severance indemnity entered in the statement of comprehensive income (OCI).

10.2 Deferred tax liabilities: breakdown

IRES	31.12.2019		31.12.2018	
(thousands of €)	amount of temporary differences	tax effect	amount of temporary differences	tax effect
- Amortisation of land	2,216	609	2,216	609
- Amortisation of "Mimosa" goodwill	-	-	25,225	6,937
- Revaluation of property	48,975	13,468	50,840	13,981
- Capital gains by instalments from real estate sales	556	153	1,112	306
- Write-backs of receivables at FVTPL	1,150	316	1,275	351
- Write-backs of bank receivables (item 40a SP)	50	14	1	-
- Change to accounting criteria (adoption of IFRS 9)	-	-	-	-
- Others	6	2	-	-
- Positive OCI reserve measurement of security bonds FVOCI/HTCS (*)	6,118	1,682	1,886	519
- Positive OCI reserve measurement of investments FVOCI/HTCS (*)	-	-	58	16
Total	**59,071**	**16,244**	**82,613**	**22,719**

IRAP	31.12.2019		31.12.2018	
(thousands of €)	amount of temporary differences	tax effect	amount of temporary differences	tax effect
- Land amortisation	2,216	113	2,216	113
- Amortisation of "Mimosa" goodwill	-	-	25,099	1,283
- Revaluation of property	48,975	2,504	50,840	2,599
- Change to accounting criteria (adoption of IFRS 9)	1,452	74	1,824	93
- Others	-	-	-	-
- Negative OCI reserve measurement of security bonds FVOCI/HTCS (*)	6,118	313	1,886	96
- Negative OCI reserve measurement of investments FVOCI/HTCS (*)	-	-	1,162	59
Total	**58,761**	**3,004**	**83,027**	**4,243**

10.3 Changes in deferred tax assets (recognised through profit or loss)

(thousands of €)		IRES	IRAP	31.12.2019	31.12.2018
1.	**Opening balance**			**97,496**	**107,298**
2.	**Increases**	**8,739**	**865**	**9,604**	**8,672**
2.1	Deferred tax assets recognised in the year	8,739	865	9,604	8,672
	a) relative to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	2,613
	c) write-backs	-	-	-	-
	d) Other	8,739	865	9,604	6,059
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**7,040**	**863**	**7,903**	**18,474**
3.1	Deferred tax assets cancelled in the year	7,040	863	7,903	18,474
	a) Reversals	7,040	863	7,903	15,944
	b) impairment losses due to unrecoverability	-	-	-	-
	c) change in accounting standards	-	-	-	2,530
	d) Other	-	-	-	-
3.2	Reductions in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	-
	a) conversion into tax credits as per Italian Law 214/2011	-	-	-	-
	b) other	-	-	-	-
4.	**Closing balance**			**99,197**	**97,496**

10.3 bis Changes in deferred tax assets as per Italian Law 214/2011 (recognised through profit an loss)

(thousands of €)		IRES	IRAP	31.12.2019	31.12.2018
1.	**Opening balance**			**69,462**	**69,445**
2.	**Increases**	**-**	**-**	**-**	**17**
3.	**Decreases**	**-**	**-**	**-**	**-**
3.1	Reversals	-	-	-	-
3.2	Conversion in tax credits	-	-	-	-
	a) deriving from losses for the year	-	-	-	-
	b) deriving from tax losses	-	-	-	-
3.3	Other decreases	-	-	-	-
4.	**Closing balance**	**-**	**-**	**69,462**	**69,462**

10.4 Changes in deferred tax liabilities (recognised through profit or loss)

(thousands of €)		IRES	IRAP	31.12.2019	31.12.2018
1.	**Opening balance**			**25,808**	**27,149**
2.	**Increases**	**643**	**111**	**754**	**1,061**
2.1	Deferred tax liabilities recognised in the year	643	111	754	1,061
	a) relative to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	643	111	754	1,061
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**8,265**	**1,508**	**9,773**	**2,402**
3.1	Deferred tax liabilities reversed during the year	8,265	1,508	9,773	2,402
	a) reversals	8,265	1,508	9,773	2,031
	b) due to change in accounting standards	-	-	-	371
	c) other	-	-	-	-
3.2	Reductions in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	-
4.	**Closing balance**			**16,789**	**25,808**

10.5 Changes in deferred tax assets (recognised through equity)

(thousands of €)		IRES	IRAP	31.12.2019	31.12.2018
1.	**Opening balance**			**4,071**	**2,267**
2.	**Increases**	**177**	**-**	**177**	**3,712**
2.1	Deferred tax assets recognised in the year	177	-	177	3,534
	a) relative to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	3,443
	c) other	177	-	177	91
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	178
3.	**Decreases**	**2,415**	**929**	**3,344**	**1,908**
3.1	Deferred tax assets cancelled in the year	2,415	929	3,344	1,908
	a) reversals	2,415	929	3,344	-
	b) impairment losses due to unrecoverability	-	-	-	-
	c) due to change in accounting standards	-	-	-	-
	d) other	-	-	-	1,908
3.2	Reductions in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	-
4.	**Closing balance**			**904**	**4,071**

Movements of taxes recognised through equity mainly refer to recognition of the deferred taxes through the negative OCI reserve from measurement of investments and bonds at FVOCI.

10.6 Changes in deferred tax liabilities (recognised through equity)

(thousands of €)		IRES	IRAP	31.12.2019	31.12.2018
1.	**Opening balance**			**691**	**3,015**
2.	**Increases**	**1,164**	**216**	**1,380**	**2,779**
2.1	Deferred tax liabilities recognised in the year	1,164	216	1,380	75
	a) relative to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	75
	c) other	1,164	216	1,380	-
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	2,704
3.	**Decreases**	**16**	**59**	**75**	**5,103**
3.1	Deferred tax liabilities reversed during the year	16	59	75	2,088
	a) reversals	16	59	75	-
	b) due to change in accounting standards	-	-	-	2,088
	c) other	-	-	-	-
3.2	Reductions in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	3,015
4.	**Closing balance**			**1,996**	**691**

Movements of taxes recognised through equity mainly refer to recognition of the deferred taxes through the positive OCI reserve from measurement of investments and bonds at FVOCI.

10.7 Other information

Breakdown of the item "current tax assets"

(thousands of €)		31.12.2019	31.12.2018
1.	Assets for direct taxes (IRES - IRAP)	74	502
2.	Assets for indirect and other taxes	16,457	13,952
3.	Withheld taxes suffered	259	330
4.	Total current tax assets	39,221	40,023
	Total	**56,011**	**54,807**

Breakdown of the item "current tax liabilities"

(thousands of €)		31.12.2019	31.12.2018
1.	Liabilities for direct taxes	3,975	3,556
2.	Liabilities for indirect taxes	691	735
3.	Taxes withheld at source to be deposited	-	-
4.	Other current tax liabilities	-	-
	Total	**4,666**	**4,291**

Probability test on deferred taxes

The international accounting standard IAS 12 establishes that deferred tax assets and liabilities be recognised applying the following criteria:

- taxable temporary differences: a deferred tax liability must be recognised for all the taxable temporary differences;
- deductible temporary differences: a deferred tax asset must be recognised for all the deductible temporary differences, if a taxable income is probable for which the deductible temporary difference can be used. Deferred tax assets not recognised in the past – as there were no reasons for their recognition – must be entered in the year in which those requirements emerge.

The amount of deferred tax assets entered in the financial statements must therefore be tested every year, to check whether there is a reasonable certainty to earn taxable incomes in the future and therefore the possibility to recover the deferred tax assets.

Considering the amount of deferred tax assets entered, an analysis was carried out to check whether the future profitability forecasts are such as to guarantee re-absorption and justify recognition and maintenance in the financial statements (so-called "*probability test*").

In particular, for deferred tax assets from deductible temporary differences related to write downs and losses on credits ("qualified deferred tax assets" and "qualified temporary differences") it recognises the consideration that, starting from the tax period closed as at 31 December 2011, the conversion in tax credits of deferred tax assets (IRES) recognised in the financial statements against tax losses from deferred deduction of qualified temporary differences is established (art. 2, paragraph 56-bis, D.L. no. 225 of 29 December 2010, introduced by art. 9, D.L. 201, of 6 December 2011).

Starting from the 2013 tax period 2013, a similar conversion is established if a negative net production value emerges from the IRAP returns, related to the deferred tax assets (IRAP) referring to qualified temporary differences that were part of calculation of the negative net production value (art. 2, paragraph 56-bis.1, D.L. no. 225 of 29 December 2010, introduced by L art. 147/2013).

That convertibility - added to what is already established for the case where the financial statements for the year show a loss for the year (art. 2, paragraphs 55 and 56, D.L. 225/2010, as recently amended by L.147/2013) – is suitable for ensuring recovery of the qualified deferred tax assets in every situation, regardless of the company's future profitability. In fact, if in a certain year there should be qualified temporary difference surpluses compared to the taxable income of the net production value, recovery of the relative deferred tax assets would not be a reduction of current taxes but, through recognition of the deferred tax assets on the tax loss and on the negative net production value, would be convertible in tax credits pursuant to art. 2, paragraphs 56-bis and 56-bis.1, D.L. 225/2010.

Please note that, following approval of D.L.83/2015 which introduced for banks the immediate deductibility of losses and write-downs on customer receivables, the stock deferred tax assets transformable cannot be increased.

The convertibility of deferred tax assets on tax losses and negative net production value caused by qualified temporary differences is considered as a sufficient assumption for recognition in the financial statements of qualified deferred tax assets, making the relative probability test unnecessary.

That implementation is also confirmed in the joint Bank of Italy, Consob and ISVAP document no. 5 of 15 May 2012 (issued as part of the Coordination table on application of the IAS/IFRS), related to "Accounting processing of deferred tax assets resulting from Law 214/2011", and in the subsequent document IAS ABI no. 112 of 31 May 2012 ("Tax credit resulting from transformation of tax assets: clarifications of the Bank of Italy Consob and ISVAP on application of the IAS/IFRS").

The test therefore concerned:

a) identification of the deferred tax assets, other then those related to write downs and losses on credits, goodwill and other indefinite life intangible assets ("non-qualified deferred tax assets"), recognised in the financial statements;
b) analysis of those non qualified deferred tax assets and the deferred tax assets entered in the consolidated financial statements, distinguishing them by type of origin, therefore, foreseeable re-absorption timing;

c) foreseeable quantification of future Bank profitability, to check the absorption capacity of deferred tax assets in point a) above.

The detailed analysis in points b) and c) was not necessary for the deferred tax assets (and, consequently, liabilities) recognised in the financial statements for IRAP purposes, as almost all of them had certain use prospects pursuant to art. 2, paragraph 56 bis.1, D.L. 225/2010 and as the "non qualified" deferred IRAP tax assets were for a negligible amount

The analysis carried out highlighted an expected taxable base that was amply able to absorb deferred taxes recognised in the financial statements as at 31 December 2019.

Tax losses not used

The 2019 Financial Statements include recognition of deferred tax assets resulting from tax losses carried forward for about 2 million (of which 1.9 million calculated with the percentage at 24% and 0.2 million with the percentage at 3.5%).

The analysis carried related to revenue forecasts included in the 2019 - 2023 Business Plan confirm the capacity of the tax consolidation to use the losses for which the DTA were allocated.

Section 11 NON CURRENT ASSETS AND ASSET GROUPS HELD FOR SALE AND ASSOCIATED LIABILITIES – ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 Non-current assets and asset groups held for sale:breakdown by asset type

(thousands of €)	31.12.2019	31.12.2018
A. Assets held for sale		
A.1 Financial assets		
A.2 Investments		
A.3 Tangible assets	17,322	12,923
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets		
A.5 Other non current assets		
Total (A)	**17,322**	**12,923**
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3	17,322	12,923
B. Operating activities terminated		
B.1 Financial assets at fair value with impact on Profit and loss	-	-
- financial assets held for trading		
- financial assets designated at fair value		
- other financial assets obligatorily measured at fair value		
B.2 Financial assets measured at fair value with impact on overall profitability		
B.3 Financial assets valued at amortised cost		
B.4 Investments		
B.5 Tangible assets		
of which: obtained through enforcement of guarantees received		
B.6 Intangible assets		
B.7 Other assets		
Total (B)	**-**	**-**
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		
C. Liabilities associated with assets held for sale		
C.1 Payables		
C.2 Securities		
C.3 Other liabilities		
Total (C)	-	-
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		
D. Liabilities associated with operating activities terminated		
D.1 Financial liabilities measured at amortised cost		
D.2 Financial liabilities for trading		
D.3 Financial liabilities designated at fair value		
D.4 Funds		
D.5 Other liabilities		
Total (D)	**-**	**-**
of which measured at cost		
of which measured at fair value level 1		
of which measured at fair value level 2		
of which measured at fair value level 3		

11.2 Other information

At the financial statement date, there was no further information to be provided.

Section 12 OTHER ASSETS - ITEM 120

12.1 Other assets: breakdown

(thousands of €)		31.12.2019	31.12.2018
1.	Items travelling with branches	5,535	4,300
2.	Collateral	74	72
3.	Items being processed	129,072	96,097
4.	Sundry suspended (items awaiting final recognition)	23,157	19,469
5.	Revenues accrued and expired to be received	15,354	13,900
6.	Values held by the cashier	221	358
7.	Accruals and deferrals not attributable	685	758
8.	Expenses on leased assets	1,961	1,526
	Total	**176,059**	**136,480**

LIABILITIES

Section 1 FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - ITEM 10

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

Transaction Type/Values	31.12.2019				31.12.2018			
	BV	Type/Amounts			BV	Type/Amounts		
		L1	L2	L3		L1	L2	L3
(thousands of €)								
1. Due to Central banks	**986,579**	**X**	**X**	**X**	**1,120,634**	**X**	**X**	**X**
2. Payables to banks	**261,269**	**X**	**X**	**X**	**297,553**	**X**	**X**	**X**
2.1 Current accounts and on demand deposits	34,816	X	X	X	120,658	X	X	X
2.2 Fixed-term deposits	57,664	X	X	X	42,492	X	X	X
2.3 Loans	168,762	X	X	X	134,131	X	X	X
2.3.1 Repurchase agreement liabilities	-	X	X	X	-	X	X	X
2.3.2.Other	168,762	X	X	X	134,131	X	X	X
2.4 Payables for commitments to repurchase own capital instruments	-	X	X	X	-	X	X	X
2.5 Payables for leases	-	X	X	X	-	X	X	X
2.6 Other payables	27	X	X	X	272	X	X	X
Total	**1,247,848**	**-**	**1,247,848**	**-**	**1,418,187**	**-**	**1,394,796**	**-**

Repurchase agreement transaction liabilities against assets sold and not derecognised from the financial statements are detailed in Part E.

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

Transaction Type/Values	31.12.2019				31.12.2018			
	BV	Type/Amounts			BV	Type/Amounts		
		L1	L2	L3		L1	L2	L3
(thousands of €)								
1. Current accounts and demand	5,887,407	X	X	X	5,665,759	X	X	X
2. Term deposits	454,629	X	X	X	337,031	X	X	X
3. Financing	557,847	X	X	X	369,915	X	X	X
3.1. Repurchase agreement liabilities	526,534	X	X	X	369,915	X	X	X
3.2. Other	31,313	X	X	X	-	X	X	X
4. Debt from buyback commitments on treasury equity instruments	-	X	X	X	-	X	X	X
5. Payables for leases	15,851	X	X	X	-	X	X	X
6. Other payables	506,931	X	X	X	612,494	X	X	X
Total	**7,422,665**	**-**	**6,982,208**	**-**	**6,985,199**	**-**	**6,453,322**	**-**

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

(thousands of €)	31.12.2019				31.12.2018			
	BV	Type/Amounts			BV	Type/Amounts		
		L1	L2	L3		L1	L2	L3
(thousands of €)								
A. Securities								
1. Bonds	815,954	-	685,117	130,837	698,220	-	567,461	130,760
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	815,954	-	685,117	130,837	698,220	-	567,461	130,760
2. Other securities	-	-	-	-	-	-	-	-
2.1 Structured								
2.2 Other								
Total	**815,954**	**-**	**685,117**	**130,837**	**698,220**	**-**	**567,461**	**130,760**

At the financial statement date, there were no structured amounts payable to banks.

1.4 Breakdown of subordinated debts/securities

Here below are the main characteristics of instruments existing as at 31 December 2019:

	Issue 01.8.2017	Issue 06.10.2017	Issue 03.10.2018
Level of Subordination	Subordinate liabilities qualified as Tier 2	Subordinate liabilities qualified as Tier 2	Subordinate liabilities qualified as Tier 2
ISIN	XS1663201942	XS1694763142	XS1885681228
Amount	5,000,000	100,000,000	25,000,000
Date of Issue	01.08.2017	06.10.2017	03.10.2018
Expiry Date	17.08.2029	06.10.2027	30.10.2028
Currency	EUR	EUR	EUR
Rate	5.625%	5.625% per annum, payable deferred until 06.10.2022 (equal to 5yr MS + 536.8 bps), then rate reset at fixing mid-swap + margin of 536.8 bps	6.000% per annum, payable deferred until 03.10.2023 (equal to 5yr MS + 589.4 bps), then rate reset at fixing mid-swap + margin of 589.4 bps
Price	99.25	99.56	97.717
Listing	Luxembourg Stock Exchange	Luxembourg Stock Exchange	No

1.5 Breakdown of structured debts

At the financial statement date, there were no structured amounts debts.

1.6 Payables for leases

Payables for leases as at 31 December 2019 amounted to15.9 million, of which 1.8 expiring in 1 and 2 years, 5.6 million in between 3 and 5 years, 5.5 million between 6 and 8 years, and the remaining 3.0 million between 9 and 11 years.

In 2019 rents were paid for an overall €4.4 million.

Section 2 FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 20

2.1 Financial liabilities held for trading: breakdown by type

(thousands of €)	31.12.2019					31.12.2018				
	VN	FV			FV *	VN	FV			FV *
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Payables to banks	-	-	-	-	-	-	-	-	-	-
2. Payable to clients	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivative instruments										
1. Financial derivatives	-	669	816	-	-	-	259	1,170	-	-
1.1 For trading	X	669	816	-	X	X	259	1,170	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**669**	**816**	**-**	**X**	**X**	**259**	**1,170**	**-**	**X**
Total (A+B)	**X**	**669**	**816**	**-**	**X**	**X**	**259**	**1,170**	**-**	**X**

Legend

FV *fair value*

FV * *fair value calculated excluding changes in value due to changes in the issuer's creditworthiness compared to the date of issuance.*

VN nominal or notional value

L1 Level 1

L2 Level 2

L3 Level 3

2.2 Breakdown of "Financial liabilities held for trading": subordinate liabilities

At the financial statement date, there were no subordinate financial liabilities held for trading.

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

At the financial statement date, there were no financial liabilities held for trading related to structured debts.

Section 3 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE - ITEM 30

3.1 Financial liabilities designated at fair value: breakdown by type

At the reporting date there were no financial liabilities designated at *fair value*.

3.2 Breakdown of "Financial liabilities measured at fair value": subordinate liabilities

At the reporting date there were no subordinate financial liabilities measured at *fair value*.

Section 4 HEDGING DERIVATIVES - ITEM 40

4.1 Hedging derivatives: breakdown by type of hedge and hierarchical levels

At the reporting date there were no hedging derivatives.

4.2 Hedging derivatives: breakdown by hedged portfolios and by type of hedge

At the reporting date there were no hedging derivatives.

Section 5 VALUE ADJUSTMENT OF FINANCIAL LIABILITIES SUBJECT TO MACRO HEDGING - ITEM 50

5.1 Adjustment in value of hedged financial liabilities: breakdown by hedged portfolios

At the reporting date there were no financial liabilities subject to macro hedging.

Section 6 TAX LIABILITIES - ITEM 60

For the information in this section, please refer to what is stated in Section 10 of assets.

Section 7 LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE – ITEM 70.

For the information in this section, please refer to what is stated in Section 11 of assets.

Section 8 OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

(thousands of €)		31.12.2019	31.12.2018
1.	Adjustments to illiquid items related to the bills portfolio	90,174	92,394
2.	Items travelling with branches	-	-
3.	Different sums available (banks, suppliers etc.)	88,070	79,043
4.	Sums available to customers	59,552	69,146
5.	Items being processed (wire transfers etc.)	12,721	12,071
6.	Other items for different creditors	2,537	3,252
7.	Accruals and deferrals not attributable	-	-
8.	Withheld taxes and taxes to be reversed	11,387	10,323
	Total	**264,441**	**266,229**

Section 9 EMPLOYEE SEVERANCE INDEMNITIES - ITEM 90

9.1 Employee severance indemnities: annual changes

(thousands of €)		31.12.2019	31.12.2018
A.	**Opening balance**	**19,113**	**19,752**
B.	**Increases**	**898**	**565**
	B.1 Allocations for the year	191	302
	B.2 Other changes	707	263
C.	**Decreases**	**1,392**	**1,204**
	C.1 Settlements made	1,392	1,204
	C.2 Other changes	-	-
D.	**Closing balance**	**18,619**	**19,113**

9.2 Other information

As was described in Part A – Accounting policies, following the supplementary pension reform, the severance indemnity of personnel recognised in this financial statement item only refers to the share accrued since 31 December 2006.

The provision does not include the shares that due to the aforementioned reform are deposited as supplementary pension or with the INPS Treasury fund. In that case, the personnel severance indemnity accrued as of 1 January 2007 include a "defined contribution plan" and are recognised amongst personnel costs in the sub-item "severance indemnity", based on contribution owed without applying actuarial calculation methods, as a counter-item to recognition of the capital item "Other liabilities" or of a cash availability expense.

The TFR actuarial assessment was implemented applying the "benefits accrued" method in compliance with the Projected Unit Credit criterion regulated by paragraphs 70-74 and 75-98 of IAS 19, and is based on the following main demographic, economic and financial hypotheses:

Main demographic and actuarial assumptions for measuring the Severance Indemnity (TFR) fund	
Employee survival rate	RG48 survival table published by the General State Accountancy Office.
Frequency and amount of TFR advances	Calculated based on the historical experience through seniority of service. A 1.50% value was used for the current year.
Inability	INPS table by age and sex
Frequency of turnover	Calculated based on the historical experience for the company and similar companies by age and sex and equal to 2.00%.
Retirement probability	100% on reaching the retirement requirement set by the General Obligatory Insurance (AGO).
Annual discounting rate	In compliance with what is set forth in par. 83 of IAS 19, Iboxx Eurozone Corporate AA index in line with the duration of benefits acknowledged to Company employees, recognised at the measurement date and equal to 0.37%.
Annual inflation rate	1.20% for the entire reference period
Annual TFR increase rate	2.40% for the entire reference period

Other information	31.12.2019
Service cost pro future annual	0.00
Plan duration	9.3

Please note that the criteria underlying the above demographic and actuarial assumptions are essentially aligned with those used last year.
Considering IAS 19 and the absence of specific provisions from regulatory Bodies, it is felt that the identification and choice of the rate in question represents one of the numerous valuations and estimates that the IFRS accounting standards require when preparing the financial statements. In particular, the specific standard, that the discounting rate must be calculated with reference to market returns, at the year closure date, of the bonds of primary companies of the country the entity operates in ("*high quality corporate bond yield*") and, alternatively, as there is often no market for those bonds, referred to the market returns of government bonds.
For 2019, the discounting rate used to calculate the current value of the bond was assumed, still in compliance with paragraph 83 of IAS 19, from the Iboxx Corporate AA index with *duration* 7-10 years recognised on the valuation date. For that purpose, the choice went to the return with a duration comparable to the duration of the group of workers being assessed.
Reference to the "AA" rating class is a result of clarifications provided by the IFRS Interpretations Committee, during the second half of 2013, based on which the "primary quality" must be considered in an absolute meaning so cannot change from one year to the next in order to consider all the companies belonging to the "*high quality corporate bond yield*" issuer pool.
Specifically, the IFRS Interpretations Committee specifies that the significance of the "*high quality corporate bond yield*" pool must be measured including bonds issued by companies from other countries, as long as denominated in the same currency as the one used to pay employee benefits.

Sensitivity analyses

In compliance with IAS 19, the following additional information is being provided:

- sensitivity analyses for each actuarial hypothesis relevant at year end, showing the effects that there would have been following variations to the actuarial hypotheses reasonably possible at that date, in absolute terms;
- indication of the contribution for the following year;
- indication of the average financial duration of the bond for the defined benefit plans.

Sensitivity analyses of the main measurement parameters on data as at 31.12.2019 (values represent the change generated on the IAS value of the plan)	Measurement parameters	DBO
(thousands of €)		
Turnover rate	+1.00%	19,758.5
Turnover rate	-1.00%	20,164.8
Inflation rate	+0.25%	20,222.0
Inflation rate	-0.25%	19,685.5
Discount rate	+0.25%	19,523.7
Discount rate	-0.25%	20,394.6

Section 10 - PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

	(thousands of €)	31.12.2019	31.12.2018
1.	Provisions for credit risk related to commitments and financial guarantees granted	5,052	6,849
2.	Provisions on other commitments and other guarantees granted	-	-
3.	Provisions for pensions	-	-
4.	Other provisions for risks and charges	12,428	13,879
	4.1 legal and tax disputes	12,428	13,879
	4.2 personnel expenses:	-	-
	4.3 Other	-	-
	Total	**17,480**	**20,728**

10.2 Provisions for risks and charges: annual changes

	(thousands of €)	Provisions for pensions	Other provisions for risks and charges	Total
A.	**Opening balance**	-	**13,880**	**13,880**
B.	**Increases**	-	**9,381**	**9,381**
	B.1 Allocations for the year	-	9,079	9,079
	B.2 Changes due to the passage of time	-	-	-
	B.3 Changes due to changes in the discount rate	-	302	302
	B.4 Other changes	-		-
C.	**Decreases**	-	**10,833**	**10,833**
	C.1 Used during the year	-	8,656	8,656
	C.2 Changes due to changes in the discount rate	-	-	-
	C.3 Other changes	-	2,177	2,177
D.	**Closing balance**	-	**12,428**	**12,428**

10.3 Provisions for credit risks related to commitments and financial guarantees granted

	Provisions for credit risk related to commitments and financial guarantees granted			
	First stage	Second stage	Third stage	Total
(thousands of €)				
1. Loan commitments	359	129	733	1,221
2. Financial guarantees issued	574	899	2,358	3,831
Total	**933**	**1,028**	**3,091**	**5,052**

10.4 Provisions on other commitments and other guarantees granted

At the reporting date there are no provisions relating to other commitments and other guarantees granted.

10.5 Provisions for defined benefit plan pensions

At the financial statement date, there were no provisions for defined performance pension funds.

10.6 Provisions for risks and charges - other provisions

The item "Provisions for risks and charges", sub-item "Other provisions for risks and charges", for 12.4 million, includes allocations for disputes in progress, including the relative expenses.

Section 11 OTHER REDEEMABLE SHARES - ITEM 120

11.1 Redeemable shares: breakdown

There were no redeemable shares at the reporting date.

Section 12 COMPANY EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 Share capital and treasury shares: breakdown

	31.12.2019	**31.12.2018**
- Number of treasury shares or quotas	50,498,438	50,498,438
of which treasury shares in portfolio	1,581,528	1,533,352

As at 31 December 2019, share capital amounted to €201,993,752 and was formed by 50,498,438 ordinary shares, with no indication of nominal value. So the share capital referred to each share can be calculated by dividing the total share capital by the number of outstanding shares.
As at 31 December 2019, Volksbank holds 1,581,528 own shares in portfolio.
All the ordinary outstanding shares have been subscribed and fully paid in. The shares have no constraints or privileges and each share has the same rights in dividend collection and capital repayment terms. There are no other share categories besides ordinary shares.

12.2 Share capital - Number of shares: annual changes

		Ordinary	Others
A.	**Shares held at the beginning of the year**	**50,498,438**	**-**
	- fully paid-up	50,498,438	-
	- not fully paid-up	-	-
A.1	Own shares (-)	1,533,352	-
A.2	**Outstanding shares: opening balance**	**48,965,086**	**-**
B.	**Increases**	**-**	**-**
B.1	New issues	-	-
	charged for	-	-
	- company combination transactions	-	-
	- conversion of bonds	-	-
	- exercise of warrants	-	-
	- other	-	-
	free of charge:	-	-
	- in favour of employees	-	-
	- in favour of directors	-	-
	- other	-	-
B.2	Sale of treasury shares	-	-
B.3	Other changes	-	-
C.	**Decreases**	**48,176**	**-**
C.1	Cancellation	-	-
C.2	Purchase of treasury shares	48,176	-
C.3	Company transfer transactions	-	-
C.4	Other changes	-	-
D.	**Outstanding shares: closing balance**	**48,916,910**	**-**
D.1	Treasury shares (+)	1,581,528	-
D.2	Shares held at the end of the year	50,498,438	-
	- fully paid-up	50,498,438	-
	- not fully paid-up	-	-

12.3 Share capital: other information

At the financial statement date, there was no further information to be provided.

12.4 Profit reserves: other information

	(thousands of €)	31.12.2019	31.12.2018
1.	Legal reserve	122,100	118,700
2.	Extraordinary reserve	155,227	138,330
3.	Purchase of treasury shares reserve	-	-
4.	Concentration reserve (law 30.07.1990/218)	8,584	8,584
5.	Other reserves	(18,028)	(15,880)
	Total	**267,883**	**249,734**

Pursuant to art. 2427, paragraph 1, no. 7 bis of the Italian civil code, we are providing the summary of Equity items divided by origin and indicating possible use and distribution and their use in the previous years.

Type/description *(thousands of €)*		Amount	Possible use	Share available	Summary of use in the three previous years	
					Cover losses	Other uses
180.	**Capital**	**201,994**	**-**	**-**		
190.	**Treasury shares**	**(19,127)**	**-**	**-**		
170.	**Emission surcharges**	**383,159**	**A,B,C**	**383,159**		
160.	**Earnings reserves**					
	- Legal reserve	122,100	A(2),B	81,701		
	- Extraordinary reserve	155,227	A,B,C	155,227		
	- Reserve unavail. pursuant to art. 6 Legislative Decree 38/2005	1,368	B (*)	-		
	- other					
	a) Special reserve Law 218/90	8,584	A,B,C (3)	8,584		
	b) Reserve from FTA	(16,384)	A,B,C	-		
	c) Reserves from sale of equity securities measured at fair value with an impact on overall profitability	(3,012)	A,B,C	-		
130.	**Valuation reserves**					
	Equity securities designated as at fair value through other comprehensive income	(1,334)	(*)	-		
	Financial assets (other than equity securities) measured at fair value with an impact on overall profitability	4,056	(*)	-		
	Actuarial gains (losses) on defined-benefit pension plans	(2,901)	(*)	-		
	Capital instruments	**-**		**-**		
	Profits (losses) carried forward	**(84,372)**		**-**		
	Total	**749,358**		**-**	**-**	**-**

A = for free increase in capital

B = to cover losses

C = for distribution to shareholders

(*) The reserve is non-distributable pursuant to art 6 of Legislative Decree 38/2005

(1) The reserve may only be distributed for the sole part exceeding the amount needed for the legal reserve to reach one fifth of share capital (art. 2431 Italian civil code).

(2) The reserve may only be used for the part that exceeds one fifth of share capital (art. 2430, par. 1 Italian civil code).

(3) If not attributed to capital, the reserve may only be reduced in compliance with provisions in the second and third paragraphs of art. 2445 Italian c.c. If the loss coverage reserve is used, no profits may be distributed until the reserve has been integrated or reduced to the corresponding extent. The reduction may take place through extraordinary shareholders' meeting resolution, without compliance with the provisions in the the second and third paragraphs of art. 2445 Italian c.c. If it is distributed to shareholders it will be considered part of the company's taxable income.

12.5 Capital instruments: breakdown and annual changes

At the financial statement date, there were no capital instruments other than ordinary shares.

12.6 Other information

At the financial statement date, there was no further information to be provided.

OTHER INFORMATION

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

	Nominal amount of commitments and financial guarantees granted			31.12.2019	31.12.2018
	First stage	Second stage	Third stage		
(thousands of €)					
1. Loan commitments				**2,147,242**	**2,346,503**
a) Central Banks	-	-	-	-	-
b) Public Administrations	104,237	-	-	104,237	103,973
c) Banks	4,909	-	-	4,909	4,964
d) Other financial companies	38,850	9,280	-	48,131	50,423
e) Non-financial companies	1,453,238	165,224	13,483	1,631,945	1,818,989
f) Households	323,516	32,251	2,253	358,020	368,154
2. Financial guarantees issued				**418,985**	**453,079**
a) Central Banks	-	-	-	-	-
b) Public Administrations	56	182	-	238	242
c) Banks	244	-	19,181	19,425	17,452
d) Other financial companies	7,339	278	-	7,617	7,263
e) Non-financial companies	267,341	64,113	6,537	337,991	370,796
f) Households	42,013	11,305	395	53,714	57,326

Irrevocable commitments to allocate provisions for uncertain use to customers mainly refer to corporate clients.

2. Other commitments and other guarantees granted

At the reporting date there are no other commitments and other guarantees granted.

3. Assets used as collateral for own liabilities and commitments

(thousands of €)	**31.12.2019**	**31.12.2018**
1. Financial assets at fair value with impact on profit and loss	675,886	946,492
2. Financial assets measured at fair value with impact on overall profitability	497,587	-
3. Financial assets measured at amortised cost	884,736	-
4. Tangible fixed assets	-	-
of which: property, plant and equipment qualifying as inventories	-	-

Assets used as collateral for own liabilities and commitments for repurchase agreement transactions collected amount to 419.0 million, whereas bonds as deposit and collateral for other transactions are entered for 675.9 million. Please also note that at the reporting date there are bonds for 32.0 million not indicated in the table as those bonds, related to self-securitisation transactions, are not recognised in the balance Sheet assets. Those bonds are entirely constituted as collateral for the transactions with the Central Bank to sustain any cash needs.

4. Administration and mediation on behalf of third parties

Type of services *(thousands of €)*	Amount
1. Execution of orders on behalf of clients	**-**
a) Purchasing	-
1. Settled	-
2. Not settled	-
b) Sales	-
1. Settled	-
2. Not settled	-
2. individual portfolio management	**-**
3. Safekeeping and administration of securities	**5,908,151**
a) Third party securities in custody: associated with depositary bank services (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) Third party securities in custody (excluding portfolio management): other	61,874
1. securities issued by the reporting bank	-
2. other securities	61,874
c) Third party securities held with third parties	2,892,202
d) Own securities held with third parties	2,954,075
4. Other transactions	**-**

5. Financial assets offset in the financial statements or subject to offsetting framework or similar agreements

At the reporting date there are no financial assets offset in the financial statements or subject to offsetting framework or similar agreements to be reported.

6. Financial liabilities offset in the financial statements or subject to offsetting framework or similar agreements

At the reporting date there are no financial liabilities offset in the financial statements or subject to offsetting framework or similar agreements to be reported.

7. Bond loan transactions

At the financial statement date, there were no bond loan transactions.

8. Information of joint control activities

At the financial statement date, there were no joint control activities.

PART C INFORMATION ON THE INCOME STATEMENT

Section 1 INTEREST - ITEMS 10 AND 20

1.1 *Interest income and similar income: breakdown*

Items/Technical forms *(thousands of €)*	**Debt securities**	**Financing**	**Other transactions**	**31.12.2019**	**31.12.2018**
1. Financial assets at fair value with impact on profit and loss:					
a) Financial assets held for trading	513	-	-	513	724
1.2. Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets obligatorily measured at fair value	2,295	650	-	2,945	4,823
2. Financial assets measured at fair value with impact on overall profitability	5,418	-	X	5,418	6,663
3. Financial assets measured at amortised cost:					
3.1 Due from banks	-	45	X	45	24
3.2 Due from customers	29,122	159,466	X	188,588	177,546
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	5,752	4,614
Total	**37,348**	**160,161**	**-**	**203,261**	**194,394**
of which: interest income from impaired financial assets	-	8,405		8,405	18,717
of which: interest income from financial leases		-		-	-

The item also includes interest income on bonds the purpose of funding repurchase agreements.
The item interest income on loans to clients includes, for 2.2 million, the effects for amortisation, applying the effective interest rate method, of the *fair value* of the loans identified during the Purchase Price Allocation (PPA) process of the Banca Popolare di Marostica Group.

1.2 *Interest income and similar income: other information*

1.2.1 *Interest income on financial foreign currency assets*

(thousands of €)	**31.12.2019**	**31.12.2018**
a) on assets in currency	594	406

1.3 *Interest and similar expenses: breakdown*

Items/Technical forms *(thousands of €)*	**Payables**	**Securities**	**Other transactions**	**31.12.2019**	**31.12.2018**
1. Financial liabilities valued at amortised cost					
1.1 Due to central banks	(20)	X	X	(20)	(51)
1.2 Due to banks	(6,084)	X	X	(6,084)	(2,507)
1.3 Due to customers	(9,879)	X	X	(9,879)	(11,790)
1.4 Debt securities issued	X	(12,351)	X	(12,351)	(14,645)
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities at fair value	-	-	-	-	(9)
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	-	-
Total	**(15,983)**	**(12,351)**	**-**	**(28,334)**	**(29,002)**
of which: interest expense for lease payables	(133)	-	-	(133)	-

1.4 Interest and similar expenses: other information

1.4.1 Interest expense on foreign currency liabilities

(thousands of €)	31.12.2019	31.12.2018
a) on liabilities in currency	(2,949)	(2,143)

1.5 Differentials related to hedging transactions

During the year there were no differentials related to hedging transactions.

Section 2 COMMISSION - ITEMS 40 AND 50

2.1 Commission income: breakdown

Service type/Amounts *(thousands of €)*	**31.12.2019**	**31.12.2018**
a) Guarantees issued	**3,700**	**3,717**
b) Credit derivatives	**-**	**-**
c) Management, mediation and consultancy services:	**28,489**	**25,747**
1. trading in financial instruments	-	-
2. trading in currencies	750	741
3. asset management	-	-
4. safe custody and management of securities	619	452
5. depository bank	-	-
6. placement of securities	22	19
7. order collection and transmission	1,225	1,162
8. consultancy activities	20	106
8.1 on investments	-	-
8.2 on financial structure	20	106
9. distribution of third party services	25,853	23,267
9.1 asset management	16,359	15,214
9.1.1 Individual	-	-
9.1.2 Collective	16,359	15,214
9.2 insurance products	9,494	8,053
9.3 Other products	-	-
d) Collection and payment services	**11,210**	**11,185**
e) Servicing services for securitisation transactions	**-**	**-**
f) Services for factoring transactions	**-**	**-**
g) Tax collection and payment	**-**	**-**
h) Management of multi-lateral trading systems	**-**	**-**
i) Current account holding and management	**42,752**	**44,228**
j) Other services	**16,132**	**16,175**
Total	**102,283**	**101,052**

2.2 Commission income: product and service distribution channels

Channels/Amounts *(thousands of €)*	31.12.2019	31.12.2018
a) C/o own counters:	**25,875**	**23,286**
1. asset management	-	-
2. placement of securities	22	19
3. third party services and products	25,853	23,267
b) Out-of-office offer:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
c) Other distribution channels:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third party services and products	-	-

2.3 Commission expense: breakdown

Services/Amounts *(thousands of €)*	31.12.2019	31.12.2018
a) Guarantees received	**(659)**	**(743)**
b) Credit derivatives	**-**	**-**
c) Management and mediation services:	**(2,395)**	**(2,251)**
1. trading in financial instruments	(536)	(462)
2. trading in currencies	(203)	(166)
3. asset management:	-	-
3.1 own assets	-	-
3.2 delegated by third parties	-	-
4. safe custody and management of securities	(433)	(413)
5. placement of financial instruments	(1,223)	(1,210)
6. out-of-office canvassing of financial instruments, services and products	-	-
d) Collection and payment services	**(589)**	**(594)**
e) Other services	**(7,296)**	**(6,729)**
1. Cards	(4,091)	(3,968)
2. internet banking	(1,570)	(1,215)
3. other	(1,635)	(1,546)
Total	**(10,939)**	**(10,317)**

Section 3 DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

Items/Revenues	31.12.2019		31.12.2018	
(thousands of €)	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	-	-	-
B. Other financial assets obligatorily measured at fair value	88	630	80	818
C. Financial assets measured at fair value with impact on overall profitability	2,004	-	2,226	-
D. Investments	-	-	-	-
Total	**2,092**	**630**	**2,306**	**818**

Section 4 NET PROFIT (LOSS) FROM TRADING - ITEM 80

4.1 Net profit (loss) from trading: breakdown

Transactions/income components *(thousands of €)*	Capital gains (A)	Profit from trading (B)	Capital losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**12,394**	**22,864**	**(13,459)**	**(15,499)**	**6,300**
1.1 Debt securities	-	86	(1)	-	85
1.2 Equity securities	1,294	351	-	-	1,645
1.3 UCITS units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Others	11,100	22,427	(13,458)	(15,499)	4,570
2. Financial liabilities held for trading:	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Others	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**-**
4. Derivative instruments	**1,365**	**1,493**	**(84)**	**(3,554)**	**(2,327)**
4.1 Financial derivatives:	1,365	1,493	(84)	(3,554)	(2,327)
- on debt securities and interest rates	1,365	1,440	(84)	(3,409)	(688)
- on equity instruments and share indexes	-	53	-	(145)	(92)
- on currencies and gold	X	X	X	X	(1,547)
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
Total	**13,759**	**24,357**	**(13,543)**	**(19,053)**	**3,973**

The sub-item "Financial derivatives - on debt securities and interest rates", is related to margins and spreads on trading IRS, futures and options on securities and rates.
The column "Net result" includes, profits, losses, capital gains and losses from transactions on currencies and from derivatives on currencies and gold.

Section 5 NET PROFIT (LOSS) FROM HEDGING - ITEM 90

5.1 Net profit (loss) from hedging: breakdown

During the year there were no hedging transactions.

Section 6 PROFIT (LOSS) FROM SALE/BUYBACK - ITEM 100

6.1 Profit (loss) from sale/ buyback

Items/income components *(thousands of €)*	31.12.2019			31.12.2018		
	Profit	Losses	Net profit	Profit	Losses	Net profit
Financial assets						
1. Financial assets measured at amortised cost	4,785	(10,012)	(5,227)	3,147	(2,329)	818
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans and advances to clients	4,785	(10,012)	(5,227)	3,147	(2,329)	818
2. Financial assets measured at fair value with impact on overall profitability	12,869	(5,519)	7,350	3,770	(2,165)	1,605
2.1 Debt securities	12,869	(5,519)	7,350	3,770	(2,165)	1,605
2.2 Financing	-	-	-	-	-	-
Total assets	**17,654**	**(15,531)**	**2,123**	**6,917**	**(4,494)**	**2,423**
Financial liabilities						
1. Payables to banks	-	-	-	-	-	-
2. Payable to clients	-	-	-	-	-	-
3. Outstanding securities	195	-	195	308	-	308
Total liabilities	**195**	**-**	**195**	**308**	**-**	**308**

Section 7 NET RESULT OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 110

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

Transactions/income components *(thousands of €)*	Capital gains (A)	Gains on sale (B)	Capital losses (C)	Losses on sale (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.4 Financing	-	-	-	-	-
2. Financial liabilities	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables to banks	-	-	-	-	-
2.3 Payable to clients	-	-	-	-	-
3. Financial assets and liabilities in currency: exchange rate differences	X	X	X	X	-
Total	-	-	-	-	-

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

Transactions/income components *(thousands of €)*	Capital gains (A)	Gains on sale (B)	Capital losses (C)	Losses on sale (D)	Net result [(A+B) - (C+D)]
1. Financial assets	**973**	**3**	**(17,455)**	**(1,887)**	**(18,366)**
1.1 Debt securities	856	3	(4,862)	(208)	(4,211)
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Financing	117	-	(12,593)	(1,679)	(14,155)
3. Financial assets in currency: exchange differences	X	X	X	X	-
Total	**973**	**3**	**(17,455)**	**(1,887)**	**(18,366)**

Section 8 ADJUSTMENTS/WRITE-BACKS OF NET VALUE FOR CREDIT RISK – ITEM 130

8.1 Net credit risk value adjustments related to financial assets measured at amortised cost: breakdown

Transactions/income components ***(thousands of €)***	**Value adjustments**			**Write-backs**		**Total 31.12.2019**	**Total 31.12.2018**
	First and second stage	Third stage		First and second stage	Third stage		
		Write-off	Others				
A. Receivable from banks	**(1)**	**-**	**-**	**49**	**-**	**48**	**(26)**
- Financing	(1)	-	-	49	-	48	(10)
- Debt securities	-	-	-	-	-	-	(16)
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	-
B. Receivable from clients	**(34,481)**	**(22,894)**	**(81,149)**	**37,141**	**24,540**	**(76,843)**	**(38,230)**
- Financing	(34,052)	(22,894)	(81,149)	35,704	24,540	(77,851)	(36,737)
- Debt securities	(429)	-	-	1,437	-	1,008	(1,493)
of which: purchased or originated credit impaired loans	-	-	-	-	-	-	-
C. Total	**(34,482)**	**(22,894)**	**(81,149)**	**37,190**	**24,540**	**(76,795)**	**(38,256)**

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

	Transactions/income components ***(thousands of €)***	**Value adjustments**			**Write-backs**		**Total 31.12.2019**	**Total 31.12.2018**
		First and second stage	Third stage		First and second stage	Third stage		
			Write-off	Others				
A.	Debt securities	(282)	-	-	1,144	-	862	(759)
B.	Financing	-	-	-	-	-	-	-
	- To customers	-	-	-	-	-	-	-
	- To banks	-	-	-	-	-	-	-
of which: impaired financial assets acquired or originated		-	-	-	-	-	-	-
	Total	**(282)**	**-**	**-**	**1,144**	**-**	**862**	**(759)**

Section 9 GAINS/LOSSES FROM CONTRACTUAL AMENDMENTS WITHOUT WRITE-DOWNS - ITEM 140

9.1 Profit (loss) from contractual amendments: composition

This item includes the effect of changes in conditions applied to credit positions without this resulting in the cancellation of the original position.

Section 10 ADMINISTRATIVE EXPENSES - ITEM 160

10.1 Personnel expenses: breakdown

Type of Charges/Amounts ***(thousands of €)***	**31.12.2019**	**31.12.2018**
1) Employees	(93,254)	(96,987)
a) wages and salaries	(64,843)	(67,522)
b) social charges	(18,156)	(19,038)
c) severance indemnities	-	-
d) social security costs	-	-
e) Provision for employee severance indemnities	(2,853)	(3,049)
f) provision for retirement pensions and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) payments to external supplementary pension funds:	(3,792)	(3,844)
- defined contribution	(3,792)	(3,844)
- defined benefit	-	-
h) costs arising from share-based payment agreements	-	-
i) other employee benefits	(3,610)	(3,534)
2) Other personnel in service	-	-
3) Directors and Auditors	(1,305)	(1,344)
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	-	-
6) Reimbursement of expenses for third-party employees seconded to the company	-	-
Total	**(94,559)**	**(98,331)**

Item 3 "Directors and Auditors" includes remuneration paid to members of the company's Board of Directors and Board of Statutory Auditors.

10.2 Average number of employees by category

	31.12.2019	**31.12.2018**
1. Employees	**1,167**	**1,216**
a) Managers	38	38
(b) Middle managers	508	508
(c) Remaining personnel	621	670
2. Other personnel	**-**	**-**
Total	**1,167**	**1,216**

The average number of employees does not include directors and auditors Part-time employees are traditionally considered at 50%.

10.3 Provisions for defined benefit plan pensions: costs and revenue

There were no defined benefit pension provisions during the year.

10.4 Other employee benefits

Other employee benefits, the costs of which are shown in table 9.1 (i) above, mainly include costs of €1.2 million for meal vouchers, personnel training expenses of €0.6 million and costs for insurance policies covering employees of €0.3 million.

10.5 Other administrative expenses: breakdown

(thousands of €)		31.12.2019	31.12.2018
1.	Machine and software rental fees	(2,298)	(1,444)
2.	Vehicle, food and travel expenses reimbursement	(1,884)	(1,940)
3.	Professional fees	(8,472)	(9,339)
4.	Membership fees	(756)	(955)
5.	SEC management costs (data processing centre)	(14,706)	(12,401)
6.	Donations	(641)	(636)
7.	Building rental expenses	(341)	(4,435)
8.	Stamp duty and tax on stock exchange contracts	(13,715)	(13,563)
9.	Indirect taxes	(967)	(954)
10.	Insurance premiums	(695)	(954)
11.	Transport expenses	(849)	(936)
12.	Security expenses	(1,041)	(1,197)
13.	Electricity, heating and service charges	(2,147)	(2,130)
14.	Office material supply charges	(1,267)	(1,275)
15.	Information and title search costs	(2,342)	(2,684)
16.	Legal collection costs	(3,810)	(4,455)
17.	Property, furniture and plant maintenance expenses	(6,321)	(5,116)
18.	Advertising and entertainment expenses	(2,780)	(2,921)
19.	Cleaning costs	(965)	(972)
20.	Telephone, postal, data and telex charges	(2,896)	(2,893)
21.	Taxes and charges	(3,125)	(3,049)
22.	Treasury Consortium	(65)	(67)
23.	Other expenses	(9,458)	(8,486)
Total		**(81,541)**	**(82,802)**

Section 11 NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 170

11.1 Net provisions for credit risk related to loan commitments and financial guarantees granted: breakdown

(thousands of €)		Total 31.12.2019	Total 31.12.2018
a)	Net provision for commitments to provide funds	831	(917)
b)	Net provision for financial guarantees issued	721	1,744
c)	Use for enforcement of guarantees	245	104
Total		**1,797**	**931**

11.2 Net provisions relating to other commitments and other guarantees issued: breakdown

At the reporting date there are no provisions relating to other commitments and other guarantees.

11.3 Net provisions for other provisions for risks and charges: breakdown

(thousands of €)	31.12.2019	31.12.2018
a) Provision for sundry civil suits, bankruptcy clawbacks and other charges	(9,382)	(5,506)
b) Net provisions for sundry personnel charge funds	-	-
c) Provisions for winding up	2,177	443
Total	**(7,205)**	**(5,063)**

Section 12 NET ADJUSTMENTS/WRITEBACKS TO TANGIBLE ASSETS – ITEM 180

12.1 Net value adjustments to tangible assets: breakdown

Asset/income component *(thousands of €)*	Amortisation (a)	Value adjustments for deterioration (b)	Write-backs (c)	Net result (a+b-c)
A. Tangible fixed assets				
1 For functional use	(11,405)	-	-	(11,405)
- Owned	(7,262)	-	-	(7,262)
- rights of use acquired with leases	(4,143)	-	-	(4,143)
2 Held for investment purposes	(310)	-	-	(310)
- Owned	(310)	-	-	(310)
- rights of use acquired with leases	-			
3 Balances	-	-	-	-
Total	**(11,715)**	**-**	**-**	**(11,715)**

Value adjustments relate to the results of valuations, performed under IFRS 5, to tangible assets classified as "assets held for sale".

Section 13 NET ADJUSTMENTS/WRITEBACKS TO INTANGIBLE ASSETS – ITEM 190

13.1 Net value adjustments to intangible assets: breakdown

Asset/income component *(thousands of €)*	Amortisation (a)	Value adjustments for deterioration per deterioration (b)	Write-backs (c)	Net result (a+b-c)
A. Intangible fixed assets				
A.1 Owned	(1,765)	-	-	(1,765)
- generated internally by the company	-	-	-	-
- Others	(1,765)	-	-	(1,765)
A.2 Rights of use acquired with leases	-	-	-	-
Total	**(1,765)**	**-**	**-**	**(1,765)**

For further information on calculation of impairment losses on goodwill, see Part A - Accounting policies.
For a description of the of *impairment* testing methods on goodwill, see "Part B, Section 9, Intangible Assets" of these explanatory notes.

Section 14 OTHER OPERATING INCOME/EXPENSES - ITEM 200

14.1 Other operating expenses: breakdown

(thousands of €)	31.12.2019	31.12.2018
1. Cash differences, materiality and management	(32)	(36)
2. Losses for receivables from the Deposit Protection Fund	-	-
3. Other expenses	(1,882)	(2,779)
Total	**(1,914)**	**(2,815)**

14.2 Other operating income: breakdown

(thousands of €)	31.12.2019	31.12.2018
1. Building rental income	820	814
2. Recovery of operating costs	1,218	1,485
3. Debited to third parties for sundry recoveries	17,097	16,852
4. Other income	666	1,098
Total	**19,801**	**20,249**

Section 15 PROFITS (LOSSES) ON EQUITY INVESTMENTS - ITEM 220

15.1 Profits (losses) on equity investments: breakdown

Income Component/Amounts *(thousands of €)*	31.12.2019	31.12.2018
A. Income	866	193
1. Revaluations	-	-
2. Profits from disposal	-	-
3. Write-backs	866	193
4. Other income	-	-
B. Expenses	(1,170)	(171)
1. Write-downs	-	-
2. Value adjustments for deterioration	(1,170)	(171)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net profit	**(304)**	**22**

Section 16 NET RESULT OF MEASUREMENT AT FAIR VALUE OF TANGIBLE AND INTANGIBLE ASSETS - ITEM 230

16.1 Net result of the measurement at fair value (or at re-measured value) or presumed collection value for tangible and intangible assets: breakdown

During the year and in the last one there were no profits or losses from measurement at *fair value* of tangible and intangible assets.

Section 17 VALUE ADJUSTMENTS OF GOODWILL - ITEM 240

17.1 Value adjustments of goodwill: breakdown

Goodwill value adjustments amounted to €99.6 million.
Please see the information provided in part A - Accounting policies for a detailed analysis of the method of determining impairment losses on goodwill.
For a description of *impairment* testing methods on goodwill please see "Section 9 – Intangible assets" in these Explanatory Notes.

Section 18 PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS - ITEM 250

18.1 Profits (losses) on disposal of investments: breakdown

Income component/Amounts *(thousands of €)*	31.12.2019	31.12.2018
A. Mortgage	1,289	2,158
- Profits from disposal	1,289	2,158
- Losses on disposal	-	-
B. Other assets	17	18
- Profits from disposal	18	28
- Losses on disposal	(1)	(10)
Net profit	**1,306**	**2,176**

Section 19 INCOME TAXES FOR THE YEAR RELATING TO CURRENT OPERATIONS – ITEM 270

19.1 Income taxes for the year relating to current operations: breakdown

	Income Component/Amounts *(thousands of €)*	IRES	IRAP	31.12.2019	31.12.2018
1.	Current tax expense (-)	(266)	(82)	(348)	-
2.	Change in current taxes over previous years (+/-)	-	-	79	-
3.	Reductions in current taxes for the year (+)	(105)	-	(105)	35
4.	Changes in deferred tax assets (+/-)	1,699	2	1,701	(9,802)
5.	Changes in deferred tax liabilities (+/-)	7,622	1,397	9,019	1,340
5 bis.	Transfer from tax provision item 270 to tax provision item 60a SP	-	-	-	(1,390)
6.	Income taxes for the year (-)(-1+/-2+3+/-4+/-5)			10,346	(9,817)

19.2 Reconciliation between the theoretical tax charge and the actual tax charge in the financial statements

(thousands of €)	IRES	%
IRES tax with application of nominal rate	**(26,026)**	**27.50%**
Capital losses on exempt equity investments	322	0.34%
Goodwill	16,283	17.19%
Non-deductible costs	2,619	2.77%
Total tax effect of the increasing changes	**19,224**	**20.30%**
Dividends	(590)	0.62%
Capital gains/revaluations of PEX equity investments	(219)	0.23%
Other decreases	(1,374)	1.45%
Total tax effect of the decreasing changes	**(2,183)**	**2.30%**
Tax losses effect and ACE	(194)	0.20%
Corporation tax charged to the income statement	**(9,179)**	**9.69%**

(thousands of €)	IRAP	%
IRAP tax with application of nominal rate	**(4,842)**	**5.11%**
Personnel expenses	123	0.13%
Other increases	5,101	5.39%
Total tax effect of the increasing changes	**5,224**	**5.52%**
Dividends	(1,045)	1.10%
Other decreases	(504)	0.53%
Total tax effect of the decreasing changes	**(1,549)**	**1.64%**
IRAP taxes charged to the income statement	**(1,167)**	**1.23%**

The main values subjected to substitute tax are considered as recognised fiscally from the start of the tax period during which the substitute tax was paid.

Section 20 PROFIT (LOSS) ON DISCONTINUED OPERATIONS AFTER TAX - ITEM 290

20.1 *Profit (Loss) on discontinued operations after tax: breakdown*

There were no profits or losses from discontinued operating activities after tax during the year for which breakdown should be reported.

20.2 *Detail of income taxes relating to discontinued operations*

No income taxes were levied on discontinued operations during the year.

Section 21 OTHER INFORMATION

21.1 *Collection of receivables on behalf of third parties: adjustments to debit and credit*

(thousands of €)	31.12.2019	31.12.2018
a) 'Debit' adjustments	**758,927**	**745,285**
1. Current accounts	192,235	188,749
2. Central Portfolio	563,143	550,134
3. Cash	2,929	6,100
4. Other accounts	620	302
b) 'Credit' adjustments	**849,101**	**837,679**
1. Current accounts	198,341	205,821
2. Assigned effects and documents	649,740	630,761
3. Other accounts	1,020	1,097

Section 22 EARNINGS PER SHARE

The methods used to calculate basic earnings per share are defined by IAS 33 - Earnings per Share. The basic earnings per share is established as the ratio between the economic result attributable to the owners of ordinary capital instruments and the weighted average of ordinary shares outstanding in the year.
The diluted earnings per share also considers the dilution effects resulting from the conversion of potential ordinary shares, established as financial instruments attributing the right to obtain ordinary shares to the owner. Accordingly, when calculating the account, the numerator and denominator of the ratio are adjusted to consider the effects of the additional shares that would have been outstanding if all potential ordinary shares with dilutive effects were converted.

	31.12.2019	31.12.2018
Basic earnings per share	(1.72)	0.70
Diluted earnings per share	(1.72)	0.70

"Earning per Share" (or EPS) is a performance measure providing an indicator of shareholder participation in the result for the year and is obtained by comparing profit for the year with the weighted average of outstanding shares.

	31.12.2019	31.12.2018
Weighted average of ordinary shares	48,919,825	48,965,086
Adjustment for dilution effect	-	-
Weighted average of ordinary shares with diluted capital	48,919,825	48,965,086

At the reporting date there were no operations with dilutive effects.

22.1 Average number of ordinary shares with diluted capital

At the reporting date there were no transactions with dilutive effects on the number of shares.

22.2 Other information

There is no significant information other than that indicated in the preceding sections.

PART D COMPREHENSIVE INCOME

Analytical statement of comprehensive income

Items *(thousands of €)*		31.12.2019	31.12.2018
10.	**Gain (Loss) for the year**	**(84,372)**	**34,257**
	Other income not reversed to the income statement	4,479	(9,018)
20.	Equity securities designated at fair value with an impact on overall profitability	5,390	(9,227)
	a) change in fair value	2,503	(9,103)
	b) transfers to other components of shareholders' equity	2,887	(124)
30.	Financial liabilities designated at fair value through profit or loss (changes in credit rating):	-	-
	a) change in fair value	-	-
	b) transfers to other components of shareholders' equity	-	-
40.	Hedging of equity instruments designated at fair value with an impact on overall profitability	-	-
	a) change in fair value (hedged instrument)	-	-
	b) change in fair value (hedging instrument)	-	-
50.	Tangible fixed assets	-	-
60.	Intangible fixed assets	-	-
70.	Defined benefit plans	(757)	(332)
80.	Non-current assets and asset groups held for sale	-	-
90.	Share of valuation reserves of equity accounted investments:	-	-
100.	Income taxes relating to other income components not reversed to profit and loss	(154)	541
	Other income components reversed to profit and loss	7,842	(9,588)
110.	Foreign investment hedges:	-	-
	a) changes in fair value	-	-
	b) reversal to profit and loss	-	-
	c) other changes	-	-
120.	Exchange rate differences:	-	-
	a) value changes	-	-
	b) reversal to profit and loss	-	-
	c) other changes	-	-
130.	Cash flow hedges	-	-
	a) changes in fair value	-	-
	b) reversal to profit and loss	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
140.	Hedging tools (Non-designated items):	-	-
	a) value changes	-	-
	b) reversal to profit and loss	-	-
	c) other changes	-	-
150.	Financial assets (other than equity securities) measured at fair value with an impact on overall profitability	12,054	(14,594)
	a) changes in fair value	8,780	(12,073)
	b) reversal to profit and loss	3,274	(2,521)
	- adjustments for credit risk	(862)	758
	- gains/losses on disposal	4,136	(3,279)
	c) other changes	-	-
160.	Non-current assets and groups of assets held for sale	-	-
	a) changes in fair value	-	-
	b) reversal to profit and loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity accounted investments::	-	-
	a) changes in fair value	-	-
	b) reversal to profit and loss	-	-
	- adjustments from deterioration	-	-
	- gains/losses on disposal	-	-
	c) other changes	-	-
180.	Income tax on other income components reversed to profit and loss	(4,212)	5,006
190.	**Total other income components**	**12,321**	**(18,606)**
200.	**Overall profitability (item 10+190)**	**(72,051)**	**15,651**

PART E INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Section 1 Credit risk

QUALITATIVE INFORMATION

1. General aspects

The Bank's lending activities are designed to support the development and consolidation of small and medium-sized enterprises and to accompany families in their financing requirements; with the dual objective of financially supporting the development of the local economies in the territories in which the Bank operates and establishing itself as a recognised, competent and lasting partner for its customers.
The Bank's credit policy has always been based on responding to requests for finance from private customers and businesses, always paying special attention to the risk/return ratio and the presence of adequate coverage with mortgage guarantees, in particular for medium/long-term exposures.
With regard to private customers, the Bank's activity focuses on mortgage and personal loans, for which it provides a broad, complete offer. It selects customers on the basis of reliability and the merit of the customer's specific financial requirements and objectives.
For small businesses, demand has mainly concentrated on short-term loans, characterised by a high risk spread; while for medium and large companies, the Bank sought to increase medium-term loans, paying special attention to loans secured by collateral.
Particular attention was paid to selecting economic sectors, with priority given to those deemed to be less risky. Support for businesses has been provided through special finance operations, such as property financing projects managed and monitored throughout their progress and redemption by use of a specific IT procedure.
In general, the loan portfolio is monitored in order to achieve broad diversification across sectors of economic activity and geographical areas (the provinces of Bolzano, Trento, Belluno, Vicenza, Padua, Treviso, Pordenone and Venice), in order to mitigate the effects of any crises. Careful, precise controls are imposed on the most significant exposures, taking account of all the legal and economic links between the counterparts, in order to maintain them within limits so as not to risk the Bank's financial and economic equilibrium.
In all cases, the credit policy is guided by a prudent approach and oriented towards establishing relationships with trusted customers based on mutual confidence and transparency with a view to fostering personalised, long-term relationships.

2. Credit risk management policies

2.1. General aspects

The credit risk management process is based on the maximum involvement of all relevant departments, at the various structure levels, to reconcile the need for fast fulfilment of customer requests with an analytical assessment of the credit risk. The credit process stages are expressed in the planning of credit policies, in the investigation, allocation, periodical review, monitoring and management of "non-performing" loans.
The credit policy, implementing strategic guidelines set by company Bodies during planning and in complying with the maximum risk levels established by the RAF, establishes the size of the loans portfolio and the relative breakdown, in order to guarantee an adequate mix between the profile of the risk taken and return levels achieved. At company planning level, the guidelines become targets, for business structures, for the quality of the portfolio integrated with those of growth and profitability, to be achieved consistent with capital and risk constraints.
The deliberative autonomy system, ruled by the Board of Directors through the "cascade" delegation principle, foresees attributing limited rights to the peripheral structures, privileging control by specialised central units. Involving the various company bodies and departments in control of the credit process involves the entire company:

- The Board of Directors supervises and monitors correct allocation of resources, defines the strategic guidelines and credit policies, sets the criteria for the recognition, management and assessment of risks, approves delegation of powers and signature to be attributed to the Bodies and business Units for granting and reviewing credit lines. Checks that the structure of control functions is defined in compliance with strategic guidelines; that the latter have appropriate autonomy of judgement and adequate qualitative and quantitative resources;
- The internal credit Committee analyses and examines the credit risk management policies. Specifically, the Committee is informed of compliance with limits set in the annual "Credit strategy", examines the overall quality trend of the loans portfolio;
- General Management implements the strategies and policies established by the Board of Directors; in particular, it prepares rules, activities, procedures and organisational structures able to ensure adoption and maintenance of an efficient credit process and a solid risks control system, intervenes to eliminate any shortcomings and malfunctioning detected.
- Through the credit line Inquiry office, the Loans Department supports the decision-making bodies by receiving loans dossiers from peripheral offices, checks their formal correctness and completeness, finalisation of the inquiry.
- Branches manage the relationship with the customer, acquire documents, perform a first selection of applications, make decisions directly for the ones they are responsible for, monitor the credit ratio evolution daily, checking for any potential anomalous situations;
- Risk Management defines, develops and maintains the "models" underlying the rating system used for management purposes, checks the reliability and effectiveness of estimates it produces and possibly intervenes to improve it. Assesses, based on various analysis scales, loans portfolio riskiness, produces the relative information flows and makes them available for the bodies responsible and operating departments. The main Risk management responsibilities for correct credit risk management include defining and implementing the RAF, the ICAAP, stress tests and the remediation Plan; monitoring the activities performed by the Offices appointed to monitor and manage the credit risk, with special attention for how the rating system evolves; the planning, development and maintenance of the models and matrices adopted to measure the credit risk for management purposes; supervision of the programming of credit policies in line with the RAF and monitoring its punctual application; monitoring the overall quality of the loans portfolio through aggregated analyses and, where needed, single positions; assessment of the most important credit exposures in risk terms, preparing the relative analyses and performing controls on exceptions to rating judgements expressed by the operational units.

2.2 Management, measurement and control systems

Control of the credit risk is supported by a rating system developed by the IT services supplier, SEC Servizi.
The models cover the Corporate, Retail and Private management systems. Those models enable assigning a rating to each counterpart and an associated estimate of the probability of default (PD); the latter estimates the probability that an entrepreneur becomes insolvent within a year. The rating depends solely on counterpart characteristics and is, therefore, independent of any guarantees acquired. Rating assessments, produced by statistic models, are divided into 14 classes, related to the "*performing*" counterparts, and a class related to non-performing ones.

The rating is used in the credit process stages going from planning credit policies to monitoring trends. The rating is calculated monthly with reference to the entire population involved.
Operationally, the rating system is integrated by the loss rate with default (LGD “Loss Given Default”) and by the exposure estimated at the time of default (EAD “Exposure at Default”). Estimates, specifically at single relationship level, also result from models and are influenced by the presence and type of guarantees acquired, and by the technical forms through which the loan is allocated.
The availability of that information, updated every month, provides better assessment of the risk profile, helping to improve the information capital supporting the credit allocation and monitoring process. The PD, LGD, EAD values enable calculation of the Expected Loss, representing the estimate of presumable loss associated with the credit exposure, and which provides, being a cost element, support with deciding provisions for financial statement purposes.
The impaired position classes include bad debts, unlikely to pay and loans expired and/or over the limits to a relevant extent and exceeding 90 days. Those released by independent agencies are used to calculate the capital requirements for the credit and counterpart risk, with the bank adopting the “standardised” assessment approach, which implies attributing weighting ratios for exposures based, where possible, on the rating assigned to each counterpart by a specialised company (rating agencies such as Standard & Poor’s, Moody’s, Fitch Ratings, DBRS, Cerved Group).
For the counterpart risk, besides continually monitoring the main credit groups assigned, a specific analysis of each position taken is performed periodically, mainly through the joint consideration of several indicators, including the rating judgement, data from accounting information, market data. At the loans portfolio level, riskiness is assessed based on several types of analysis, including distribution of the counterparts over time by rating classes and economic and production sector.
Those assessments support formulating credit policy guidelines and enable adopting suitable management measures and providing operational guidelines to the central and peripheral departments involved.
For what concerns the credit risk and extension of the use of its measurements to the various management areas, for some time now the Bank has introduced expected loss control targets (cost of the credit risk) when preparing the annual branch budgets. Deciding the spread and margins on loans discounts a correction factor for the credit risk based on PD and LGD parameters. This in order to guarantee greater correlation between profit performances assigned to the single production units and the effective capacity to take on and manage the risk; hence drawing growth paths for loans that are as effective as possible in risk-return terms. The credit process also foresees, in its single stages, a number of risk mitigation controls.
The inquiry stage, to ascertain presumed reliability by assessing the credit merit of applicants, foresees examining the consistency of the transaction characteristics with the funding purpose, control of the suitability of any collateral hedging the non-repayment risk, the cost-effectiveness of the credit action. In that area, the judgement expressed by the internal rating system, when available, and the associated default estimates are duly considered, as essential, indispensable elements for a full assessment of the customer.
The decision to grant the loan is made by the decision-making bodies responsible, at the time of allocation, carefully assessing all the information gathered during the inquiry, and any further opinion element possibly available. In order to guarantee greater control of the credit risk, the mechanism setting the autonomy limits for the decision-making bodies at the base of the hierarchical scale flanks the transaction’s nominal value with a delegation system, also considering an objective counterpart credit riskiness measure expressed by the internal rating.
The credit lines then become operational and are then only made available to the borrower when what is foreseen in the decision has been finalised; with specific attention for acquiring guarantees, controls and assessment that they can limit the credit risk.
After granting, exposures are reviewed periodically, or revised, to ascertain that the conditions found during the inquiry and considered to allocate the funding are still applicable.

The revision can also take place automatically, with reference to positions presenting limited riskiness levels, ascertained with a rigorous examination of suitable, pre-set indicators. Credit and guarantees are monitored by continuously observing counterpart reliability and with a periodical control that general and specific requirements still exist and with the value of protections acquired; in order to guarantee full, effective enforceability if the debtor should become insolvent.

Monitoring, performed in compliance with formalised organisational procedures, is conducted so as to establish early whether any negative symptoms have arisen and promptly, effectively take the actions needed to prevent the situation getting worse. Related to that, an important role is assigned to the branches holding the credit positions because, through relations with customers, they can immediately perceive any signs of anomaly.

Specific head office departments are dedicated to analysing all the information available to continually assess the credit merit of each exposure and identify those with a greater exposure to risk.

The bank also has an identification, decision-making and monitoring process for the so-called forborne position (that is credit exposures for which changes to contractual conditions or refinancing have been granted due to the debtor's financial problems).

Varied information of a guiding type is also produced periodically to support monitoring, based on relevant analysis routes, of how the credit portfolio risk is evolving. Related to the monitoring of credits displaying anomalies, it also identifies the specific analysis of overflowing, in order to intervene promptly on problematic positions.

The anomalous credit management system, in the Workout Department, using measurement and trend control methods that consider internal and system data, jointly, when available, for the judgement assigned by the rating system, identifies potentially problematic counterparts and promotes actions to mitigate the credit risk. Those positions are subjected to suitable analysis and, when concrete signs of tension are detected, classify them as "non-performing" based on their gravity.

Within Risk management, a specific unit identifies the "*performing*" customers displaying signs of difficulty and the first relationship anomalies, as well as counterparts persistently overdrawn. In order to intervene fast on worsening relationships and effectively control the overall credit quality of the loans portfolio, monitoring processes are adopted that, supported by specific instruments, promote actions to regularise the relationships. During the inquiry, allocation, revision and monitoring stages in-depth controls on the concentration of risks for significant exposures with single counterparts or groups of counterparts with legal and/or economic connections are carried out.

For dossiers qualified as of greater important ("OMR"), based on the amount of exposure and the amount of a new loan request, a specific procedure takes place, compliant with regulations applicable. Specifically, those dossiers, integrated by the credit line investigation report, are transmitted to Risk management responsible for assessing transaction consistency with the risk target system identified in the RAF (Risk Appetite Framework).

2.3 Methods used to measure expected losses

In order to calculate the*impairment* of an exposure, IFRS 9 establishes:

- for performing exposures that do not present a significant increase in credit risk compared to origination, an estimate of the expected loss at 12 months, to include losses arising from default events that may occur within one year;
- for performing exposures presenting a significant increase in credit risk compared to origination, the estimated expected loss over the lifetime horizon, taking account of all losses arising from default events that may occur during the residual life of the instrument;
- for non-performing positions, cash flows discounted at the effective interest rate of the loan are considered.

The Bank has developed a position allocation model that reflects the various ways of calculating expected loss. In particular, each relationship is assigned according to a system of assignment stages, which identifies:
- stage 1: as performing exposures that have not suffered a significant increase in credit risk since origination;
- stage 2: performing exposures for which there has been a significant increase of the credit risk (Significant Increase of Credit Risk – "SICR") between the origination and reporting dates;
- stage 3 as non-performing exposures which are therefore classified as non-performing on the reporting date, according to the definition of default adopted by the Bank.

The criteria applied by the Bank to recognise a significant increase in credit risk (and therefore forming the basis for stage 2 classification) can be grouped into two types:
- qualitative criteria, which identify a set of indicators which when present are assumed to significantly increase risk. Three criteria can be distinguished:
  - the presence of forbearance measures (i.e. special concessions, such as amendments to existing contractual terms or refinancing following a substantial change in the economic situation of the counterpart);
  - so-called rebuttable presumption, i.e. the presence of a continuous overrun or expired over 30 days;
  - the presence of the position on the Bank's watch list.
- the quantitative criterion, based on calculation of the lifetime PD ratio (LtPDR), which is a measure of the increase in the lifetime riskiness of a position at the reporting date compared to the origination date; stage 2 classification of a position based on the quantitative criterion occurs by comparing the LtPDR with a significance level estimated statistically.

The lifetime PD model developed by Volksbank plays a decisive role in calculation of the ECL and in the stage allocation of individual credit exposures. In particular, the value of MPD (marginal PD) at time t is used to obtain the expected loss of ECL_t at any time $t<T$ until maturity T; for stage allocation, on the other hand, the level of risk expressed by the PD over the residual life of an instrument is used to identify positions that show a significant increase in credit risk, and which are consequently classified in stage 2.

The selected estimation method focuses on the estimation of PD lifetime curves with a Weibull function, following the derivation of the Cumulative Default Rates by means of Kaplan-Meier survival analysis. The reasoning behind the choice of this methodology is based on the model's greater flexibility, the theoretical soundness of the approach and the defined implementation effort, consistent with the size, internal organisational structure and the nature, scope and complexity of the Bank's business and credit portfolio.

With reference to the logic of defining *impairment* for exposures classified as past due or likely to default, the ECL is equal to. In particular, the formula applied is as follows:

$$IMPAIRMENT = EAD * CCF * \left\{1 - \left(\frac{(1 - LGD)}{(1 + EIR)^{TTR}}\right)\right\}$$

where:

$$LGD = \frac{EAD - PROVISION_REC_OK}{EAD}$$

$$PROVISION_REC_OK = \min\{EAD; PROVISION_OF_RECOVERY\}$$

For positions classified as Non-performing, the loss expected amounts to:

$$IMPAIRMENT = SVAL_SPECIFIC$$

In particular, the value of exposures classified as impaired is equal to the estimate of the present value of the cash flows expected to be obtained. For secured positions, the value of the cash flows that the Bank expects to recover coincides with the value of the flows deriving from completion of the process of recovering the value of each guarantee, net of costs incurred, and not contingent on the probability that the enforcement action has been taken. The TTR (recovery time) and the discount rate are necessary to estimate the present value of the cash flows. With regard to application of sale scenarios, please see the contents of Chapter A "Accounting Policies" of the explanatory notes.

In the context of risk management for the Abnormal Loan Analysis Service, the Loan Department is responsible for ensuring:

- credit control and the management and monitoring of positions, liaising with the branch and area offices responsible for customer relations;
- the proposal, on its own initiative, of rules for the management of positions within the scope of its competence, including with reference to specific dedicated units;
- a contribution to the implementation and maintenance of an information base that enables the assessment and performance control of individual positions and the customer's overall exposure to the Bank;
- guarantee correct management of positions, providing the necessary assistance and advice to the units responsible for the customer relationship;
- systematic monitoring of the evolution of *performing* positions with the tools available, also referring to the early warning model, and promptly identification of positions showing signs of deterioration and which risk slipping into Stage 2;
- implementation of measures to reduce and/or contain risk exposure for those positions identified by the Early Warning engine in which there is a real risk of slipping into Stage 2.

For risk management purposes, it should be noted that the model adopted by the Bank provides for development of an Early Warning process based on SICR measurement methods developed during the implementation of IFRS 9. In particular, development of an Early Warning methodology consistent with IFRS 9 methods appears necessary in order to harmonise risk management tools with the accounting framework and consistently integrate the stage allocation process with the credit risk management practices and the way in which these practices are managed for the purposes of recognition and assessment of expected credit losses.

The natural evolution of the Early Warning system is to play a complementary role to stage 2, in which it plays the role of preventing the occurrence of a significant increase in risk.

An effective Early Warning mechanism minimises stage 2 migration, reducing the impact on capital and regulatory ratios, as well as enhancing the tools available for credit risk management. In particular, this methodology involves identification of a threshold of significance ("SICR") estimated by means of a statistical model of quantile regression that defines the discriminatory level of risk as an estimate of the quantile of the distribution of LtPDRs that optimises the forecast of credit deterioration. In order to ensure that deterioration phenomena are captured sufficiently in advance, the Early Warning model is developed by extrapolating the SICR thresholds downwards, so that positions are identified that are closest to the discriminating SICR threshold for stage 2 classification in terms of lifetime PD variation (APD).

The development of this methodology, which is currently in the definition phase, provides a twofold benefit:

- it enables integration of the two stage allocation and Early Warning systems, without overlaps, resulting in harmonious functioning in two operating environments;
- it implements a methodology that is consistent across its classification and accounting assessment and its credit risk management aspects. In particular, focus of the Early Warning model on the LtPDR (that is on the variation of the lifetime PD) bases the risk management model on the lifetime PD model adopted for accounting purposes, which refers to the rating system, of which it adopts and reflects the implicit risk profile estimates.

Lastly, related to use of future provisions containing forward looking elements, in particular scenario-dependent, the model defining the macroeconomic scenarios, suitably parametrized and based on specific rules defining the "transmission model" of evolutionary trends in the scenario-dependent structures, helps determine the risk parameters as part of the ECL calculation process. Three different macro-scenarios are adopted enabling

implementation, in compliance with what is required by the standard, a sufficiently structured, punctual forecasting estimate, yet suitable for Bank size, structure and complexity. The baseline scenario, based on the "central" evolutionary trend of the macroeconomic variables compared to their value observed when the estimate is first made, which therefore constitutes the one whose implementation is generally considered as the most probable, is flanked by an adverse scenario which presents an unfavourable yet plausible evolution of the macroeconomic context and a moderately favourable scenario which presents a favourable, realistic evolution compared to the situation observed when the estimate took place.
For that purpose, the bank uses an external supplier with acknowledged competences in forecasting scenarios and a consolidated national reputation. The latter has been supporting the banking system for some time supplying macroeconomic, financial and banking variable forecasts, for activities assuming, in a forecasting, simulative way, future occurrences happening, for both strategic and healthy, prudent management purposes.

Credit risk mitigation techniques

In order to mitigate credit risk, the Bank uses all the main forms of collateral typical of the banking business, both real and personal. The main collateral acquired consist of:
- mortgages on properties;
- pledges on money and various types of securities (government securities, bonds, mutual funds, asset management, insurance policies, certificates of deposit, foreign securities, shares, etc.).

With regard to the management methods, these guarantees are acquired with a regular pledge agreement and by a notarial deed (for mortgages) and are entered into the "Loans and Guarantees" electronic procedure which enables the management, control and monitoring of such guarantees.
Personal guarantees are mainly issued by:
- natural persons in favour of companies of which they are shareholders and/or directors;
- natural persons in favour of other natural persons to whom they are linked by family relationships;
- consortia in favour of individual companies/firms associated with them (following agreements stipulated with the Bank).

To a limited extent, personal guarantees are also provided by companies in favour of other subsidiaries/associates and financial institutions in favour of companies.
An analysis of the characteristics of the guarantees provided does not reveal a particular degree of concentration in the various forms of coverage/guarantee, since the guarantees acquired, except in particular cases, can essentially be considered "specific" to each individual position. Furthermore, in general terms, no contractual constraints are in place that could undermine their legal validity.
Lastly, to check the legal and operational effectiveness of the guarantees an information/organisational/legal system (electronic credit line folder) is used and prepares texts and IT supports of the various guarantees, including:
- the regulatory operating processes of internal regulations, foreseeing and establishing rules on the values to be attributed to guarantees acquired (estimate opinions, confirmation/control/monitoring of events with cadastral preliminary enquiries, IT assessments in real time of the values of listed securities, etc.)
- verification of the authenticity of the signatures on the various guarantees (verification of company documents, witnessing in the presence of our operators, notarial authentication, etc.).

With specific reference to mortgages, reliable principles and standards are adopted to value the properties and obtain realistic, detailed estimates of the value of assets used as collateral. The Bank is also equipped with a process that can ensure efficient management and specific assessment of constrained properties in real time, through the census of assets and filing of estimates in a specific IT procedure. Furthermore, in order to fulfil supervisory provisions, to supervise the value of property, both residential and commercial/industrial, they are periodically revalued. The existence of specific requirements on properties, needed to mitigate the credit risk (regardless of the property's value, the counterpart's credit value, independence of repayment from financial flows from the asset and direct use of the property or its rental), it is checked by the departments appointed and made clear in the electronic credit line folders for the subsequent control of investigators and decision-making bodies.

The value of the real guarantees on financial instruments, listed on regulated markets, is automatically reviewed on a daily basis and based on list prices, in order to check, compared to the loan granted, that the initial coverage continues and permit, if that is not the case, prompt examination by managers.

3. Non-performing loan exposures

3.1 Management strategies and policies

The specific, transversal competences in the management of problematic and/or non-performing loans ("NPL") are concentrated in the Workout Department, divided into four Business Units:

- the Abnormal Loan Analysis Service
- the Bad Debts Service
- the Portfolio Management/BO Reporting Service
- the Active Workout Real Estate Service.

The organisational structure is designed to ensure hierarchical independence between the Workout Department and the structures responsible for granting credit, as well as second-level controls, in accordance with the wishes of the Supervisory Authority.

The organisational model described above involves management in activities for the recovery of positions in difficulty up to those concerning the management of positions classified as non-performing.

The central role of Management, also in support of the strategic decisions of the office responsible for strategic supervision, can be identified as its methodological, monitoring, and process management, designed and constantly maintained in order to promote active management of the items for which it is responsible.

Loans for which there is especially serious tension are classified as "Non-Performing Exposures", in compliance with the EU Execution Regulation 2015/227 which approved the Implementing Technical Standards (ITS), issued by the European Banking Authority (EBA), when they satisfy any of the following criteria:

- they are claimed against counterparts who are not judged as able to fully comply with their credit obligations without enforcing the guarantees, regardless of the presence of unpaid amounts or the number of days in arrears;
- the debtor has significant exposures (defined as such based on the so-called relevance thresholds established by Supervisory regulations) expired by over 90 days.

Based on how serious the anomaly is, they are divided into the following categories:

- Bad Debts, total existing exposures with insolvent subjects or essentially equivalent situations regardless of their guarantees and/or any expected losses;
- Unlikely to pay, total exposures with debtors who, in the Bank's opinion, are unlikely, without the use of actions such as enforcing the guarantees, to fully fulfil (capital and/or interest) their debt obligations ("unlikely to pay"). That assessment is performed regardless of the presence of any amounts (or instalments) that have expired and were not paid;
- Exposures expired and/or impaired past due, cash exposures, other than those classified amongst the bad debts and unlikely to pay, that have expired or been overdrawn by more than 90 days according to regulations in force.

Management of "non-performing" loans involves taking actions consistent with how serious the situation is in order to return it to normal or, if that is impossible, to implement a suitable recovery procedure. More specifically, in the presence of positions:

- non-performing, suitable credit recovery procedures are implemented; if circumstances permit it, repayment plans and/or amicable transaction proposals are prepared aimed at final closure of relationships;

- unlikely to pay, the probability is assessed as to whether the debtor is able to fulfil its contractual obligations in full in order to restore the original reliability and economic conditions of the relationship or, if that solution is assessed as impossible, everything is done for the step towards a non-performing position. The unlikely to pay for which there are restructuring agreements are checked continuously to make sure they comply with conditions agreed;
- expired and/or impaired past due, the trend is monitored and prompt actions are taken to return them to normal; having checked the debtor's effective state of financial difficulty and if the conditions exist, everything is prepared for the step to unlike to pay or non-performing.

From the bad debt management method point of view, the NPL Management Strategy is of specific importance, as required by the Bank of Italy with its "Guidelines for the Less Significant Italian Banks on the management of non-performing loans" published on 30 January 2018. In particular, in the context of the definition of the NPL management strategy, the forecast values of NPL are calculated as the evolution of 2 separate portfolios:

- the stock of loans already disbursed by the Bank and amortised;
- the stock of future loans to be disbursed by the Bank.

The above two portfolios are further divided into 3 sub-portfolios:

- guaranteed by residential properties;
- guaranteed by non-residential properties;
- not guaranteed by the properties.

The model developed by the Bank used as input data:

- analytical forecasts for the stock of non-performing exposures ("NPEs") developed by the Bank as at 31 December 2019. The analytical forecasts were used as the basis for the development of the forecast management model;
- the transition matrices recorded by the Bank over the last two years, adjusted on the basis of internal valuation elements and with reference to the macroeconomic context. The matrices were used to estimate percentage point rate of passage between risk classes;
- the percentages of receipts and cancellations calculated from the financial statements for the last three years;
- the new stock of loans that the Bank intends to grant in the three-year planning period in accordance with the business plan in place on the date the strategy was approved;
- the amortisation plan for the stock of existing loans and the newly-disbursed loans;
- the amount of "item 130 a) Net adjustments/write-backs on credit risk of financial assets valued at amortised cost" for the period 2019--2013 as included in the business plan. These values, which constitute model input data, were used to estimate the maximum applicable prospective coverage.

Transfers between the various risk classes are calculated by applying a specific approach to the individual exposure classes:

- *Performing*: default rate registered;
- Past Due and UTPs: danger rates and care rates;
- Bad debts: cure rate.

In addition, with regard to loans classified as non-performing positions, other sources of stock reduction have been modelled such as:

- percentages of historical collections recorded by the Bank for the individual risk classes;
- percentages of historical write-offs recorded by the Bank for the individual risk classes;
- extraordinary cancellations entered as input data in a precise manner as shared with the Bank;
- sales of NPL portfolios specifically included as shared with the Bank.

Further source of a decrease in loan stock classified as *Performing* are the specific amortisation plans.

3.2 Write-off

IFRS 9 states that "an entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectation of recovery of all or a portion of it. A write-off constitutes a derecognition event"
The "guidance for banks on NPLs" published by the European Central Bank in March 2017 specifies that "the reduction in the gross book value of a financial asset corresponds to the value of the write-off".
It goes on to state that, "the derecognition of a financial asset, even a partial one, should be made by the Bank in the year in which the loan or part of it was considered non-recoverable". It follows that "the derecognition can take place before the final judicial action taken against the debtor to recover the debt has concluded. Derecognition does not imply a waiver by the Bank of its legal right to recover the debt".
Finally,"once derecognised, an amount may not be reinstated, unlike provisions, the value of which may be reinstated in the profit and loss account if there are changes in the estimate. Derecognition should not be restored and if cash flows or other assets are recovered as a last resort, their value should be recognised in the income statement as part of the income statement."
Bank of Italy Circular No. 262/2005, in its current version, establishes that "a write-off may concern the entire amount of a financial asset or a portion thereof and corresponds to:
- the reversal of total value adjustments, as a balancing entry to the gross value of the financial asset, and
- for the part exceeding the amount of the total value adjustments, to the loss in value of the financial asset recognised directly in the Income statement.

Any recoveries from collections subsequent to the write-off are recognised in the income statement under write-backs. The term "total write-offs" refers to the cumulative amounts of partial and total write-offs on financial assets."
As part of the new provisions implementation process, the scope of positions to be written-off is defined by the positions, measured at amortised cost and belonging to the Hold To Collect Business Model, which are classified as doubtful or unlikely to pay and are subject to analytical loss projections.
Performing positions, whether in Stage 1 or Stage 2, and positions measured at *fair value* are therefore excluded from the write-off.

3.3 Impaired financial assets acquired or originated

At the balance sheet date, no impaired financial assets had been acquired. The originated impaired assets, moreover quantitatively insignificant, are managed - in the extra-judicial recovery phase - by the Workout Department. In the event of the insolvency of the position, or situations that are essentially equivalent, property foreclosure proceedings are instigated. Internal procedures foresee registering and probable non-compliance of all dossiers showing unpaid instalments, or an ongoing irregularity or cases of suspensions to the legal rate. The move to non-performing takes place once the ineffectiveness of actions taken to recover the exposure has been ascertained.

4. Financial assets subject to business renegotiations and forborne exposures

Exposures subject to forbearance or 'forborne exposures' are exposures subject to tolerance measures in which the Bank grants amendments to the original contractual conditions in the face of a state of ascertained or presumed financial difficulty of the debtor as a result of which it is considered unlikely that the debtor will be able to fully and regularly meet its credit obligations.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Non-performing and performing loan exposures: stocks, value adjustments, dynamic and economic distribution

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

Portfolio/Quality *(thousands of €)*	**Bad debts**	**Unlikely to pay**	**Past due non-performing exposures**	**Past due performing exposures**	**Other performing exposures**	**Total**
1. Financial assets measured at amortised cost	142,812	110,780	5,997	138,397	8,751,480	9,149,466
2. Financial assets measured at fair value with impact on overall profitability	-	-	-	-	620,310	620,310
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets obligatorily measured at fair value	7,113	17,676	-	-	66,360	91,149
5. Financial assets under disposal	-	-	-	-	-	-
Total at 31.12.2019	**149,925**	**128,456**	**5,997**	**138,397**	**9,438,150**	**9,860,925**
Total at 31.12.2018	**189,440**	**208,569**	**6,134**	**131,738**	**8,951,067**	**9,486,948**

Financial assets measured at amortised cost include non-performing exposures subject to forbearance of €117.2 million, of which €28.9 are due to bad debts and €47.9 are due to unlikely to pay positions, and non-performing exposures subject to forbearance of €40.4 million.

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

Portfolio/Quality *(thousands of €)*	**Non-performing assets**				**Performing assets**			**Total (net exposures)**
	Gross exposure	**Overall value adjustments**	**Net exposure**	**Overall partial write-offs***	**Gross exposure**	**Overall value adjustments**	**Net exposure**	
1. Financial assets measured at amortised cost	555,044	295,455	259,589	18,286	8,949,292	59,415	8,889,877	9,149,466
2. Financial assets measured at *fair value* with impact on overall profitability	-	-	-	-	621,070	760	620,310	620,310
3. Financial assets designated at fair value	-	-	-	-	-	-	-	-
4. Other financial assets obligatorily measured at fair value	24,789	-	24,789	11,203	66,493	133	66,360	91,149
5. Financial assets under disposal	-	-	-	-	-	-	-	-
Total at 31.12.2019	**579,833**	**295,455**	**284,378**	**29,489**	**9,636,855**	**60,308**	**9,576,547**	**9,860,925**
Total at 31.12.2018	**695,887**	**(291,744)**	**404,143**	**19,598**	**9,146,162**	**(63,357)**	**9,082,805**	**9,486,948**

* value to be indicated for information purposes

Portfolio/Quality	**Assets of evidently poor credit quality**		**Other assets**
(thousands of €)	**Accumulated capital losses**	**Net exposure**	**Net exposure**
1. Financial assets held for trading	-	-	46
2. Hedging derivatives	-	-	-
Total at 31.12.2019	**-**	**-**	**46**
Total at 31.12.2018	**-**	**-**	**3,258**

A.1.3 Breakdown of financial assets by past due buckets (book values)

Portfolios/risk stages	First stage			Second stage			Third stage		
(thousands of €)	From 1 day to 30 days	Between 30 days and 90 days	More than 90 days	From 1 day to 30 days	Between 30 days and 90 days	More than 90 days	From 1 day to 30 days	Between 30 days and 90 days	More than 90 days
1. Financial assets measured at amortised cost	52,784	-	-	34,981	34,582	16,050	4,293	4,657	195,435
2. Financial assets measured at fair value with impact on overall profitability	-	-	-	-	-	-	-	-	-
3. Financial assets under disposal	-	-	-	-	-	-	-	-	-
Total at 31.12.2019	**52,784**	**-**	**-**	**34,981**	**34,582**	**16,050**	**4,293**	**4,657**	**195,435**
Total at 31.12.2018	**59,929**	**-**	**-**	**21,834**	**34,518**	**15,458**	**3,886**	**6,697**	**290,865**

A.1.4 Financial assets, loan commitments and financial guarantees granted: overall impairment losses/reversals and overall provisions

Grounds/ Stages of risk	Overall value adjustments																Total provisions on loan commitments and financial guarantees granted			
	Activities in the first stage					Activities in the second stage					Activities in the third stage									
(thousands of €)	Financial assets measured at amortised cost	Financial assets measured at fair value with impact on overall profitability	Assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets measured at fair value with impact on overall profitability	Assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets measured at amortised cost	Financial assets measured at fair value with impact on overall profitability	Assets held for sale	of which: individual impairment	of which: collective impairment	of which: impaired financial assets acquired or originated	Stage 1	Stage 2	Stage 3	**Total**
Opening balance	**31,448**	**1,337**		**3,875**	**28,910**	**31,908**	**-**		**-**	**31,908**	**291,744**	**-**	**-**	**286,667**	**5,077**	**-**	**1,809**	**1,580**	**3,460**	**363,286**
Increases from purchased or originated financial assets	9,579	311	-	840	9,049	7,703	-	-	-	7,703	57,505	-	-	3,535	53,971	-	605	497	343	76,543
Derecognitions other than write-offs	(7,314)	(763)	-	(966)	(7,112)	(8,295)	-	-	-	(8,295)	(100,597)	-	-	(97,452)	(3,145)	-	(1,173)	(900)	(1,446)	(120,488)
Net adjustments/write-backs on credit risk (+/-)	(8,182)	(407)	-	(1,745)	(6,842)	2,568	-	-	-	2,568	53,900	-	-	49,524	4,375	-	(308)	(149)	734	48,156
Contractual modifications without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-off	-	-	-	-	-	-	-	-	-	-	(7,097)	-	-	-	(7,097)	-	-	-	-	(7,097)
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	**25,531**	**478**	**-**	**2,004**	**24,005**	**33,884**	**-**	**-**	**-**	**33,884**	**295,455**	**-**	**-**	**242,274**	**53,181**	**-**	**933**	**1,028**	**3,091**	**360,400**
Reversals from collections on financial assets written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, loan commitments and financial guarantees granted: transfers between different credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross value/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
(thousands of €)	From first to second stage	From second to first stage	From second to third stage	From third to second stage	From first to third stage	From third to first stage
1. Financial assets measured at amortised cost	380,218	174,776	36,724	12,329	27,059	1,833
2. Financial assets measured at fair value with impact on overall profitability	-	-	-	-	-	-
3. Financial assets under disposal	-	-	-	-	-	-
3. Loan commitments and financial guarantees granted	148,052	66,059	1,879	368	1,657	176
Total at 31.12.2019	**528,270**	**240,835**	**38,603**	**12,697**	**28,716**	**2,009**
Total at 31.12.2018	**332,499**	**286,185**	**39,120**	**32,033**	**29,905**	**4,225**

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

Types of exposure/Amounts	**Gross exposure**		**Overall value adjustments and overall provisions**	**Net exposure**	**Overall partial write offs***
(thousands of €)	**Impaired**	**Performing**			
A. CASH EXPOSURES					
a) Bad debts	-	X		-	-
- of which: exposures subject to forbearance	-	X		-	-
b) Probable non-compliance	-	X		-	-
- of which: exposures subject to forbearance	-	X		-	-
c) Past due non-performing exposures	-	X		-	-
- of which: exposures subject to forbearance	-	X		-	-
d) Past due performing exposures	X	-		-	-
- of which: exposures subject to forbearance	X	-		-	-
e) Other performing exposures	X	351,235	(355)	350,880	-
- of which: exposures subject to forbearance	X	-		-	-
TOTAL A	**-**	**351,235**	**(355)**	**350,880**	**-**
B. OFF-BALANCE SHEET LOAN EXPOSURES					
a) Non-performing	-	X	-		-
b) Performing	X	24,421	(1)	24,420	-
TOTAL B	**-**	**24,421**	**(1)**	**24,420**	**-**
TOTAL A+B	**-**	**375,656**	**(356)**	**375,300**	**-**

On-balance-sheet exposures include all cash financial assets due from banks, regardless of their accounting portfolio allocation.
"Off-balance-sheet" exposures include all financial transactions other than sheet exposures (guarantees granted, commitments, derivatives, etc.) involving assumption of a loan risk, whatever the purpose of those transactions (trading, hedging, etc.).

A.1.7 On-balance-sheet and off-balance-sheet credit exposures to clients: gross and net values

Types of exposure/Amounts *(thousands of €)*	Gross exposure		Overall value adjustments and overall provisions	Net exposure	Overall partial write offs*
	Impaired	Performing			
A. CASH EXPOSURES					
a) Bad debts	376,279	X	(226,354)	149,925	29,488
- of which: exposures subject to forbearance	72,368	X	(43,484)	28,883	11,689
b) Probable non-compliance	195,728	X	(67,272)	128,456	-
- of which: exposures subject to forbearance	73,254	X	(25,358)	47,897	-
c) Past due non-performing exposures	7,826	X	(1,829)	5,997	-
- of which: exposures subject to forbearance	-	X	-	-	-
d) Past due performing exposures	X	145,597	(7,200)	138,397	-
- of which: exposures subject to forbearance	X	9,008	(1,064)	7,944	-
e) Other performing exposures	X	9,138,370	(51,810)	9,086,560	-
- of which: exposures subject to forbearance	X	33,628	(1,130)	32,498	-
TOTAL A	**579,833**	**9,283,967**	**(354,465)**	**9,509,335**	**29,488**
B. OFF-BALANCE SHEET LOAN EXPOSURES					
a) Non-performing	20,620	X	(3,092)	17,528	-
b) Performing	X	3,043,944	(1,960)	3,041,984	-
TOTAL B	**20,620**	**3,043,944**	**(5,052)**	**3,059,512**	**-**
TOTAL A+B	**600,453**	**12,327,911**	**(359,517)**	**12,568,847**	**29,488**

* value to be indicated for information purposes

On-balance-sheet exposures include all cash financial assets due from clients, regardless of their accounting portfolio allocation.
"Off-balance" exposures include all financial transactions other than sheet exposures (guarantees granted, commitments, derivatives, etc.) involving assumption of a loan risk, whatever the purpose of those transactions (trading, hedging, etc.).

A.1.8 On-balance-sheet credit exposures to banks: trends of gross impaired exposures

At that date, there were no impaired exposures to banks.

A.1.8bis On-balance-sheet exposures to banks: trends in gross forborne exposures broken down by credit quality

At that date, there were no impaired exposures to banks.

A.1.9 On-balance-sheet credit exposures to clients: changes in gross impaired exposures

Causes/Categories *(thousands of €)*		Bad debts	Unlikely to pay	Past due non-performing exposures
A.	**Initial gross exposure**	**420,143**	**293,800**	**6,660**
	of which: exposures transferred but not derecognised	11,463	13,369	1,076
B.	**Increasing changes**	**110,649**	**78,356**	**8,840**
	B.1 inflows from performing exposures	16,521	75,069	8,225
	B.2 entries from impaired financial assets acquired or originated	-	-	-
	B.3. transfers from other categories of impaired exposures	89,759	1,043	105
	B.4 contractual changes without cancellation	-	-	-
	B.5 other increases	4,369	2,244	510
C.	**Decreased changes**	**(140,559)**	**(163,646)**	**(7,674)**
	B.1 outflows to performing exposures	(628)	(12,143)	(1,219)
	C.2 write-off	(20,867)	(10,839)	(438)
	C.3 Receipts	(4,337)	(3,978)	(961)
	C.4 Proceeds from disposals	(69,625)	(20,177)	-
	C.5 Losses on disposal	(1,709)	(8,301)	-
	C.6 transfers to other categories of impaired exposures	-	(88,155)	(2,752)
	C.7 contractual modifications without derecognition	-	-	-
	C.8 other decreases	(43,393)	(20,053)	(2,304)
D.	**Final gross exposure**	**390,233**	**208,510**	**7,826**
	of which: exposures transferred but not derecognised	9,403	13,003	1,622

A.1.9bis On-balance-sheet exposures to customers: trends in gross forborne exposures broken down by credit quality

Causes/Categories *(thousands of €)*		Forborne exposures: non-performing	Forborne exposures: performing
A.	**Initial gross exposure**	**104,480**	**78,755**
	of which: exposures transferred but not derecognised	14,186	15,154
B.	**Increasing changes**	**100,832**	**18,150**
	B.1 inflows from non-forborne performing exposures	77,481	12,984
	B.2 inflows from forborne performing exposures	19,150	X
	B.3 inflows from non-performing forborne exposures	X	4,994
	B.4 inflows from non-forborne performing exposures	3,629	102
	B.5 other increases	572	70
C.	**Decreased changes**	**(59,690)**	**(54,269)**
	C.1 outflows to non-forborne performing	X	(20,287)
	C.2 outflows to forborne performing exposures	(4,994)	X
	C.3 outflows to exposures forborne non-performing	X	(19,150)
	C.4 write-offs	(3,356)	-
	C.5 collections	(14,688)	(12,341)
	C.6 Proceeds from disposals	-	-
	C.7 losses on disposal	-	-
	C.8 other decreases	(36,652)	(2,491)
D.	**Final gross exposure**	**145,622**	**42,636**
	of which: exposures transferred but not derecognised	4,671	5,074

A.1.10 On-balance-sheet exposures to banks: trends in overall value adjustments

Causes/Categories		Bad debts		Unlikely to pay		Past due non-performing exposures	
(thousands of €)		Total	of which: exposures subject to concessions	Total	of which: exposures subject to concessions	Total	of which: exposures subject to concessions
A.	**Total initial adjustments**	**-**	**-**	**-**	**-**	**-**	**-**
	of which: exposures transferred but not derecognised	-	-	-	-	-	-
B.	**Increasing changes**	**-**	**-**	**-**	**-**	**-**	**-**
	B.1 Value adjustments from impaired financial assets acquired or originated	-	X	-	X	-	X
	B.2. other value adjustments	-	-	-	-	-	-
	B.3 losses on disposal	-	-	-	-	-	-
	B.4. transfers from other categories of impaired exposures	-	-	-	-	-	-
	B.5 contractual modifications without derecognition	-	X	-	X	-	X
	B.6 other increases	-	-	-	-	-	-
C.	**Decreased changes**	**-**	**-**	**-**	**-**	**-**	**-**
	C.1 impairment reversals from measurement	-	-	-	-	-	-
	C.2 impairment reversals from collection	-	-	-	-	-	-
	C.3 gains on disposal	-	-	-	-	-	-
	C.4 write-offs	-	-	-	-	-	-
	C.5 transfers to other non-performing loan categories	-	-	-	-	-	-
	C.6 contractual modifications without derecognition	-	X	-	X	-	X
	C.7 other decreases	-	-	-	-	-	-
D.	**Total final corrections**	**-**	**-**	**-**	**-**	**-**	**-**
	of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.1.11 On-balance-sheet exposures to customers: trends in overall value adjustments

Causes/Categories		Bad debts		Unlikely to pay		Past due non-performing exposures	
(thousands of €)		Total	of which: exposures subject to concessions	Total	of which: exposures subject to concessions	Total	of which: exposures subject to concessions
A.	**Total initial adjustments**	**230,704**	**21,367**	**85,232**	**27,192**	**526**	**-**
	of which: exposures transferred but not derecognised	1,327	63	5,036	182	81	-
B.	**Increasing changes**	**105,495**	**26,488**	**49,733**	**13,832**	**1,808**	**-**
	B.1 Value adjustments from impaired financial assets acquired or originated	-	X	-	X	-	X
	B.2. other value adjustments	61,823	13,238	42,567	6,061	1,250	-
	B.3 losses on disposal	3,388	-	4,201	-	-	-
	B.4. transfers from other categories of impaired exposures	40,284	13,250	88	-	6	-
	B.5 contractual modifications without derecognition	-	X	-	X	-	X
	B.6 other increases	-	-	2,877	7,771	552	-
C.	**Decreased changes**	**(95,890)**	**(4,371)**	**(54,911)**	**(15,666)**	**(505)**	**-**
	C.1 impairment reversals from measurement	(10,827)	(237)	(2,392)	(182)	(129)	-
	C.2 impairment reversals from collection	(6,235)	(1,408)	(396)	(1,003)	(77)	-
	C.3 gains on disposal	-	-	-	-	-	-
	C.4 write-offs	(75,440)	(108)	(7,317)	(804)	(36)	-
	C.5 transfers to other non-performing loan categories	-	-	(40,158)	(13,250)	(220)	-
	C.6 contractual modifications without derecognition	-	X	-	X	-	X
	C.7 other decreases	(3,388)	(2,618)	(4,648)	(427)	(43)	-
D.	**Total final corrections**	**240,309**	**43,484**	**80,054**	**25,358**	**1,829**	**-**
	of which: exposures transferred but not derecognised	4,671	75	5,551	1,746	372	-

Transactions for the conversion of receivables into equity instruments

During the year, in the context of agreements to restructure impaired positions, no operations to convert receivables into equity instruments were completed.

A.2 Classification of financial assets, loan commitments and financial guarantees granted based on external and internal rating

A.2.1 Breakdown of financial assets, loan commitments and financial guarantees granted by external rating class (gross amounts)

Considering the breakdown of loan portfolios, mainly including exposures with small and medium-sized enterprises, family companies and craftsmen, professionals and consumer families, distribution of on-balance-sheet and “off balance sheet” exposures for external rating classes is not significant.
For prudential purposes, credit risks are measured using the standardised method. Rating judgements generated internally are not relevant for prudential purposes.

A.3 Distribution of guaranteed exposures by guarantee type

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

At the Balance Sheet date, there were no secured bank exposures.

A.3.2 On-balance-sheet and off-balance-sheet credit exposures to secured clients

(thousands of €)	Gross exposure amount	Net exposure amount	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature credits				
								Other derivatives								
			Property Mortgages	Property loans for leases	Securities	Other collateral guarantees	CLN	Central counterpart	Banks	Other finance companies	Other entities	Public Administrations	Banks	Other finance companies	Other entities	
1. **Guaranteed on-balance-sheet exposures:**	**6,050,192**	**5,800,614**	**4,427,749**	**-**	**22,278**	**28,204**		**-**	**-**	**-**	**-**	**4,905**	**3,011**	**59,735**	**930,997**	**5,476,879**
1.1 totally guaranteed	5,480,787	5,286,528	4,336,916	-	18,938	17,138	-	-	-	-	-	4,905	1,298	45,086	856,955	5,281,236
- of which non-performing	370,540	221,557	199,685	-	320	227	-	-	-	-	-	-	-	1,508	19,459	221,199
1.2 partially guaranteed	569,405	514,086	90,833	-	3,340	11,066	-	-	-	-	-	-	1,713	14,649	74,042	195,643
- of which non-performing	96,654	45,241	29,745	-	508	315	-	-	-	-	-	-	-	405	1,920	32,893
2. **Guaranteed off-balance-sheet exposures:**	**446,354**	**443,892**	**31,261**	**-**	**2,013**	**11,361**	**-**	**-**	**-**	**-**	**-**	**-**	**711**	**10,759**	**349,580**	**405,685**
2.1 totally guaranteed	373,041	370,613	23,701	-	1,510	7,672	-	-	-	-	-	-	711	9,783	327,078	370,455
- of which non-performing	3,796	3,795	149	-	5	50	-	-	-	-	-	-	-	305	3,286	3,795
2.2 partially guaranteed	73,313	73,279	7,560	-	503	3,689	-	-	-	-	-	-	-	976	22,502	35,230
- of which non-performing	361	360	-	-	88	171	-	-	-	-	-	-	-	-	-	259

A.4 Financial and non-financial assets obtained by enforcing guarantees received

At the date there were no assets obtained through the enforcement of guarantees received.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Geographical breakdown of on- and off-balance-sheet exposures to clients

Exposures/counterparts	Public administrations		Other public bodies		Financial corporations		Insurance companies		Non-financial corporations	
(thousands of €)	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. Cash credit exposures										
A.1 Bad debts	-	-	1,520	2,475	-	-	99,642	179,339	48,763	44,540
of which: exposures subject to concessions	-	-	57	2,311	-	-	17,560	31,761	11,267	9,412
A.2 Unlikely to pay	-	-	171	3,100	-	-	98,524	55,853	29,761	8,319
of which: exposures subject to concessions	-	-	171	3,100	-	-	31,055	18,172	16,671	4,086
A.3 Impaired maturing exposures	-	-	-	-	-	-	1,826	557	4,171	1,272
of which: exposures subject to concessions	-	-	-	-	-	-	-	-	-	-
A.4 Non-impaired exposures	2,119,659	1,018	257,830	1,243	54,140	-	3,632,016	32,496	3,215,452	24,253
of which: exposures subject to concessions	-	-	8	-	-	-	16,865	983	23,569	1,211
Total A	**2,119,659**	**1,018**	**259,521**	**6,818**	**54,140**	**-**	**3,832,008**	**268,245**	**3,298,147**	**78,384**
B. "Off-balance-sheet" credit exposures										
B.1 Impaired exposures	-	-	-	-	-	-	16,887	2,968	641	124
B.2 Performing exposures	104,474	1	55,733	15	50	-	1,948,663	1,445	410,865	499
Total B	**104,474**	**1**	**55,733**	**15**	**50**	**-**	**1,965,550**	**4,413**	**411,506**	**623**
Total at 31.12.2019	**2,224,133**	**1,019**	**315,254**	**6,833**	**54,190**	**-**	**5,797,558**	**272,658**	**3,709,653**	**79,007**
Total at 31.12.2018	**1,717,332**	**2,327**	**480,574**	**7,637**	**182,891**	**-**	**6,232,306**	**268,803**	**3,555,191**	**83,024**

B.2 Geographical distribution of on-balance-sheet and off-balance-sheet credit exposures to clients

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
(thousands of €)	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. Cash credit exposures										
A.1 Bad debts	149,544	(226,048)	381	(306)	-	-	-	-	-	-
A.2 Unlikely to pay	128,205	(67,233)	54	(31)	197	(8)	-	-	-	-
A. 3 Past due non-performing exposures	5,967	(1,821)	1	-	-	-	-	-	29	(8)
A. 4 Performing exposures	9,132,558	(58,677)	71,068	(315)	14,477	(14)	6,422	(1)	432	(3)
Total A:	**9,416,274**	**(353,779)**	**71,504**	**(652)**	**14,674**	**(22)**	**6,422**	**(1)**	**461**	**(11)**
B. "Off-balance-sheet" credit exposures										
B.1 Impaired exposures	17,528	(3,092)	-	-	-	-	-	-	-	-
B.2 Performing exposures	2,510,376	(1,951)	9,320	(9)	30	-	9	-	-	-
Total B:	**2,527,904**	**(5,043)**	**9,320**	**(9)**	**30**	**-**	**9**	**-**	**-**	**-**
Total at 31.12.2019	**11,944,178**	**(358,822)**	**80,824**	**(661)**	**14,704**	**(22)**	**6,431**	**(1)**	**461**	**(11)**
Total at 31.12.2018	**11,770,066**	**(361,206)**	**175,959**	**(564)**	**27,033**	**(11)**	**11,844**	**(4)**	**501**	**(7)**

Exposures/Geographical areas	ITALY NORTHWEST		ITALY NORTHEAST		ITALY CENTRE		SOUTH ITALY AND ISLANDS	
(thousands of €)	Exposure net	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. Cash credit exposures								
A.1 Bad debts	3,976	7,435	143,070	213,313	2,387	4,733	111	566
A.2 Unlikely to pay	1,643	3,357	126,277	63,789	114	66	172	21
A. 3 Past due non-performing exposures	22	7	5,570	1,705	79	22	297	87
A. 4 Performing exposures	255,034	1,551	6,622,642	54,970	2,238,317	2,006	16,563	181
Total A:	**260,675**	**12,350**	**6,897,559**	**333,777**	**2,240,897**	**6,827**	**17,143**	**855**
B. "Off-balance-sheet" credit exposures								
B.1 Impaired exposures	-	107	17,479	2,959	26	4	23	22
B.2 Performing exposures	85,028	28	2,398,333	1,917	24,147	2	2,868	4
Total B:	**85,028**	**135**	**2,415,812**	**4,876**	**24,173**	**6**	**2,891**	**26**
Total at 31.12.2019	**345,703**	**12,485**	**9,313,371**	**338,653**	**2,265,070**	**6,833**	**20,034**	**881**
Total at 31.12.2018	**379,523**	**(13,766)**	**9,583,183**	**(338,818)**	**1,789,676**	**(7,627)**	**17,684**	**(995)**

B.3 Geographical distribution of on-balance-sheet and off-balance-sheet credit exposures to banks

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
(thousands of €)	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. Cash credit exposures										
A.1 Bad debts	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A. 3 Past due non-performing exposures	-	-	-	-	-	-	-	-	-	-
A. 4 Performing exposures	324,240	(344)	26,335	(11)	265	-	40	-	-	-
Total A:	**324,240**	**(344)**	**26,335**	**(11)**	**265**	**-**	**40**	**-**	**-**	**-**
B. "Off-balance-sheet" credit exposures										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	19,250	-	5,170	(1)	-	-	-	-	-	-
Total B:	**19,250**	**-**	**5,170**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**
Total at 31.12.2019	**343,490**	**(344)**	**31,505**	**(12)**	**265**	**-**	**40**	**-**	**-**	**-**
Total at 31.12.2018	**199,274**	**(150)**	**76,013**	**(4)**	**5,638**	**(1)**	**14**	**-**	**11**	**-**

Exposures/Geographical areas	ITALY NORTHWEST		ITALY NORTHEAST		ITALY CENTRE		SOUTH ITALY AND ISLANDS	
(thousands of €)	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals	Net exposure	Overall impairment losses/reversals
A. Cash credit exposures								
A.1 Bad debts	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A. 3 Past due non-performing exposures	-	-	-	-	-	-	-	-
A. 4 Performing exposures	86,849	(332)	8,221	(6)	229,170	(6)	-	-
Total A:	**86,849**	**(332)**	**8,221**	**(6)**	**229,170**	**(6)**	**-**	**-**
B. "Off-balance-sheet" credit exposures								
B.1 Impaired exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	19,250	-	-	-
Total B:	**-**	**-**	**-**	**-**	**19,250**	**-**	**-**	**-**
Total at 31.12.2019	**86,849**	**(332)**	**8,221**	**(6)**	**248,420**	**(6)**	**-**	**-**
Total at 31.12.2018	**86,050**	**(1)**	**13,370**	**(18)**	**99,854**	**(47)**	**-**	**-**

B.4 Large exposures

	Number of large exposures	Credit exposure *(thousands of €)*	Weighted exposure amount for large exposures *(thousands of €)*
31.12.2019	6	3,347,774	248,812
31.12.2018	5	2,150,711	296,361

The number of large exposures entered in the table is decided with reference to the non-weighted "exposures" exceeding 10% of capital allowable, as set forth in EU Regulation 575/2013 (so-called CRR), where "exposures" are intended as the sum of on-balance and off-balance-sheet risk assets (excluding those deducted from capital) with a client, or a group of connected clients, without applying the weighting factor.
The Balance Sheet table for large exposures also includes entities which - although 0% risk-weighted - have a non-weighted exposure of more than 10% of the eligible capital for the purposes of large risks.
As at 31 December 2019, exposures (market risks and included) exceeding 10% of the Supervisory Capital concerned 6 groups of clients for a gross exposure of 3.3 billion. In detail the positions concern 1 position belonging to the central administrations and central banks portfolio, one belonging to the public sector body portfolio, one belonging to the financial sector and 3 belonging to the company sector.

C. SECURITISATION TRANSACTIONS

QUALITATIVE INFORMATION

Securitisation of residential mortgage loans - S.P.V. VOBA n. 3 S.r.l. (September 2011)

Issue characteristics

In September 2011, Volksbank completed a securitisation transaction through the sale of *performing* mortgage loans, for a value of approximately 400 million, to the special purpose vehicle Voba n. 3 s.r.l., which financed the purchase by issuing bonds. The transaction was completed on 1 September 2011 with the signing of contracts for the sale without recourse of the mortgage portfolio and subsequently with the issue of bonds. Volksbank acts as a portfolio servicer in the context of the securitisation transaction.
The portfolio sold had the following characteristics:

Vehicle company:	VOBA n. 3 S.r.l.
- Company interest in the vehicle company	0%
- Date of assignment of receivables	01.09.2011
- Type of receivables assigned	Mortgage loans
- Quality of receivables assigned	In bonis
- Guarantees on receivables assigned	Mortgage Level 1 legal
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	Individuals and companies
- Number of receivables assigned	3,188
- Price of receivables assigned	€ 387,269,164,82
- Nominal value of receivables assigned	€ 387,269,164,82

The characteristics of the securities issued are as follows:

Tranche	S&P/Moody's Rating	Percentage	Amount (in euro)
Class A1	AAA/Aaa	25.73%	102,500,000
Class A2	AA/Aa3	59.28%	236,100,000
Class C	-	14.99%	59,700,000
Total		**100.00%**	**398,300,000**

Class C securities have been fully subscribed by the Company. With a total remaining of 106.1 million, of which 46.4 million class A2 and 59.7 million class C. Of these 59.7 million of Class C are held by the Company.

Securitisation of residential mortgage loans - S.P.V. VOBA n. 5 S.r.l. (February 2014)

Issue characteristics

The Board of Directors resolved to perform a securitisation of a loans portfolio consisting of *performing* mortgages and unsecured loans granted to small and medium-sized enterprises (SMEs) called VOBA n. 5 S.r.l..
The operation involved the sale of 4,164 transactions for a total value of €479,791,803.44.
As in the case of previous securitisation operations, the purpose of the securitisation is to obtain eligible instruments for refinancing operations with the ECB in support of liquidity requirements.

Vehicle company:	**VOBA n. 5 S.r.l.**
- Company interest in the vehicle company	0%
- Date of assignment of receivables	01.02.2014
- Type of receivables assigned	Residential mortgage loans
- Quality of receivables assigned	In bonis
- Guarantees on receivables assigned	Mortgages
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	SAE 600, 614, 615
- Number of receivables assigned	4,164
- Price of receivables assigned	€ 479,791,803,44
- Nominal value including accrued interest on receivables assigned	€ 479,791,803,44

The characteristics of the securities issued are as follows:

Tranche	**DBRS/Fitch Rating**	**Percentage**	**Amount (in euro)**
Class A1	AAA/AA	41.11%	201,400,000
Class A2	AAA/AA	40.62%	199,000,000
Junior Class	NR	18.26%	89,450,000
Total		**100.00%**	**489,850,000**

Junior class securities have been fully subscribed by the Company. As at 31st December 2017 a total of 174.9 million securities remained, of which 85.4 million were A2 class securities and 89.5 million were Junior class securities. Of these, as at 31 December 2019, the 89.5 million Junior class are held by the Company.

Securitisation of residential mortgage loans - S.P.V. VOBA n. 6 S.r.l. (September 2016)

Issue characteristics

The Board of Directors resolved to perform a securitisation of a loans portfolio consisting of *performing* mortgages and unsecured loans granted to small and medium-sized enterprises (SMEs) called VOBA n. 6 S.r.l..
The operation involved the sale of 4,014 transactions for a total value of €529.5 million.
As in the case of previous securitisation operations, the purpose of the securitisation is to obtain eligible instruments for refinancing operations with the ECB in support of liquidity requirements.

Vehicle company:	VOBA N.6 S.r.l.
- Bank interest in the vehicle company	0%
- Date of assignment of receivables	01/09/2016
- Type of receivables assigned	SMI mortgages
- Quality of receivables assigned	In bonis
- Guarantees on receivables assigned	Mortgage and unsecured loans
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	Private subjects
- Number of receivables assigned	4,014
- Price of receivables assigned	€ 529,495,061.41
- Nominal value of receivables assigned	€ 528,611,984.61

The characteristics of the securities issued and listed on the Dublin Stock Exchange are as follows:

Tranche	DBRS/Moody's Rating	Percentage	Amount (in euro)
Class A1	AAA/Aa2	18.47%	100,000,000
Class A2	AA/Aa3	47.53%	257,400,000
Class B	A/A1	11.01%	59,600,000
Junior Class	NR	23.00%	124,545,000
Total		**100.00%**	**541,545,000**

Junior class securities have been fully subscribed by the Company. A total of 190.9 million euro remained, of which 6.7 million euro of class A2 securities, 59.6 million euro of class B securities and 124.5 million euro of the class Junior securities. The Company holds 124.5 million junior class securities.

Securitisation of residential mortgage loans - S.P.V. VOBA n. 7 S.r.l. (May 2018)

Issue characteristics

The Board of Directors resolved to perform a securitisation of a loans portfolio consisting of *performing* mortgages and unsecured loans granted to small and medium-sized enterprises (SMEs) called VOBA n. 7 S.r.l..
The operation involved the sale of 4,473 transactions for a total value of €750.5 million.
As in the case of previous securitisation operations, the purpose of the securitisation is to obtain eligible instruments for refinancing operations with the ECB in support of liquidity requirements.

Vehicle company:	VOBA N.7 S.r.l.
- Bank interest in the vehicle company	0%
- Date of assignment of receivables	01/05/2018
- Type of receivables assigned	SMI mortgages
- Quality of receivables assigned	In bonis
- Guarantees on receivables assigned	Mortgage and unsecured loans
- Geographical area of receivables assigned	Italy North
- Economic activity of assigned debtors	
- Number of receivables assigned	4,473
- Price of receivables assigned	€ 750,469,537.60
- Nominal value of receivables assigned	€ 750,470,731.39

The characteristics of the securities issued and listed on the Dublin Stock Exchange are as follows:

Tranche	S&P/Moody's Rating	Percentage	Amount (in euro)
Class A1	AA/Aa3	18.45%	141,000,000
Class A2	AA/Aa3	46.05%	352,000,000
Class B	BBB/Baa3	19.63%	150,000,000
Junior Class	NR	15.87%	121,319,000
Total		**100.00%**	**764,319,000**

Class A1, A2, B and Junior securities have been fully subscribed by the Company. A total of 552.4 million remained, of which 281.1 million of class A2 securities, 150.0 million of class B securities and 121.3 million of the Junior class securities. The Company placed 255.5 million of class A2 securities and 60.0 million of class B ones.

QUANTITATIVE INFORMATION

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

Type of securitized assets/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
(thousands of €)	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 of complete cancellation from the financial statements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Subject to partial cancellation from the financial statements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not cancelled from the financial statements	**25,551**	-	**90,000**	-	**395,014**	-	-	-	-	-	-	-	-	-	-	-	-	-
- Mortgage loans	25,551	-	90,000	-	395,014	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Type of underlying asset/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
(thousands of €)	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
HIPO – 11 -Spanish residential mortgages	470	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.3 Special purpose vehicle for the securitisation

Securitisation name/ Name of special purpose vehicle	Registered office	Consolidation	Activities (thousands of €)			Liabilities (thousands of €)		
			Credits	Debt Securities	Others	Senior	Mezzanine	Junior
Voba N.3 S.r.l.	Conegliano (TV)	NO	116,559	-	7,740	46,440	-	59,700
Voba N.5 S.r.l.	Conegliano (TV)	NO	200,008	-	6,283	85,429	-	89,450
Voba N.6 S.r.l.	Conegliano (TV)	NO	202,707	-	13,674	6,708	59,600	124,545
Voba N.7 S.r.l.	Conegliano (TV)	NO	522,280	-	48,231	281,060	150,000	121,319

C.4 Unconsolidated securitisation vehicle

At the reporting date, there were no interests in non-consolidated securitisation companies. Moreover, there are no exposures to these companies and no interventions or support agreements, including financial support, have been approved for these companies.

C.5 Servicer activities - own securitisations: collection of securitised loans and redemption of securities issued by the securitisation vehicle

Vehicle company: *(thousands of €)*	Securitised assets (end of period data)		Collection of receivables in the year		Percentage of securities repaid (end of period data)					
					Senior		Mezzanine		Junior	
	Impaired	In bonis	Impaired	In bonis	Non-performing assets	Performing assets	Non-performing assets	Performing assets	Non-performing assets	Performing assets
Voba 3 S.r.l.	2,353	115,506	349	22,630	-	86.28%	-	-	-	-
Voba 5 S.r.l.	2,803	198,111	138	35,142	-	78.66%	-	-	-	-
Voba 6 S.r.l.	14,530	189,672	274	66,711	-	98.12%	-	-	-	-
Voba 7 S.r.l.	4,342	517,639	347	130,274	-	42.99%	-	-	-	-

D. INFORMATION ON STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION VEHICLE COMPANIES)

QUALITATIVE INFORMATION

At the reporting date, the company did not have any structured entities that are not consolidated for accounting purposes.

QUANTITATIVE INFORMATION

At the reporting date, the company did not have any structured entities that are not consolidated for accounting purposes.

E. SALES TRANSACTIONS

The information provided in this part apply to all sales transactions, including securitisation transactions.

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

Transactions mainly refer to the use of debt securities in portfolio for short and medium-term repurchase agreements and to receivables from clients sold in the context of the securitisation transactions. With regard to transactions in debt securities under medium and long-term repurchase agreements, reference should be made to the Notes to the Financial Statements - Part B.

QUANTITATIVE INFORMATION

E.1 Financial assets sold and fully recognised and associated financial liabilities: book values

Technical forms/wallet *(thousands of €)*		**Financial assets sold and fully recognised**				**Associated financial liabilities**		
		Book value	of which: subject of securitisation transactions	of which: subject to repurchase agreements	of which non-performing	Book value	of which: subject of securitisation transactions	of which: subject to repurchase agreements
A.	**Cash assets**	**-**	**-**	**-**	**X**	**-**	**-**	**-**
	1. Debt securities	-	-	-	X	-	-	-
	2. Equity securities	-	-	-	X	-	-	-
	3. Financing	-	-	-	X	-	-	-
	4. Derivatives	-	-	-	X	-	-	-
B.	**Other financial assets obligatorily measured at fair value**	-	-	-	-	-	-	-
	1. Debt securities	-	-	-	-	-	-	-
	2. Equity securities	-	-	-	X	-	-	-
	3. Financing	-	-	-	-	-	-	-
C.	**Financial assets designated at fair value**	-	-	-	-	-	-	-
	1. Debt securities	-	-	-	-	-	-	-
	2. Financing	-	-	-	-	-	-	-
D.	**Financial assets measured at fair value with impact on overall profitability**	**53,243**	**-**	**53,243**	**-**	**53,203**	**-**	**53,203**
	1. Debt securities	53,243	-	53,243	-	53,203	-	53,203
	2. Equity securities	-	-	-	X	-	-	-
	3. Financing	-	-	-	-	-	-	-
E.	**Financial assets measured at amortised cost**	**1,487,593**	**1,027,101**	**460,492**	**8,701**	**440,457**	**440,457**	**-**
	1. Debt securities	460,492	-	460,492	-	-	-	-
	2. Financing	1,027,101	1,027,101	-	8,701	440,457	440,457	-
	Total at 31.12.2019	**1,540,836**	**1,027,101**	**513,735**	**8,701**	**493,660**	**440,457**	**53,203**
	Total at 31.12.2018	**1,658,091**	**1,284,382**	**373,709**	**13,127**	**880,942**	**511,027**	**369,915**

Financial liabilities against financial assets sold but not derecognised relate to both securitisations and repurchase agreements against securities recorded as assets. However, repurchase agreements relating to securities received under reverse repurchase agreements are not included.

E.2 Financial assets sold, partially recognised, and associated financial liabilities: book values

At the Balance Sheet date, there were no partially recognised transferred financial assets or associated financial liabilities.

E.3 Transfer transactions with liabilities with recourse exclusively to the assets transferred and not fully derecognised: fair value

Columns A and B show the *fair value* of the financial assets sold but still recorded, respectively, in full or in part, under the assets of the Balance Sheet, as well as the *fair value* of the associated financial liabilities recorded following such sale, if the liabilities can only be recourse to the related assets sold. In the case of assets sold

belonging to two or more accounting portfolios, the associated liabilities must, by convention, be indicated in proportion to the weight that the assets sold (measured at *fair value*) forming part of a given accounting portfolio have on the total assets sold. This last case was not present at 31 December 2019.
This table does not show covered bond transactions where the selling bank and the financing bank are one and the same.

		Fully recognised	Partially recognised	Total	
(thousands of €)				**31.12.2019**	**31.12.2018**
A.	**Financial assets held for trading**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Equity securities	-	-	-	-
	3. Financing	-	-	-	-
	4. Derivatives	-	-	-	-
B.	**Other financial assets obligatorily measured at fair value**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Equity securities	-	-	-	-
	3. Financing	-	-	-	-
C.	**Financial assets designated at fair value**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Financing	-	-	-	-
D.	**Financial assets measured at fair value with impact on overall profitability**	**-**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Equity securities	-	-	-	-
	3. Financing	-	-	-	-
E.	**Financial assets measured at amortised cost**	**1,120,747**	**-**	**-**	**-**
	1. Debt securities	-	-	-	-
	2. Financing	1,120,747	-	-	-
	Total financial assets	1,120,747	-	-	-
	Total associated financial liabilities	440,457	-	X	X
	Net value 31.12.2019	**1,561,204**	**-**	**1,561,204**	**X**
	Net value 31.12.2018	**1,877,716**	**-**	**X**	**1,877,716**

B. Financial assets sold and derecognised in full with entry in the continuing involvement

At the reporting date there were no financial assets sold and derecognised in full entered in the continuing involvement.

E.4 Covered Bond Transactions

On 30 August 2019, the Board of Directors authorised a covered bonds Program for a maximum amount of 3 billion based on the sale to a special purpose vehicle of residential landed-property loans and secured mortgages originated by the Bank itself.
On 1 October 2019 there was a without recourse sale, pursuant to and for the purposes of the combined provisions of arts. 4 and 7 bis of Law 130 of 30 April 1999, to the vehicle VOBA CB S.r.l. of a portfolio of total 460 million *performing* loans related to the issue of the first series of bank covered bonds for a total 300 million that took place on 28 October 2019 for a 7 year duration.
The transaction involved the sale of residential mortgages to the vehicle and the contextual transfer to it of a subordinate loan to settle the sale price. As the Bank still carries all the risks and benefits connected to those loans, those transactions do not emerge as types relevant for derecognition from the financial statements of the loans being sold as specified by IFRS 9.
The main strategic objectives pursued include that of providing the Bank with instruments intended for the market. In addition activation of instruments like this can contribute to:

- lengthening the due dates of the collection so strengthen the relation between the latter and the medium/long term loan assets;
- diversify long-term supply sources;
- use of favourable conditions, compared to those available through normal non-covered bonds.

A complex, structured process was implemented to satisfy regulations. In particular, to enable the calculation and monitoring of legal and contractual tests, check compliance with the suitability requirements for the assets sold, draw up reports required by regulations and by rating agencies and fulfil all controls. For the counterparts involved for various reasons, the independent auditing firm BDO Italia S.p.A., as "asset monitor", audits the regulatory tests. The transactions show a regular trend and no irregularities have emerged compared to what was established contractually. Regulations also establishes that the objectives, risks, also legal and reputational, and the control procedures implemented be assessed by corporate bodies with strategic supervision and controls functions.

Series and Class	
ISIN Code	IT0005388647
Date of Issue	28 October 2019
Expiry date:	28 October 2026
Currency	Euro
Amount	300,000,000
Type of rate	Fixed
Parameter	n.a.
Coupon	0.250%, per annum, annually in arrears
Law applicable	Italian

F. MODELS FOR MEASURING CREDIT RISK

The bank does not use internal portfolio models to measure the exposure to credit risk.

Section 2 MARKET RISKS

2.1 Interest rate risk and price risk - supervisory trading book

QUALITATIVE INFORMATION

A. General aspects

The supervisory trading book constitutes a very small fraction of the proprietary book; the majority of the financial instruments held are registered in the accounting categories Hold To Collect & Sell (HTCS) and Hold To Collect (HTC) and accordingly belonging to the banking book.
However, the analytical instrumentation used to measure market risks (interest rate risk and price risk) is the same for the entire proprietary portfolio.
Interest rate risk represents the risk associated with the possibility of incurring losses on the Bank's financial assets as a result of unfavourable market interest rates.
Price risk, on the other hand, represents the risk associated with changes in the value of outstanding positions, deriving from fluctuations in market prices. It breaks down into:

- generic risk: a change in the price of an equity instrument as a result of fluctuations in the reference stock market;
- specific risk: change in the market price of a specific equity security resulting from changes in the market's expectations of the issuer's capital strength or prospects.

The proprietary portfolio is managed with a view to prudent management of transactions, geared to limiting market risks and in compliance with the strategic indications and operating limits contained in the "Investment Policy", the document "Operating limits and proxies for finance and liquidity" and the annual "Operating Plan".
The main source of interest rate risk is proprietary bonds; trading is aimed at absolute return targets by maximising portfolio profitability in strict compliance with the *Value at Risk* (VaR) and *Stop-Loss,* limits, defined in the internal regulations mentioned above. The portfolio's bond portfolio consists of floating-rate and fixed-rate securities with a limited duration. Most of the bonds held refer to securities issued by the Italian Republic or by Italian banks of national importance. The interest rate risk is assumed by the Investment Service, which also uses derivative instruments (*futures*, IRS) for hedging purposes.
The main source of price risk, on the other hand, is represented by equity positions relating to mainly European companies and only marginally by derivative instruments linked to equity indices. In this case, too, the strategy pursued is geared towards prudent asset management and conscious risk-taking. They also apply to the price risk limits of *Value at Risk* and *Stop-Loss*.
Almost all of the financial instruments in the portfolio are denominated in euros, making the exchange rate risk entirely marginal.
The assets in the proprietary portfolio did not undergo significant changes compared to the previous year, except for the average stock that increased in accordance with the strategic planning guidelines.

B. Management processes and methods for measuring interest rate risk and price risk

The internal control and market risk management processes (interest rate and price) are contained in the "Investments policy" and in the document "Limits and operating powers for finance and liquidity", both reviewed periodically and decided by the Board of Directors.

The policy formalises the performance of risk management activities relating to market risks, defines the tasks and responsibilities assigned to the various organisational units with competence in the matter and specifies, in particular, the main operating processes, measurement methods, exposure limits, information flows and any corrective actions.

Investment and trading activities are accordingly carried out in compliance with internal policy and are carried out within the framework of an articulated internal regulatory system of delegation of management powers, which provides for management limits defined in terms of negotiable financial instruments, amount, duration, investment markets, types of issues and issuers, sector and rating.

As part of its risk management activities, Risk management produces daily and monthly reports.

Related to the market risk control and management methods, here below please find the control indicators and the first and second level internal control processes on the overall operations of the proprietary portfolio. In general, limits are differentiated amongst the various market risk types (rate and price), but are nevertheless brought back into a unitary framework, built with a homogeneous logic.

The structure of the operating powers of finance is divided into four levels:

- operating limits
- position limits: credit and concentration risk
- Stop-Loss limits
- Value-at-Risk (VaR) limits

The structure of the operating limits requires the use of the following risk indicators:

- interest rate risk: sensitivity (change in profits or losses that would occur in the event of a change of one hundredth of a point in the reference curve, with a parallel shift);
- equity risk: delta equivalent (market value for equity positions and cash equivalent position for equity derivatives);
- maximum amount invested: countervalue of securities/funds at loading prices to ensure compliance with the average stocks allocated.

The position limits are structured on:

- limits on the assumption of credit risk: overall limits are set on exposure on the rating classes, in particular below the investment grade bracket;
- sectoral limits;
- credit sensitivity limits (change in profits or losses that would occur in the event of a change of one hundredth of a point in the credit spread);
- limits for maturity bands;
- constraints related to eligibility criteria for Eurosystem purposes;
- country limits: there are limits on the maximum permissible exposure per country depending on the country's rating.

The *Stop-Loss* are checked on the results achieved and not achieved during the last business day, accumulated over the last 5 business days (weekly stop-loss) and accumulated over the last 30 calendar days (monthly stop-loss), reinforced by a cumulative check since the beginning of the year, with a process of reporting to the bodies responsible for the appropriate decisions. The limits are based on the maximum level of loss deemed acceptable in the reference period, in line with the Bank's strategic choices (Risk Capital within the *Risk Appetite Framework,* RAF) and contained in the Annual Operating Plan. The Risk Capital is in turn divided between the various asset classes forming the portfolio.

Related to the VaR limits, the latter is defined as the threshold amount beyond which no losses should occur with a confidence level and on a specific time horizon. VaR is a uniform measurement indicator applicable to all types of trading on the markets and all financial instruments, thus making it possible to compare risk values from the

point of view of both time and daily profitability. For the calculation of VaR, the Bank uses the parametric model of variancecovariance provided by Prometeia, supported by internal models used for the necessary checks, as well as for planning purposes: for example, VaR from Monte Carlo simulations and historical VaR using the Extreme Value Theory for the highest levels of confidence. The responsibility for daily checks on operating, position, *Stop-Loss* and *VaR* limits lies with the risk control function, which, in order to avoid and prevent possible overruns of authorised risk limits, checks and verifies the approaching of the thresholds by means of a standardised daily reporting system.
VaR models are for management purposes only and are not used to calculate capital requirements on market risks for which, instead, the standardised methodology is adopted for the purposes of the relative supervisory reporting to the Bank of Italy.

QUANTITATIVE INFORMATION

1. Supervisory trading book: distribution by residual maturity (repricing date) of financial assets and liabilities in cash and financial derivatives

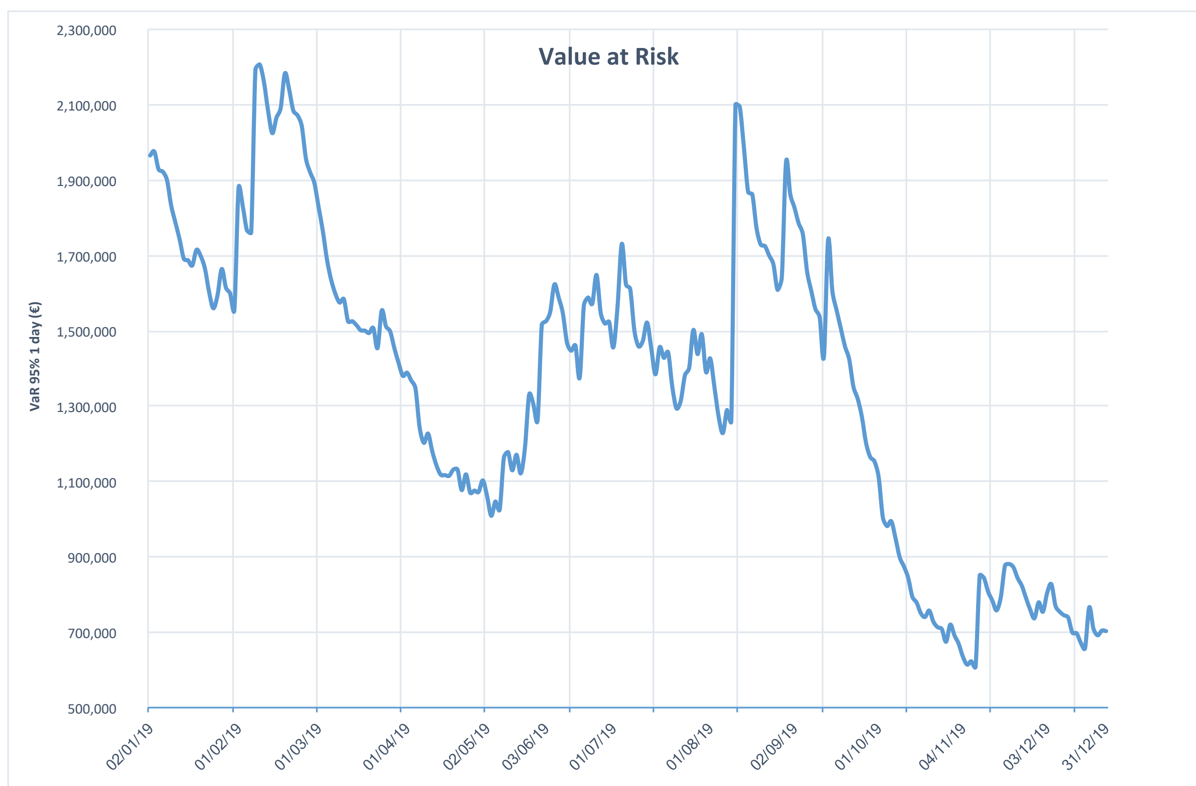
Type/Remaining time (thousands of €)		At sight	Up to 3 months	over 3 months to 6 months	over 6 months to 1 year	over 1 year to 5 years	over 5 years to 10 years	Over 10 years	Indefinite life
1.	***Cash assets***	-	-	-	-	-	-	-	-
1.1	Debt securities	-	-	-	-	-	-	-	-
	- With early redemption option	-	-	-	-	-	-	-	-
	- Other	-	-	-	-	-	-	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	-	-	-	-	-	-	-	-
2.1	P.C.T. liabilities	-	-	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	-	**14,481**	**23**	**6**	**(5,247)**	**(3,611)**	**(1,140)**	-
3.1	With underlying security	-	5,024	23	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	- Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	5,024	23	-	-	-	-	-
	+ Long positions	-	5,059	23	-	-	-	-	-
	- Short positions	-	(35)	-	-	-	-	-	-
3.2	Without underlying security	-	9,457	-	6	(5,247)	(3,611)	(1,140)	-
	- Options	-	-	-	-	4,751	(3,611)	(1,140)	-
	+ Long positions	-	-	-	-	57,792	26,285	3,394	-
	- Short positions	-	-	-	-	(53,041)	(29,896)	(4,534)	-
	- Other derivatives	-	9,457	-	6	(9,998)	-	-	-
	+ Long positions	-	81,179	581	1,648	380	-	-	-
	- Short positions	-	(71,722)	(581)	(1,642)	(10,378)	-	-	-

2. Supervisory trading book: distribution of exposures in equities and equity indices for the main countries of the quotation market

Type of transactions/Listing index		Listed			Not listed
		AUSTRIA	ITALY	OTHERS	
A.	Equity securities	7,597	5	-	-
	- long positions	7,597	5	-	-
	- short positions	-	-	-	-
B.	Buying/selling not yet regulated on equity securities				
	- long positions	-	-	-	-
	- short positions	-	-	-	-
C.	Other derivatives on equity securities	-	-	-	-
	- long positions	-	-	-	-
	- short positions	-	-	-	-
D.	Derivatives on share indexes	-	-	-	-
	- long positions	-	-	-	-
	- short positions	-	-	-	-

3. Supervisory trading book - internal models and other methods for sensitivity analysis

Here below please find the VaR trend related to 2019 (confidence 95%, confidence interval 1 day), referred to the entire proprietary portfolio of Volksbank (however excluding what is priced at amortised cost):



In addition to traditional VaRs, a 99.9% daily VaR is also calculated using the so-called "Extreme Value Theory". The use of this methodology has a considerable advantage in terms of accuracy, especially in the evaluation of extreme events (unlikely situations, but high impact).

2.2 Interest rate risk and price risk - Supervisory trading book

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring interest rate risk and price risk

The internal measurement, control and management process for the interest rate risk of the bank portfolio uses a monitoring system based on an internal model for the daily calculation of the Value at Risk (VaR), also used to analyse sensitivity to the price risk.
This model is for the financial assets classified under "other financial assets obligatorily measured at *fair value*", the "financial assets measured at *fair value* with an impact on comprehensive income" and the financial assets measured at amortised cost"
The relative internal risk control and management process, for both interest rate and price, and the method, are the same as what is detailed in the qualitative information related to "Interest rate and price risk - supervisory portfolio".
On monitoring based on the sensitivity analyses using ALM methods, the difference is made between the interest rate risk from "*fair value*" and the interest risk from "cash flow". The main sources of interest rate risk from "*fair value*" are found in collection transactions - especially at sight - and loans - mainly mortgages and debt securities - at fixed rate. The rate risk from "cash flow" also comes from the remaining assets and liabilities at sight or at indexed rate.
The guidelines and discipline for the management of interest rate risk are contained in the "ALM Policy" according to a clear and easily understandable model. The measurement of interest rate risk is based on a gap analysis model:

- in relation to the annual interest margin (12 months), calculation of the effect of an instantaneous and parallel shift of the yield curve by one percentage point, which is assumed to occur instantaneously and in parallel on all maturities on the day following the reference date;
- in relation to the present value of assets, the full repricing of assets and liabilities following a parallel shift of two percentage points, and recalculating the difference (the "delta") with respect to the previous situation. The risk indicator represents the ratio between the total change in value and equity.

In order to ensure a realistic treatment of on-demand assets and liabilities (current accounts in euros and in foreign currency and savings deposits), the analysis uses an econometric model parametrised on the basis of the historical behaviour of the items themselves.
The Risk Management function then calculates monthly the sensitivity of the Bank's net interest and assets margin at pre-set changes in the interest rate curve on transactions outstanding at the reference date (end of the month). The results of the analysis, together with the interest rate forecasts prepared by the Investment and Treasury Services, are contained in a monthly report and contribute to defining the interest rate risk hedging policy established by the Finance Committee. They are discussed on a monthly basis in the Finance Committee itself. The Treasury and Investment Services are accordingly responsible for implementing the decisions taken in practice.
2 main indicators are identified to strengthen control of the interest rate risk, related to the sensitivity to risk rate of the interest margin and of the current value of equity respectively, for which specific limits are set:

- Indicator ΔMI %: Delta Margin of Interest (shock +100bp/-25bp)/ Expected Margin of Interest
- Indicator AVE %: Delta Economic Value (shock +200bp/-50bp) / Treasury shares

For the first indicator, a limit of 6% is set and for the second a limit of 16%. Verification of the limits set out in the previous paragraph is the responsibility of the Risk Management Function, which carries it out at least once a month.

B. Fair value hedging activities

At the reporting date, there were no *fair value* hedges.

C. Cash flow hedging activities

At the reporting date, there were no cash flow hedges.

D. Hedging of foreign investments

For further information, reference should be made to the section on the exchange rate risk.

QUANTITATIVE INFORMATION

1. *Banking book: distribution by residual maturity (re-pricing date) of financial assets and liabilities*

Type/Remaining time *(thousands of €)*	At sight	Up to 3 months	over 3 months to 6 months	over 6 months to 1 year	over 1 year to 5 years	over 5 years to 10 years	over 10 years	Indefinite life
1. Cash assets	**1,788,310**	**4,496,725**	**575,237**	**90,392**	**1,371,792**	**1,094,590**	**436,775**	**-**
1.1 Debt securities	1,284	285,727	448,154	9,268	748,603	749,554	156,619	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,284	285,727	448,154	9,268	748,603	749,554	156,619	-
1.2 Loans to banks	1,829	229,315	-	1,619	-	-	-	-
1.3 Loans to clients	1,785,197	3,981,683	127,083	79,505	623,189	345,036	280,156	-
- C/AC	1,018,535	618	51,361	4,619	46,649	766	-	-
- Other loans	766,662	3,981,065	75,722	74,886	576,540	344,270	280,156	-
- with early redemption option	103,132	3,852,445	36,997	59,495	465,599	329,890	270,677	-
- other	663,530	128,620	38,725	15,391	110,941	14,380	9,479	-
2. Cash liabilities	**6,152,093**	**1,319,510**	**757,628**	**224,347**	**674,704**	**333,250**	**9,085**	**-**
2.1 Payable to clients	5,953,896	1,002,741	24,499	49,751	361,033	5,809	9,085	-
- C/AC	5,619,335	-	-	-	-	-	-	-
- other payables	334,561	1,002,741	24,499	49,751	361,033	5,809	9,085	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	334,561	1,002,741	24,499	49,751	361,033	5,809	9,085	-
2.2 Payables to banks	198,197	59,221	690,417	99,251	200,762	-	-	-
- C/AC	34,816	-	-	-	-	-	-	-
- other payables	163,381	59,221	690,417	99,251	200,762	-	-	-
2.3 Debt securities	-	257,548	42,712	75,345	112,909	327,441	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	257,548	42,712	75,345	112,909	327,441	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-
- other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-
4. Other off-Balance Sheet transactions	**(149,505)**	**-**	**10**	**69**	**2,184**	**29,177**	**117,315**	**-**
+ long positions	-	-	10	69	2,184	29,177	117,315	-
- short positions	(149,505)	-	-	-	-	-	-	-

2. Banking book: internal models and other methods for the sensitivity analysis

With reference to assets and liabilities generating an interest margin - other than the debt securities of the supervisory trading book, of the P.C.T. assets and liabilities (with underlying debt securities of the supervisory trading book) to the other contracts in the information on the supervisory trading book - as defined in the qualitative information to this section, please note that exposure to the interest rate risk is measured using an internal model foreseeing a full-valuation approach of all positions that form the interest-bearing assets and onerous liabilities. In detail, the model envisages the following phases:

- calculation of the net present value (NPV) of individual assets and liabilities and off-Balance Sheet items and determination of the economic value (given by the difference between the NPV of assets and liabilities and the NPV of liabilities);
- definition of a scenario relating to a change in the interest rate curve (parallel shift or steepening or flattening of the curve with reference to the maturities considered most relevant);
- recalculation of the NPV of on-Balance Sheet and off-Balance Sheet instruments on the basis of the new interest rate curve and determination of the new economic value;
- determination of the change in economic value as the difference between the pre- and post-shock value of interest rates.

At the end of the year, the modified duration calculated on the assets and liabilities of the entire financial statements and the duration gap were contained.

2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring exchange rate risk

Support for commercial activities in foreign currencies and the trading service for foreign securities are the main source generating an exchange rate risk for the Bank.
Management of the exchange rate risk is centred with the Treasury with limited exposures.
Automatic network systems interfaced with a single position keeping system give the Treasury Service continual control and in real time of flows in currency that are instantly transferred to the Forex interbank market. The position is updated in real time in the Treasury. The Service can therefore act on the interbank market to balance any imbalances created due to the aforementioned transactions.
The integrated IT treasury procedure (Murex) allows efficient management of spot, forward and optional flows within the framework of pre-established operating limits, defined in the "Investment Policy" and the annual "Operating Plan".
All currency positions are revalued daily at the reference exchange rates of the European Central Bank and constitute the economic contribution of the foreign exchange business to the overall profitability of the Bank.

B. Exchange rate risk hedging activities

Exposure to exchange rate risk is limited by the Company's extremely prudent attitude, expressed in a highly circumscribed currency trading activity.
The exchange rate risk generated by lending and borrowing activities in foreign currencies is also systematically hedged in real time through a hedging and/or borrowing operation in the same currency.

QUANTITATIVE INFORMATION

1. *Distribution of assets, liabilities and derivatives by currency of denomination*

Items *(thousands of €)*	Currencies					
	US Dollars	Swiss Francs	Pounds Sterling	Yen	Canadian Dollars	Other currencies
A. Financial assets	**9,693**	**8,246**	**398**	**400**	**18**	**86**
A.1 Debt securities	-	-	-	-	-	-
A.2 Equity securities	-	-	-	-	-	-
A. 3 Loans to banks	248	101	354	57	18	86
A. 4 Loans to clients	9,445	8,145	44	343	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**1,342**	**744**	**70**	**325**	**34**	**467**
C. Financial liabilities	**75,640**	**8,621**	**711**	**447**	**226**	**233**
C.1 Payables to banks	53,820	5,989	-	246	-	102
C.2 Payable to clients	21,820	2,632	711	201	226	131
C.3 Debt securities	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**65,001**	**(428)**	**-**	**-**	**75**	**(105)**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
- short positions	-	-	-	-	-	-
- Other derivatives	65,001	(428)	-	-	75	(105)
+ long positions	68,302	-	-	-	75	39
- short positions	(3,301)	(428)	-	-	-	(144)
Total assets	**79,337**	**8,990**	**468**	**725**	**127**	**592**
Total liabilities	**78,941**	**9,049**	**711**	**447**	**226**	**377**
Unbalance (+/-)	**396**	**(59)**	**(243)**	**278**	**(99)**	**215**

2. *Internal models and other methodologies for sensitivity analysis*

The exchange rate risk generated by the trading and banking books is monitored using an internal model, described in the section "Interest rate risk and price risk - Supervisory trading book" where, in addition to the section "Interest rate risk and price risk - Banking book", the values assumed by this indicator are shown.

Section 3 Derivatives and hedging policies

3.1 Derivative instruments held for trading

A. FINANCIAL DERIVATIVES

A.1 Financial derivatives held for trading: notional values at the end of the period

Underlying assets/type of derivatives	**31.12.2019**				**31.12.2018**			
	Over the counter				Over the counter			
		Without central counterparts				Without central counterparts		
(thousands of €)	Central counterpart	With netting agreements	Without netting agreements	Organised markets	Central counterpart	With netting agreements	Without netting agreements	Organised markets
1. Debt securities and interest rates	**-**	**-**	**17,005**	**-**	**-**		**62,005**	**-**
a) Options	-	-	5	-	-		5	-
b) Swaps	-	-	12,000	-	-		12,000	-
c) Forward	-	-	-	-	-		-	-
d) Futures	-	-	5,000	-	-		50,000	-
e) Other	-	-	-	-	-		-	-
2. Equity securities and share indexes	**-**	**-**	**-**	**-**	**-**			**-**
a) Options	-	-	-	-	-			-
b) Swaps	-	-	-	-	-			-
c) Forward	-	-	-	-	-			-
d) Futures	-	-	-	-	-			-
e) Other	-	-	-	-	-			-
3. Currencies and gold	**-**	**-**	**71,793**	**-**	**-**		**75,140**	**-**
a) Options	-	-	-	-	-			-
b) Swaps	-	-	-	-	-			-
c) Forward	-	-	71,793	-	-		75,140	-
d) Futures	-	-	-	-	-		-	-
e) Other	-	-	-	-	-			-
4. Goods	**-**	**-**	**-**	**-**	**-**			**-**
5. Other	**-**	**-**	**-**	**-**	**-**			**-**
Total	**-**	**-**	**88,798**	**-**	**-**		**137,145**	**-**

A.2 *Financial derivatives held for trading: gross positive and negative fair value - breakdown by product*

Type of derivatives	31.12.2019				31.12.2018			
	Over the counter				Over the counter			
		Without central counterparts				Without central counterparts		
(thousands of €)	Central counterpart	With netting agreements	Without netting agreements	Organised markets	Central counterpart	With netting agreements	Without netting agreements	Organised markets
1. Positive fair value								
a) Options	-	-	3	-	-		40	-
b) Interest rate swaps	-	-	-	-	-		-	
c) Cross currency swaps	-	-	-	-	-		-	-
d) Equity swaps	-	-	-	-	-			-
e) Forward	-	-	43	-	-		174	-
f) Futures	-	-	-	-	-			-
g) Other	-	-	-	-	-			-
Total	**-**	**-**	**46**	**-**	**-**	**-**	**214**	**-**
2. Negative fair value								**-**
a) Options	-	-	-	-	-			-
b) Interest rate swaps	-	-	816	-	-		1,170	
c) Cross currency swaps	-	-	-	-	-			-
d) Equity swaps	-	-	-	-	-			-
e) Forward	-	-	669	-	-		259	-
f) Futures	-	-	-	-	-		-	-
g) Other	-	-	-	-	-		-	-
Total	**-**	**-**	**1,485**	**-**	**-**	**-**	**1,429**	**-**

A.3 OTC financial derivatives held for trading: notional amounts, gross positive and negative fair value by counterpart

Underlying assets *(thousands of €)*	Central counterpart	Banks	Other finance companies	Other entities
Contracts not covered by netting agreements				
1) Debt securities and interest rates				
- notional value	X	17,005	-	-
- positive fair value	X	3	-	-
- negative fair value	X	816	-	-
2) Equity securities and share indexes				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Currencies and gold				
- notional value	X	68,141	-	3,651
- positive fair value	X	16	-	27
- negative fair value	X	660	-	9
4) Other values		**-**	**-**	**-**
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting agreements				
1) Debt securities and interest rates				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity securities and share indexes	**-**	**-**	**-**	**-**
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold	**-**	**-**	**-**	**-**
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Other values				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial derivatives held for trading: notional amounts

Underlying/Residual life *(thousands of €)*	**Up to 1 year**	**Over 1 and up to 5 years:**	**Over 5 years**	**Total**
A. 1 Financial derivatives on debt securities and interest rates	7,000	10,000	5	17,005
A. 2 Financial derivatives on equity securities and share indexes	-	-	-	-
A. 3 Financial derivatives on foreign currencies and gold	71,408	384	-	71,792
A. 4 Financial derivatives on goods	-	-	-	-
A. 5 Other financial derivatives	-	-	-	-
Total 31.12.2019	**78,408**	**10,384**	**5**	**88,797**
Total 31.12.2018	**127,140**	**10,000**	**5**	**137,145**

B. CREDIT DERIVATIVES

B.1 Credit derivatives held for trading: notional values at the end of the period

At the reporting date, there were no trading credit derivatives.

B.2 Financial derivatives held for trading: gross positive and negative fair value - breakdown by product

At the reporting date, there were no trading credit derivatives.

B.3 OTC trading credit derivatives: notional values, gross positive and negative fair values by counterpart

At the reporting date, there were no trading credit derivatives.

B.4 Residual life of OTC trading credit derivatives: notional values

At the reporting date, there were no trading credit derivatives.

B.5 Credit derivatives associated with the fair value option: annual changes

At the reporting date, there were no credit derivatives associated with the *fair value* option.

3.2 Accounting hedges

QUALITATIVE INFORMATION

A. Fair value hedging activities

At the reporting date, there were no accounting hedges in place.

B. Cash flow hedging activities

At the reporting date, there were no accounting hedges in place.

C. Hedging of foreign investments

At the reporting date, there were no accounting hedges in place.

D. Hedging instruments

At the reporting date, there were no accounting hedges in place.

E. Covered elements

At the reporting date, there were no accounting hedges in place.

QUALITATIVE INFORMATION

A) Hedging financial derivatives

A.1 Hedging financial derivatives: notional values at the end of the period

At the reporting date, there were no financial hedging derivatives.

A.2 Financial derivatives held for trading: gross positive and negative fair value - breakdown by product

At the reporting date, there were no financial hedging derivatives.

A.3 OTC financial derivatives held for trading: notional amounts, gross positive and negative fair value by counterpart

At the reporting date, there were no financial hedging derivatives.

A.4 Residual life of OTC financial derivatives held for trading: notional amounts

At the reporting date, there were no financial hedging derivatives.

B) Hedging credit derivatives

B.1 Credit derivatives held for trading: notional values at the end of the period

At the reporting date, there were no hedging credit derivatives.

B.2 Hedging credit derivatives: gross positive and negative fair value - breakdown by product

At the reporting date, there were no hedging credit derivatives.

B.3 OTC trading credit derivatives: notional values, gross positive and negative fair values by counterpart

At the reporting date, there were no hedging credit derivatives.

B.4 Residual life of OTC hedging credit derivatives: notional values

At the reporting date, there were no hedging credit derivatives.

C) Non-derivative hedging instruments

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and type of hedge

At the reporting date, there were no hedging instruments other than derivatives.

D) Hedged instruments

D.1 . Fair value hedging

At the reporting date, there were no hedging transactions.

D. 2 Hedges of cash flows and foreign investment

At the reporting date, there were no hedging transactions.

E) Effects of hedging transactions on equity

E.1 Reconciliation of equity components

At the reporting date, there were no hedging transactions.

3.3 Other information on derivatives (trading and hedging)

A. FINANCIAL AND CREDIT DERIVATIVES

A.1 OTC financial and credit derivatives: net fair value for counterparts

At the reporting date, there were no hedging transactions.

B.1 OTC financial derivatives: counterpart risk/financial risk - Internal models

For the purposes of calculating the capital requirement for counterpart risk, the Company does not use internal EPE models validated by the supervisory authorities.
For management and capital adequacy assessment purposes (ICAAP process), it uses a risk estimation model for the component represented by over-the-counter (OTC) derivative transactions.
This model uses internal market risk estimation methodologies to determine the potential short-term evolution of the *fair value* of positions, incorporating the benefits of market correlations and including the impacts of guarantee agreements.

Section 4 Liquidity risk

QUALITATIVE INFORMATION

A. General aspects, management procedures and measurement methods of the liquidity risk

The liquidity risk typically occurs as a non compliance with payment commitments or being unable to finance the financial statement assets promptly and based on cost-effectiveness criteria. Those negative circumstances can occur because of:

- not being able to find funds or to obtain them at reasonable costs (funding liquidity risk);
- not being able to sell or reduce a position without significantly affecting the price, due to the bad market efficiency or its malfunctioning (market liquidity risk).

The Bank's general liquidity risk management strategy, characterised by a limited appetite for risk, is displayed first of all by adopting specific management guidelines enabling the reduction of the unfavourable circumstances described above probably happening.
In particular, referred to the first of the aforementioned risk sources, the Bank's commitment is mainly addressed at maintaining a broad, stable, retail collection base, adequately diversified. Further important supply sources are from Italian and international companies and from banking counterparts from whom the Bank has no difficulty with financing itself at market rates. The bank also uses funding granted by the European Central Bank (Targeted Longer-Term Refinancing Operations).
The potential liquidity risk from difficulties to disinvest its positions is limited thanks to the Bank's choice to keep a portfolio of high quality bonds. It mainly includes Government bonds, and, to a lesser extent, bonds issued by other issuers, with high cash value characteristics as they are easy to sell on markets and can be used, with a need for liquidity, in both repurchase agreement transactions with bank counterparts and in the European Central Bank refinancing transactions if the bonds, as most of them are, are eligible.
The liquidity risk is controlled through the actions of different business units: the first control is the action implemented by the operating functions foreseeing specific control that activities they are responsible for are carried out correctly and that they draw up the summary of daily operations.
Liquidity risk management is described in the "Liquidity and funding policy" document, which is reviewed and approved annually by the Board of Directors. It defines in detail:

- the organisational model, which assigns roles and responsibilities to the organisational functions involved in the liquidity management and control process;
- operational and structural liquidity management policies, with an indication of the models and metrics used to measure, monitor and control the liquidity risk, as well as to perform stress tests;
- the Contingency Funding Plan (CFP) foreseeing, besides a description of the indicators supporting identification of possible emergencies, the organisation processes and actions to re-establish the normal liquidity management condition.

An essential element of that management is the distinction between short-term operational liquidity (with a time horizon of up to 12 months) and medium- to long-term structural liquidity (with a time horizon of more than 12 months). The former is aimed at avoiding situations of sudden liquidity tension, caused by specific shocks of the Bank or systemic market shocks; the latter responds to the need to ensure optimal management, from a strategic point of view, of the transformation of the maturities between deposits and loans, through an adequate balance of the maturities of the assets and liabilities, so as to prevent future liquidity crisis situations.
The measurement and control of operational liquidity and structural liquidity have been defined by means of a system of indicators, limits and periodic reporting, including on a daily basis. In particular, a so-called *maturity ladder* has been set up, i.e. a system for monitoring the net financial position that makes it possible to highlight the balances and accordingly the imbalances between expected flows and outflows over predefined time bands and, through the construction of cumulative imbalances, the calculation of the net balance of financial needs (or surpluses) over the considered time horizon.

For the measurement of liquidity risk, the Bank also uses the so-called *Liquidity-at-Risk* (LaR) model, which is based on the observation of "autonomous" negative net flows of liquidity - considering the historical series of the last 5 years and on the application of the *Extreme-Value-Theory* which enables improving the precision of the analysis for high levels of confidence. In particular, daily data are used for the following variables: compulsory reserve with the Bank of Italy, interbank deposits, bond issues, securitisations, movements in securities, extraordinary flows. The data are processed in order to determine the daily cash flows attributable exclusively to decisions outside the direct control of the Bank (Treasury Service) and accordingly attributable to client behaviour. The 3 levels of confidence hypothesised represent the Bank's liquidity needs in normal (up to the LaR value with 99% confidence), stress (up to 99.9%) and extreme conditions (up to 99.99%) at 1 day, 1 week (5 working days), 2 weeks (10 working days) at one month (20 working days).
Another key liquidity risk management activity concerns the execution of a stress test programme to assess the Bank's vulnerability to exceptional but plausible events. In particular, stress tests are performed in terms of scenario analysis, consistent with the definition of liquidity risk adopted and trying to simulate the behaviour of their cash flows in unfavourable conditions against subjective conjectures based on corporate experience and/or indications provided by regulations and supervisory guidelines
In addition, the policy clearly defines the organisational structure of the structures and functions responsible for liquidity management and related controls and the emergency plans to be implemented in the event of stress or crisis situations (CFPs, Contingency Funding Plans), the declaration of which originates from the problematic development of a predefined series of exogenous and endogenous factors.
Moreover,the "Policy on the system of internal transfer prices" ("TIT") of funds has the following objectives:

- the transfer of interest rate and liquidity risks from the commercial network to the treasury unit, so as to ensure centralised assessment and management of the Bank's exposure to these types of risks;
- the transfer from the commercial network to the treasury unit of contributions resulting from the transformation of maturities;
- the possibility of evaluating in precise ways the actual contribution at the level of each individual business unit and each individual client relationship.

The internal transfer rates at the base of the system, in addition to being differentiated by maturity (multiple TITs), being based on market rates that are effectively negotiable by the treasury, guaranteeing profit margins for the operating units consistent with the Bank's overall profitability, are all made up of several components with different purposes:

- the interest rate free component (TIT risk free) which transfers interest rate risk from commercial units to the treasury unit;
- the liquidity component (TIT) which takes into account the cost of funding (refinancing) that the Bank has to face on the interbank market and the risk-taking capabilities set out in the "Risk Policy" and the "Liquidity Policy";
- the "bonus-malus" component as an instrument with which to manage any commercial incentives.

QUANTITATIVE INFORMATION

1. *Distribution of financial assets and liabilities over time by residual contractual duration*

Items/Scales of time *(thousands of €)*	At sight	Over 1 day to 7 days	over 7 days to 15 days	over 15 days to 1 month	over 1 month to 3 months	over 3 months to 6 months	over 6 months to 1 year	over 1 year to 5 years	Over 5 years	Indefinite life
Cash assets	**1,063,192**	**16,971**	**25,294**	**156,504**	**236,353**	**355,760**	**630,467**	**3,451,066**	**3,521,799**	**235,448**
A.1 Government bonds	219	-	1,271	-	5,356	56,723	71,170	804,082	856,500	-
A.2 Other debt securities	254	-	10	27	210	462	21,695	248,610	33,923	-
A. 3 O.I.C.R. units	50,425	-	-	-	-	-	-	-	-	-
A. 4 Financing	1,012,294	16,971	24,013	156,477	230,787	298,575	537,602	2,398,374	2,631,376	235,448
- Banks	1,831	-	-	1,056	4	6	1,632	72	311	228,323
- Client	1,010,463	16,971	24,013	155,421	230,783	298,569	535,970	2,398,302	2,631,065	7,125
Cash liabilities	**6,002,959**	**527,077**	**21,697**	**105,873**	**61,721**	**836,922**	**336,352**	**1,019,212**	**586,176**	**-**
B.1 Deposits and current accounts	5,936,459	524	21,697	44,574	22,241	23,037	47,450	351,703	-	-
- Banks	47,087	-	19,504	36,699	1,392	-	-	-	-	-
- Clients	5,889,372	524	2,193	7,875	20,849	23,037	47,450	351,703	-	-
B.2 Debt securities	-	-	-	60,914	37,548	57,481	146,285	84,565	430,000	-
B.3 Other liabilities	66,500	526,553	-	385	1,932	756,404	142,617	582,944	156,176	-
"Off-balance sheet" transactions	**(150,318)**	**(3)**	**(220)**	**2**	**(319)**	**10**	**75**	**2,186**	**146,492**	**-**
C.1 Financial derivatives with exchange of capital	-	(3)	(220)	2	(319)	-	6	2	-	-
+ Long positions	-	670	17,422	317	50,945	581	1,648	380	-	-
- Short positions	-	(673)	(17,642)	(315)	(51,264)	(581)	(1,642)	(378)	-	-
C.2 Financial derivatives without exchange of capital	(813)	-	-	-	-	-	-	-	-	-
+ Long positions	3	-	-	-	-	-	-	-	-	-
- Short positions	(816)	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received	-	-	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	(149,505)	-	-	-	-	10	69	2,184	146,492	-
+ Long positions	-	-	-	-	-	10	69	2,184	146,492	-
- Short positions	(149,505)	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

DISCLOSURE OF INVESTMENTS IN HEDGE FUNDS

The amount of the hedge fund portfolio at 31 December 2019 was €0.2 million.
The hedge fund portfolio had no effect on the Profit and Loss Account for the year.

Section 5 Operational risk

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring operational risk

In line with supervisory requirements, operational risk is defined as the risk of loans losses due to errors, violations, interruptions, external events or damage resulting from malfunctions in internal processes or inadequacies of persons and/or systems. Operational risks include, amongst other things, losses resulting from theft and fraud, human error, operational disruption, system unavailability, transaction execution, breach of contract, data processing, property damage and natural disasters.
With reference to governing operating risks, the Risk management department is responsible for establishing methods and coordinating execution of management and control processes, preparing specific information flows for the competent company Bodies and Departments, in order to ensure the full knowledge and governance of risky phenomena, also potential, the bank is exposed to.

Monitoring and measurement of operational losses

The most advanced method of measuring the operational risk profile involves the combined use of information on internal and external historical operating losses, with qualitative factors deriving from scenario analysis and evaluations relating to the control system and the operating context.
With regard to the monitoring of operational risks, it should first of all be noted that the Bank is a member of the interbank consortium DIPO (Italian Data Base for Operational Losses) promoted by the Italian Banking Association, and accordingly regularly collects information on operating losses.
The internal database of operating losses reports all events with a gross operating loss of more than 500 Euros. Reports from the network and the internal business units are integrated with losses deriving from passive legal actions and complaints from clients; both the latter types of events are systematically recorded and monitored during their evolution in special internal databases under the responsibility of the Legal Advice office and the Compliance function respectively.
Where a legal and accounting analysis reveals elements that may suggest a probable future disbursement of economic resources, adequate provisions will be made for risks and charges as a precautionary measure and, if possible, settlement policies will be implemented.
The information obtained from the internal and external databases (DIPO), the detailed analysis of the most significant loss events according to their impact and/or frequency of occurrence, the countermeasures already taken or to be taken are discussed quarterly in the Internal Control Committee. This meeting, also involving the operational functions (process owners) affected from time to time, identifies the main sources of manifestation of operational risks and potential critical situations, the adequacy of existing operational processes with respect to possible sources of loss, the actions to be taken with a view to prevention and mitigation, and the quality of insurance cover. As already indicated, where deemed appropriate, certain categories of operational risks are mitigated through the conclusion of ad hoc insurance contracts. The Bank also has a sophisticated going concern plan, reviewed and verified on an annual basis; it establishes principles, targets and procedures aimed at reducing the damage resulting from accidents and catastrophes to an acceptable level.
The Risk Management Function also carries out numerical analysis and processing activities, entirely based on data from the internal database of operating losses, with the aim of calculating the VaR values of operating losses

(Operational VaR, or potential losses). The model consists of a Monte Carlo simulation based on 60,000 scenarios. In each scenario, the operating losses incurred in a year are simulated, numerically and as an amount, by acting on 2 independent distributions that model the following key variables:

- distribution of the frequency of loss events (number of events in 1 year); the Poisson distribution is used;
- distribution of the impact (amount) of the loss events ("severity loss distribution"); the generalised Pareto distribution is used according to the methodology of the Extreme-Value-Theory (EVT, model of the extreme values).

The database is made up of the loss events recorded by Volksbank from 2003 to the present day, filtering only events of an amount greater than 500 euros.
To calculate the capital requirements referred to the operating risk, the Bank uses the standardised method (Traditional Standardized Approach) based on provisions in Regulation (EU) 575/2013 of 26 June 2013 which implements the Basel 3 principles. It establishes that the calculation of the overall capital charge will be equal to the average of the so-called TSA contribution, referring to the last three annual observations made at the end of the financial year (31 December). For each year, the TSA contribution is obtained from the sum of the contributions of the individual regulatory business lines (BL, business line), the latter calculated by applying as weighting factors the regulatory coefficients (known as "B" or risk factors) to the relevant indicator. These ratios have been estimated by the Supervisory Authority on the basis of the ratio between the losses historically recorded by the banking industry in that particular BL and the relative economic indicator. As a relevant indicator, the regulations establish the set of elements taken from the accounting items of the Profit and Loss Account, which are appropriately dealt with.

Processes for identifying and assessing operational risks

A key element used to identify, assess and implement operating risks containment actions in company operations is the company process system.

The assessment of inherent and residual operational risks is carried out through a process of risk self-assessment by means of which the bank analyses all processes underlying its business activities with respect to risk factors identified, considering their potential impact. Each type of risk (inherent and residual) is then assigned an overall assessment of its "relevance" using as a guideline a breakdown of the analysis on two dimensions:

- impact of the risk on normal business operations;
- the probability (or frequency) that the risk will occur over a given period of time.

The assessment of the residual risk starts from that of the inherent risk, reducing it on the basis of the degree of mitigation that is expected to be provided by the controls; a greater robustness of the controls leads to a reduction of the residual risk. Risk Management uses the following tools to correctly assess the significance of the risks:

- mapping of processes in order to identify critical risk points, interdependencies between different risks, control areas and possible control deficiencies,
- the results of the verification activities carried out by the control functions,
- information of various kinds relating to the probability of entry of a risk and the possible economic damage that may result from it,
- risks for which there is insufficient information on probability of occurrence and damage caused, will, where appropriate, be subject to qualitative estimation analysis.

Control management processes

The monitoring of operational risks, within the Internal Control System, is guaranteed by the adoption of an integrated control model which, in line with the supervisory provisions, is divided into three levels and involves, each with own specific role, the business functions responsible for line controls (or 1st level controls) and the company control functions responsible for 2nd level controls (Risk management and Compliance) and 3rd level controls (Internal audit)
The results of monitoring and control activities are periodically discussed and evaluated by the Internal Control Committee, which is composed of all the company’s control functions and which, in particular, has the task of establishing priorities for action and coordinating the performance of control activities
In addition, operational risk monitoring makes use of the results of the monitoring and analysis of operational losses contained in the periodic report prepared by the Risk Management Department and the related discussion within the Internal Control Committee itself.

First level controls

The 1st level controls, or line controls, are to ensure the correct, regular performance of the transactions underlying all company processes and are carried out by the same network production organisational units or in the context of middle and back-office activities, preferably through the use of IT procedures/systems.
They are the first line of defence in the operating risk control system.
Line controls are the responsibility of the single process owners who have to assess the design and effectiveness in risk mitigation related to execution of the operating processes.

Second level controls

The 2nd level controls are entrusted to different structures, independent of the production ones and:
- contribute to the definition of risk measurement methodologies, verifying compliance with the assigned limits also in terms of consistency of operations with the set risk/return targets (RAF),
- contribute to the definition of methodologies for the measurement/assessment of conformity risk, identify suitable procedures for the prevention of the risks identified and request their adoption,
- certify/declare the company’s accounting information in accordance with the law.

These controls are mainly aimed at monitoring risks, verifying compliance with risk limits and external and internal regulatory provisions, checking the consistency of the various operations with the strategic targets of risk-return, and reporting conduct or events that differ from the usual operations.
The Risk Management function (as a risk management function) and the Compliance function (which incorporates the regulatory compliance function and the anti-money laundering function) carry out part of their activities within the scope of level 2 controls. In order to ensure the effectiveness of the performance of their duties, the functions responsible for carrying out level 2 checks will be provided with the necessary independence, authority and professionalism.

Third level controls

Level 3 controls are entrusted to structures other than the production ones and are aimed at identifying anomalous trends, violations of procedures/regulations and evaluating the functionality of the overall Internal Control System.
Level 3 controls are entrusted to the Internal Audit Department as the Internal Audit Function.
Controls identify anomalous trends, breaches of procedures and regulations and assess the overall functionalities of the internal controls system. That activity was carried continually during the year, periodically or for exceptions, through in loco controls and by using remote instruments, in accordance with Supervisory Instructions.

QUANTITATIVE INFORMATION

The most significant impact in absolute terms is represented by the presence of losses connected to breaches of regulatory provisions an/or adoption of inappropriate commercial and market practices, mainly configurable as prudential provisions made for legal or conduct disputes.
The total amount of operating losses also includes errors made when performing daily activities, in particular when executing transactions or as part of relations with counterparts that are not customers, and the losses resulting from events of an exogenous nature, such as forgery / fraudulent collection of cheques and theft / loss / cloning payment cards, normally mitigated through specific insurance policies.
Internal reporting for 2018 showed 111 new reports with a gross loss of €5,056,715, of which 25.2% from external or internal fraud cases (equal to 1.7% of the value), 55.0% from process execution errors (with 95.2% of the value),19.8% from other factors, counterfeit notes, system failures, legal disputes, etc. (3.0% of the value).
By way of comparison, in 2018 there were 111 events, corresponding to gross losses of €1,024,010.

PART F INFORMATION ON ASSETS

Section 1 COMPANY ASSETS

A. QUALITATIVE INFORMATION

The solidity of the banking system is a public, specifically protected interest and the solvency and reliability of banks assumes they maintain suitable capital resources. For the Company those resources must be able to absorb any losses without prejudicing the reasons of depositing parties. So the real consistency of those resources is a founding element of the Company's reputation.
The need for a suitable supply of capital was made even stricter by the crisis and by Supervisory Body activities that are now at supranational level. The 2007-2008 economic-financial crisis brought the importance of capital adequacy to the forefront, because of the consistent losses recorded, the explosion of losses expected induced by the recession and by the worsening of credit quality and by the asset assessment uncertainties.
The adjustment process of European rules to international standards is now concentrating on adopting the revision of the Basel III package. The corrections made to Basel III are to reduce the excessive variability of the risk measures and make them more transparent and comparable, to give all stakeholders correct assessments of the banks' risk profiles That way, providing correct incentives to increase the solidity of the banking system and strengthen the capacity to sustain the real economy.
The measures approved aim to restore market trust in how weighted risk assets are calculated: i) limiting the use of internal models; ii) improving the robustness and sensitivity to risk of standardised calculation methods for credit risk requirements and the operating risk; iii) introducing backstop measures, such as a financial lever ratio and a floor to weighted risk activities.
Faithful to its people's bank cultural matrix, the Company has identified in its capitalisation policy the instrument that, favouring the creation of the partner-customer figure, enables it to pursue the autonomous growth strategy. Company growth has therefore involved periodical increases in capital, in simple, transparent forms in the technical methods that can give the corporate body clear, immediate understanding of transaction characteristics.
The financial means collected with those transactions, together with the allocations of profits made in compliance with statutory specifications have enabled the Company to expand its activities uniformly and look towards future challenges with a certain tranquillity.

B. QUANTITATIVE INFORMATION

B.1 Company's equity: breakdown

Items/Amounts *(thousands of €)*		31.12.2019	31.12.2018
1.	**Capital**	**201,994**	**201,994**
2.	**Emission surcharges**	**383,159**	**383,158**
3.	**Reserves**	**267,884**	**249,734**
	- of profits	284,267	266,118
	a) legal	122,100	118,700
	b) extraordinary	155,227	138,330
	c) treasury shares	-	-
	d) other	6,940	9,088
	- other	(16,383)	(16,384)
4.	**Capital instruments**	**-**	**-**
5.	**(Treasury shares)**	**(19,127)**	**(18,554)**
6.	**Valuation reserves**	**(180)**	**(15,387)**
	- Equities designated at fair value with impact on total revenue	(1,334)	(9,249)
	- Hedging of equity securities designated as at fair value through other comprehensive income	-	-
	- Financial assets (other than equity securities) measured at fair value with impact on total revenue	4,055	(3,786)
	- Tangible fixed assets	-	-
	- Intangible fixed assets	-	-
	- Hedging of foreign investments	-	-
	- Cash flow hedges	-	-
	- Hedging instruments (non-designated elements)	-	-
	- Exchange rate differences	-	-
	- Non-current assets and disposal groups held for sale	-	-
	- Financial liabilities designated at fair value through profit or loss (changes in credit rating)	-	-
	- Actuarial gains (losses) on defined-benefit pension plans	(2,901)	(2,352)
	- Portion of valuation reserves relating to investee companies valued by the equity method	-	-
	- Special revaluation laws	-	-
7.	**Profit (loss) for the year**	**(84,372)**	**34,257**
	Total	**749,358**	**835,202**

B.2 Valuation reserves for financial assets at fair value through profit or loss: breakdown

Assets/Amounts		31.12.2019		31.12.2018	
(thousands of €)		Positive reserve	Negative reserve	Positive reserve	Negative reserve
1.	Debt securities	4,123	(67)	1,271	(5,057)
2.	Equity securities	-	(1,335)	1,087	(10,336)
3.	Financing	-	-	-	-
	Total	**4,123**	**(1,402)**	**2,358**	**(15,393)**

B.3 Valuation reserves for financial assets at fair value through profit or loss: annual changes

(thousands of €)	Debt securities	Equity securities	Financing
1. Opening balance	**(3,786)**	**(9,249)**	**-**
2. Positive changes	**10,391**	**15,831**	**-**
2.1 Fair value increases	6,533	5,992	-
2.2 Value adjustments for credit risk	282	X	-
2.3 Transfer to Profit and Loss Account of negative reserves on disposal	3,576	X	-
2.4 Transfers to other equity components (equity securities)	-	9,839	-
2.5 Other changes	-	-	-
3. Negative changes	**(2,551)**	**(7,915)**	**-**
3.1 Fair value reductions	(618)	(836)	-
3.2 Value reinstatements for credit risk	(1,144)	X	-
3.3 Reversal to Profit and Loss from positive reserves: - from sale	(789)	X	-
3.4 Transfers to other equity components (equity securities)	-	(7,079)	
3.5 Other changes	-	-	-
4. Closing balance	**4,054**	**(1,333)**	**-**

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

(thousands of €)	31.12.2019		31.12.2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
Employee benefit plans	-	(2,901)	-	(2,352)
Total	**-**	**(2,901)**	**-**	**(2,352)**

(thousands of €)	
1. Opening balance	**(2,352)**
2. Positive changes	**146**
2.1 Gains due to changes in the discount rate	
2.2 Other changes	146
3. Negative changes	**(695)**
3.1 Losses due to changes in the discount rate	(695)
3.2 Other changes	-
4. Closing balance	**(2,901)**

Section 2 EQUITY AND SUPERVISION RATIOS

Since 1 January 2014, the new harmonised rules contained in Regulation (EU) 575/2013 (CRR) and in the Directive 2013/36 EU (CRD IV) have been applicable to banks and investment companies, applying in the European Union the standards defined by the Basel Committee for Bank Supervision (so-called "Basel 3").
While the CRR Regulation is applied directly in national legal systems, Directive CRD IV has been implemented by the Bank of Italy through Circular 285 of 17 December 2013 "Supervisory provisions for Banks", a measure that has also defined regulatory choices made nationally on treasury shares applicable during the transition period. CRD IV regulations are adopted through the circular and implementation is the Bank of Italy responsibility and redesigns the overall framework of prudential reports, harmonising them with community directives.

2.1 Treasury shares

A. QUALITATIVE INFORMATION

treasury shares, as set forth by art. 4 par. 1 no. 71 and 118, and art. 72 of Regulation (EU) 575/2013 (CRR), include:
- Class 1 Capital (Tier 1);
- Class 2 Capital (Tier 2).

"Class 1 capital" (art. 25 CRR) amounts to the sum of:
- Common Equity Tier 1 - CET1;
- Additional Tier 1 capital (ATI).

«CET 1» includes the following positive and negative elements:
- Share capital;
- Emission surcharges;
- Earnings reserves;
- Negative valuation reserves former OCI;
- Other reserves;
- Prior CET 1 instruments purpose of transition provisions (grandfathering);
- Prudential filters;
- Detractions.

The prudential filters are regulatory adjustments of the book value of elements (positive or negative) of Tier 1 elements. Detractions represent negative Tier 1 elements.
«AT1» includes the following positive and negative elements:
- Capital instruments and relative surcharges;
- Prior AT1 instruments purpose of transition provisions (grandfathering);
- Detractions.

«T2» includes the following positive and negative elements:
- Capital instruments, subordinate loans and relative surcharges;
- Prior T2 instruments purpose of transition provisions (grandfathering);
- Detractions.

With reference to the introduction of IFRS 9, on 12 December 2017 the European Parliament issued Regulation (EU) 2017/2395, which updates the CRR, inserting the new article 473 bis "Introduction of IFRS 9", which offers the possibility to mitigate the impact on equity resulting from the introduction of the new accounting standard.
In this regard, the Company has chosen to adopt the so-called "dynamic approach", which allows the re-introduction in Common Equity Tier I of a progressively decreasing share until 2022 (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022) of the amount of the following two aggregates:
- a comparison between IAS 39 value adjustments as at 31 December 2017 and IFRS 9 value adjustments as at 1 January 2018, excluding the reclassification of financial instruments (including adjustments to stage 3 positions);

- a comparison between value adjustments as at 1 January 2018 and subsequent reporting periods up to 31 December 2022, limited to increases in value adjustments of exposures classified as stage 1 and 2 (excluding adjustments to stage 3 positions).

Regulation (EU) 2017/2395 also governs the disclosure obligations that institutions are required to publish, providing to the EBA the issuance of specific guidelines on the subject. Adopting the regulation, on 12 January 2018 the EBA issued specific guidelines according to which banks adopting the transitional treatment referred to the impact of IFRS 9 are obliged to publish the consolidated "Fully loaded" (as if the transitional treatment had not been applied) and "Transitional" values (application of the transition system) of Common Equity Tier 1 (CET1) capital, Tier 1 capital, Total Capital, Total risk-weighted assets, Capital Ratios and Leverage Ratio.

At 31 December 2019, taking into account the transitional treatment adopted to mitigate the impact of IFRS 9, equity amounted to €752.8 million and Treasury Shares to 882.8 million, against weighted assets of €5,908.6 million, mainly deriving from credit and counterpart risks and, to a lesser extent, from operational and market risks. At the same date, considering the full inclusion of the impact of IFRS 9, CET1 amounted to €697.8 million, against weighted assets of €5,854.4 million.

On the basis of the above, the solvency ratios at 31 December 2019, calculated taking into account the transitional treatment for the impact of IFRS 9 ("IFRS 9 phased-in") were as follows: Common Equity ratio 12.7%, Tier 1 ratio 12.7% and Total capital ratio 14.9%. Considering the full inclusion of the IFRS 9 impact ("IFRS 9 Fully-phased") solvency ratios as at 31 December 2019 were as follows: Common Equity ratio 11.9%, Tier 1 ratio 11.9% and Total capital ratio 14.1%.

Please note that, on 19 February 2020 the Company, following the results of the Supervisory Review and Evaluation Process (SREP), received the Bank of Italy decision concerning capital requirements to be met as of 31 March 2020:

- CET 1 ratio: 7.70%, including a binding measure of 5.20% (of which 4.50% for minimum regulatory requirements and 0.70% for additional requirements calculated based on the SREP results) and, for the remaining part, a capital conservation reserve component;
- Tier 1 ratio: 9.44%, including a binding measure of 6.94% (of which 6.00% for minimum regulatory requirements and 0.94% for additional requirements calculated based on the SREP results) and, for the remaining part, a capital conservation reserve component;
- Total Capital ratio: 11.75%, including a binding measure of 9.25% (of which 8% for minimum regulatory requirements and 1.25% for additional requirements calculated based on the SREP results) and, for the remaining part, a capital conservation reserve component.

Furthermore, to ensure compliance with binding measures even in a worsened financial economic context, the Supervisory Body identified the following capital levels:

- CET 1 ratio: 8.20%, including an OCR CET1 ratio of 7.70% and a Target Component (Pillar 2 Guidance, P2G), for a greater exposure to risk under stress conditions, of 0.50%;
- Tier 1 ratio: 9.94%, including an OCR T1 ratio of 9.44% and a Target Component, for a greater exposure to risk under stress conditions, of 0.50%;
- Total Capital ratio: 12.25%, including an OCR CET1 ratio of 11.75% and a Target Component, for a greater exposure to risk under stress conditions, of 0.50%;

B. QUANTITATIVE INFORMATION

(thousands of €)	31.12.2019	31.12.2018
A. Common Equity Tier 1 - CET1 prior to the application of prudential filters	**749,358**	**821,981**
- of which T1 instruments subject to transitional provisions	-	-
B. Prudential filters of the CET1 (+/-)	**(780)**	**(1,121)**
C. CET 1 gross of items to be deducted and the effects of the transitional regime (A+/-B)	**748,578**	**820,860**
D. Deductions from CET1	**(50,740)**	**(154,412)**
E. Transitional regime - Impact on CET1 (+/-)	**54,947**	**61,412**
F. Total Common Equity Tier 1 (CET1) primary capital (C - D +/-E)	**752,785**	**727,860**
G. Additional Tier 1 capital (Additional Tier 1 - AT1) gross of the elements to be deducted and the effects of the transitional arrangements	**-**	**-**
of which AT 1 instruments subject to transitional provisions	-	-
H. Elements to be deducted from AT1	**-**	**-**
E. Transitional regime - Impact on AT1 (+/-)	**-**	**-**
L.Total additional Tier 1 capital (Additional TIER1 - AT1) (G-H+/-I	**-**	**-**
M. Tier 2 capital (Tier2 - T2) gross of the elements to be deducted and the effects of the transitional arrangements	**130,000**	**130,000**
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	**-**	**-**
O. Transitional regime - Impact on T2 (+/-)	**-**	**-**
P. Total Tier 2 capital (Tier 2 -T2) (M - N +/- O)	**130,000**	**130,000**
Q. Total equity (F + L + P)	**882,785**	**857,860**

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

Countercyclical capital reserve

In a communication dated 20 December 2019, taking into account the analysis of the reference indicators, the Bank of Italy decided to maintain the countercyclical capital buffer ratio at zero per cent for the first quarter of 2020.

Capital conservation buffer

In a communication dated 18 January 2017, the Bank of Italy announced its choices regarding application of the capital conservation buffer. Last October, the Supervisory Board decided to adopt the transitional regime provided for by the EU/2013/36 directive (Capital Requirements Directive, CRD4) for application of the capital conservation buffer (CCoB), a system that allows for a gradual introduction of the requirement. This decision modifies the decision made in 2013, when the CRD4 was implemented, to bring forward application of the full reserve (equal to 2.5% of risk- weighted assets) to banking groups at consolidated level and to banks that do not belong to groups. The decision responds to the need to align national discipline with that of the majority of euro area countries. This ensures, on the one hand, equal treatment between intermediaries from different countries and, on the other, reduces divergences between national regulations, in line with the action taken by the Single Supervisory Mechanism (SSM) to minimise differences in the prudential rules applicable to banks.

Following regulatory intervention, as of 1 January 2019, the Bank is required to apply a minimum capital conservation reserve ratio, both at individual and consolidated level, of 2.500 percent:

B. QUANTITATIVE INFORMATION

The Company uses the standardised method for calculating capital requirements for credit risk.
The main features of the regulatory portfolios and the related risk weights are, in particular, introduction of a supporting factor of 0.7619 to be applied to the prudential requirement for retail exposures to SME counterparts and a new capital requirement on the risk of a credit assessment adjustment (CVA), i.e. against the risk of losses arising from adjustments to the market value of OTC derivatives as a result of changes in creditworthiness.
A further prudential filter is provided by art.105 of the CRR, which regulates the prudential supervisory institutions of the First Pillar and the rules on public disclosure (Third Pillar) in relation to the requirements of prudent valuation of all assets measured at *fair value*. In particular, in order to consider the uncertainty of the additional parameters with reference to exposures in the financial statements valued at *fair value*, the Bank is required to deduct from the Common Equity TIER 1 the difference between the value resulting from the prudent valuation and the *fair value*. To this end, it should be noted that the Bank applies these requirements based on the simplified approach.
For operational risks, the standardised approach is used.

Categories/Amounts		**Unweighted amounts**		**Weighted amounts / requirements**	
(thousands of €)		**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
A.	**RISK ACTIVITY**				
A.1	**Credit and counterpart risk**	**11,408,417**	**10,596,802**	**5,431,954**	**6,023,307**
	1. Standardised methodology	11,408,417	10,596,802	5,431,954	6,023,307
	2. Methodology based on internal ratings	-	-	-	-
	2.1 Basis	-	-	-	-
	2.2 Advanced	-	-	-	-
	3. Securitisations	-	-	-	-
B.	**REGULATORY CAPITAL REQUIREMENTS**				
B.1	**Credit and counterpart risk**			**434,557**	**481,865**
B.2	**Credit assessment adjustment risk**				
B.3	**Settlement risk**				
B.4	**Market risk**			**2,015**	**899**
	1. Standard method			2,015	899
	2. Internal models			-	-
	3. Concentration risk			-	-
B.5	**Operational risk**			**36,113**	**34,991**
	1. Basic method			-	-
	2. Standardised method			36,113	34,991
	3. Advanced method			-	-
B.6	**Other elements of the calculation**			**-**	**-**
B.7	**Total prudential requirements**			**472,685**	**517,755**
C.	**RISK ACTIVITIES AND SUPERVISORY RATIOS**				
C.1	Risk-weighted assets (RWA)			5,908,558	6,471,938
C.2	Primary capital class 1/Risk-weighted assets (CET 1 capital ratio)			12.74%	11.25%
C.3	Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			12.74%	11.25%
C.4	Total capital/risk weighted assets (Total capital ratio)			14.94%	13.26%

PART G BUSINESS COMBINATIONS INVOLVING UNDERTAKINGS OR BUSINESSES

Section 1 OPERATIONS IMPLEMENTED DURING THE FINANCIAL YEAR

There were no business combinations during the year.

Section 2 OPERATIONS IMPLEMENTED AFTER THE CLOSING OF THE FINANCIAL YEAR

No business combinations were carried out after the end of the financial year.

Section 3 RETROSPECTIVE ADJUSTMENTS

No retrospective adjustments were made during the year.

PART H TRANSACTIONS WITH RELATED PARTIES

1. *Information on the remuneration of the most important Directors, Statutory Auditors and key employees*

The following table summarises the remuneration paid to the directors, statutory auditors and strategic managers and to the most important employees, i.e. those who have the power and responsibility, directly or indirectly, for the planning, management and control of the Company's activities.
The remuneration paid is governed by the Remuneration Policies approved by the Shareholders Meeting.

(thousands of €)	31.12.2019
Directors	983
Statutory Auditors	352
Key personnel	3,301
Total	**4,636**

Remuneration of the most important employees *(thousands of €)*	**31.12.2019**
whose	
– short-term benefits	2,981
– benefits after employment	278
– long-term benefits	42
– termination benefits	-
– share-based payments	-
Total	**3,301**

The amount refers to the total cost sustained by the Company. For the fees paid to directors
and statutory auditors, amounts include any VAT.

2. *Information on transactions with related parties*

According to the indications of IAS 24, applied to the organisational and governance structure of the Bank, the following individuals and legal entities are considered related parties:

- subsidiaries, companies over which the Bank exercises direct or indirect control, as defined by IAS 27;
- associated companies, companies in which the Bank exercises significant direct or indirect influence, as defined by IAS 28;
- jointly controlled companies, companies over which the Bank exercises direct or indirect joint control, as defined by IAS 31;
- the managers with key responsibilities and the control body, i.e. the Directors, the Statutory Auditors, the General Manager and the Deputy General Manager;
- other related parties, which include:
    - close relatives - cohabiting partners, children, children of the cohabiting partner and persons dependent on the person or cohabiting partner - of Directors, Statutory Auditors, General Manager and the Deputy General Manager of the Bank;
    - subsidiaries, jointly controlled companies or companies subject to significant influence by the Bank's Directors, Statutory Auditors, General Manager and Deputy General Manager, as well as by their close relatives as defined above.

The main Balance Sheet and Profit and Loss Account transactions with subsidiaries and associates are set out below.

Transactions with subsidiaries

(thousands of €)	Receivables for loans granted	Bonds underwritten	Payables for loans received	Bonds issued	Guarantees	Commitments
31.12.2019	9,083	-	3,260	-	22	-
Incidence	0.13%	0.00%	0.04%	0.00%	0.00%	0.00%

	Interest revenue on financing conceded	Interest revenue on bonds subscribed	Interest expense on financing received	Interest expense on bonds issued	Commissions and other revenues	Commissions and other costs
31.12.2019	110	-	-	-	8	-
Incidence	0.05%	0.00%	0.00%	0.00%	0.01%	0.00%

Transactions with associated companies

(thousands of €)	Receivables for loans granted	Bonds underwritten	Payables for loans received	Bonds issued	Guarantees	Commitments
31.12.2019	440	-	65	-	-	-
Incidence	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%

	Interest revenue on financing conceded	Interest revenue on bonds subscribed	Interest expense on financing received	Interest expense on bonds issued	Commissions and other revenues	Commissions and other costs
31.12.2019	5	-	-	-	4	-
Incidence	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Here below please find the main capital and economic transactions with Directors, Statutory Auditors and members of General Management

Transactions with Directors, Statutory Auditors and members of the Executive Board

(thousands of €)		Directors		Statutory Auditors		Key personnel		Total
		Direct	Indirect	Direct	Indirect	Direct	Indirect	
Credit line granted		11,535	15,035	1,125	4,546	2,720	258	35,218
Loans		47,030	8,073	11,763	61,434	305	363	128,969
	Incidence	0.65%	0.11%	0.16%	0.85%	0.00%	0.01%	1.78%
Signature credits		2,847	2,144	32	4,837	-	-	9,860
	Incidence	0.43%	0.34%	0.01%	0.76%	0.00%	0.00%	1.55%
Direct funding		27,620	3,068	3,060	16,663	58	177	50,646
	Incidence	0.36%	0.04%	0.04%	0.22%	0.00%	0.00%	0.67%
Indirect funding		1,909	9,205	64	61	4	191	11,434
	Incidence	0.05%	0.24%	0.00%	0.00%	0.00%	0.01%	0.30%
Interest revenue		960	333	133	1,531	1	3	2,961
	Incidence	0.47%	0.16%	0.07%	0.75%	0.00%	0.00%	1.46%
Interest expense		53	1	0	4	0	0	59
	Incidence	0.19%	0.00%	0.00%	0.01%	0.00%	0.00%	0.21%
Commissions and other revenue		101	45	53	1,412	0	2	1,612
	incidence	0.10%	0.04%	0.05%	1.38%	0.00%	0.00%	1.58%

3. Management of Transactions with related parties

Transactions with related parties are disciplined by Consob Regulation 17221 of 12 March 2010 as updated and by Title V, Chapter 5, New prudential supervisory provisions for banks (Bank of Italy Circular 263 of 27 December 2006 as updated).
The bank adopted – through Board of Directors resolution of 21.06.2019, with prior positive approval from the Committee of Independent Directors and the Board of Statutory Auditors – the "Group Regulation for management of transactions with Related Parties and Connected Subjects", published on the Bank website.
Transactions with related parties, identified in accordance with the provisions of IAS 24, the above Consob Regulation and Bank of Italy instructions, are part of the Bank's normal operations.
Please note that the Board of Directors of 27 September 2019 decided on a Transaction of greater importance with the related party Voba CB S.r.l., on a Covered Bond issue Program pursuant to art. 7-bis, Law 130/1999. As part of that Program, the Bank transferred to the vehicle company, which purchased in separate assets, a portfolio of residential mortgage loans constituting the underlying aspect for the issue, by the vehicle, of guarantees for the bearers of covered bonds (OBG) issued by the Bank. The transactions is as follows:

- the mortgage loan portfolio transferred by the Bank for the first series of OBG does not exceed €480 million;
- the purchase of the portfolio by the vehicle is financed by Banca Popolare dell'Alto Adige S.p.A. with a subordinate loan for the transfer price;
- the Bank issues covered bank bonds up to the amount of the portfolio transferred in separate assets to the vehicle company;
- the vehicle company issues guarantees to the bearers of the OBG to be enforceable on the mortgages transferred by the Bank and segregated in separate assets.

Pursuant to and for the purposes of the Group Regulation adopting Consob Resolution 17221/2010, that transaction is an "infra-Group transaction with related party", related to agreements between the Parent Banca Popolare dell'Alto Adige S.p.A: and the related party Voba CB S.r.l., a subsidiary of the BPAA banking Group. The transaction counter value exceeds 5% of the Bank's total treasury shares so takes on "greater relevance" for the purposes of the aforementioned Consob regulation with an obligation for market transparency within 7 days of the Parent company Board decision.
Therefore, on 30 September 2019 Volksbank published an Information Document to the shareholders and the market on the www.emarketstorage.com storage mechanism and made it available to the public at the same time c/o the registered office of Banca Popolare dell'alto Adige S.p.A., for the transaction, conforming it to annex 4 of Consob Regulation 17221/2010.
During 2019, there are no positions or transactions resulting from atypical or unusual transactions, meaning those that are not part of normal business operations, which, due to their significance/relevance, the nature of the counterparts, the way in which the transfer price is determined and the timing of the event, may give rise to doubts as to the completeness of the information in the financial statements, the safeguarding of the company's assets and the protection of shareholders.

PART I PAYMENT AGREEMENTS BASED ON OWN CAPITAL INSTRUMENTS

A. QUALITATIVE INFORMATION

The reference regulatory framework for payment agreements based on treasury shares is represented by Supervisory provisions for Banks, Bank of Italy Circular no. 285/2013, Part One, Title IV, Chapter 2 "Remuneration and Incentive Policies and Practices", which implements the European Directive 2013/36/EU (CRD IV-Capital Requirements Directive). The following are also relevant:

- art. 114-bis TUF on information to the market;
- the joint Bank of Italy-Consob communication concerning "Implementation of guidelines issued by ESMA", to promote greater consistency with interpreting and fulfilling obligations in force concerning conflicts of interest pursuant to the MIFID directive on remuneration published on 29 January 2014;
- the technical requirements, Regulatory Technical Standard (RTS) defined by the EBA for identification of the categories of personnel whose professional activities have a significant impact on the risk profile of the company, approved on 4 March 2014 by the European Commission with EU Delegated Regulation no. 604/2014; the EU Regulation no. 575/2013 (CRR) which deals with the prudential requirements to be met by banks and indicates in Article 450 the information on remuneration policies to be published;
- the EU Delegated Regulation 527/2014 which specifies the categories of financial instruments suitable for use for the purposes of variable remuneration.

Finally, it should be noted that from 1 January 2017, the Guidelines on Sound Remuneration policies, published by the EBA on 21 December 2015. The Guidelines aim to encourage adoption of remuneration policies in line with the Bank's risk profile and, in general, to ensure that remuneration and incentive schemes are always based on the principles of sound and prudent management.

With the 25th Update to Circular 285/2013 published on 26 October 2018, the Bank of Italy amended the provisions of Part One, Title IV, Chapter 2 concerning remuneration and incentive policies and practices in banks and banking groups in order to adapt the Italian regulatory framework to the guidelines of the European Banking Authority (EBA) on the subject.

On 22 February 2019, the Board of Directors of Volksbank approved a new incentive plan that provides, in particular, for the valuation of a portion of the variable component of the remuneration of the "most significant personnel" through the assignment of ordinary shares of Volksbank, subject to the achievement of specific targets to be achieved during the year.

The beneficiaries of the plan are those who fall into the categories of "Most Significant Personnel", who are granted, pursuant to the Remuneration Policies, incentives in financial instruments representing the economic value of the Bank with a net equivalent amount of more than 15,000 euros per year, or employees, although not more Significant Personnel, who hold "severance" incentives as governed by the Remuneration Policies.

The free allocation of the Stock Grant Plan shares is subject to the achievement of the performance targets for the year 2019 as well as to the respect, for the individual periods of the plan, of the economic-financial, equity and liquidity bank indices, as indicated by the remuneration policies.

The allocation of shares can take place if and only if, at the end of each period of the plan, the economic-financial, equity and liquidity indices, which constitute the "conditions of access" to the incentive system, are reached. Under these conditions, 25% of the 2019 incentives are recognized in shares provided that, in the year of allocation of the shares, the countervalue in shares net equivalent exceeds the materiality threshold indicated by the remuneration policies.

The shares are subject to a retention commitment with unavailability equal to one year from the date of allocation. For the shares to be recognised in relation to financial year 2019 together with the shares of one or more periods of the 2019 plan, the unavailability interval is equal to 1 year from the date of the Board's resolution to ascertain the existence of the Bank's economic-financial, equity and liquidity indices needed to access the portion of the deferred incentive respectively in 2020 and 2021.

For severance actions agreed by an individual agreement for early termination of employment, the retention commitment has an annual duration, for spot assignments, and a duration of 1 year for deferred assignments of 1 or 2 years respectively.

B. QUANTITATIVE INFORMATION

The table of annual changes is not corroborated because the Bank did not meet the requirements for share-based payments in relation to the performance premiums for 2019 to be paid in 2019.

PART L SECTOR REPORTING

CRITERIA FOR IDENTIFYING AND AGGREGATING OPERATING SECTORS

Sector reporting is based on the elements that management uses to make its operating decisions (so-called "management approach") and is consistent with the information requirements established in IFRS 8. The segments were identified by management and approved by the Board of Directors:

- Retail;
- Corporate;
- Private;
- Finance;
- Workout.

In addition to these operating segments, there are also support structures represented by other central departments and internal services.

The allocation of economic and financial results to the various business sectors is based on criteria that are independent of those used to prepare the financial statements. Accordingly, their breakdown for the purposes of segment reporting is based on the management logic used internally by the Bank to assess the results of individual operating segments. To prepare segment information, the figures shown in the "Total" column of this section are reconciled with the figures shown in the financial statements.

Distribution by sector of activity: economic data

Economic data *(thousands of €)*	**Retail**	**Corpo-rate**	**Private**	**Finan-cial/ALM**	**Workout**	**Head office**	**Total**
Interest revenue margin	100,374	54,378	746	33,503	7,755	6,505	203,261
Interest expense margin	(9,177)	(1,278)	(2,001)	(9,360)	-	(6,518)	(28,334)
Interest margin	**91,197**	**53,100**	**(1,256)**	**24,144**	**7,755**	**(13)**	**174,927**
Net commission	72,899	12,419	6,163	(264)	-	127	91,344
Financial margin	97	(79)	-	13,121	(22,491)	-	(9,354)
Net interest and other banking revenue	**164,193**	**65,440**	**4,907**	**37,001**	**(14,737)**	**114**	**256,918**
Net value adjustment on receivables and financial transactions	(4,017)	351	0	1,870	(74,137)	-	(75,933)
Net profit from financial activities	**160,175**	**65,791**	**4,907**	**38,871**	**(88,874)**	**114**	**180,985**
Administrative expenses	(99,635)	(12,180)	(6,097)	(3,930)	(8,146)	(46,113)	(176,101)
Provisions for risks and charges	970	74	0	-	753	(7,205)	(5,408)
Amortisation on tangible and intangible assets	-	-	-	-	-	(13,480)	(13,480)
Other operating charges/revenue	14,233	2,425	1,229	-	-	-	17,887
Operating costs	**(84,432)**	**(9,681)**	**(4,867)**	**(3,930)**	**(7,393)**	**(66,798)**	**(177,101)**
Gains (losses) on equity investments/on disposal of investments	-	-	-	-	-	(98,599)	(98,599)
Profit (loss) from continuing operations before tax	**75,744**	**56,110**	**40**	**34,940**	**(96,267)**	**(165,284)**	**(94,718)**

Distribution by business segment: Balance Sheet data

Balance Sheet data *(thousands of €)*	**Retail**	**Corporate**	**Private**	**Financial/ ALM**	**Workout**	**Head office**	**Total**
Loans to banks	-	-	-	232,763	-	-	232,763
Loans and advances to clients	4,577,155	2,367,919	38,775	1,673,265	259,589	-	8,916,703
Financial assets measured at fair value	23,947	12,389	203	747,388	-	-	783,926
Payables to banks	-	-	-	1,247,848	-	-	1,247,848
Direct funding	5,322,819	784,625	613,673	1,397,360	-	120,142	8,238,619
- Due to clients	5,015,241	783,310	544,722	966,991	-	112,400	7,422,665
- Securities issued	307,578	1,315	68,951	430,369	-	7,742	815,954
Indirect funding	2,259,727	91,173	875,410	-	-	-	3,226,309
RWA	2,475,715	2,293,809	61,942	286,207	373,089	417,796	5,908,558

Please note that It should be noted that the company's operating revenue and activities are carried out in Italy, confirming its roots in the reference territory, of strategic relevance for company growth.
With reference to geographical segment information, please note that Volksbank operates on a regional geographical basis and does not have a territorial structure whose division into distinct areas takes on economic and strategic relevance. Moreover, the characteristics and opportunities of the reference market are also homogeneous. Accordingly, the segment information by geographical area is not presented, as it is of no particular value.

PART M INFORMATION ON LEASES

Section 1 LESSEE

QUALITATIVE INFORMATION

Leases all refer to real estate lease contracts, in particular for buildings intended for office or bank branch use. The contracts do not normally last longer than 12 months and are typically renewal and extinction options that can be exercised by the lessee based on laws or specific contractual provisions.
These contracts do not include purchase options at the end of the lease or significant reversal costs for the Bank. For contracts with an overall lease term of or for less than 12 months and to contracts with underlying asset value, when new, of less than or equal to €5,000 ("low value") IFRS 16 is not applied. In these cases, instalments related to those leases are entered as cost with a constant quota criterion for the lease term or based on another systematic criterion if more representative of how the lessee perceives the benefits.

QUANTITATIVE INFORMATION

For information on rights of use acquired with leases, please refer to what was said in Part B Assets.
For information on payables for leases, please refer to what was said in Part B Liabilities.
For information on interest expense on lease payables and other expenses connected to rights of use acquired with leases, profits and losses resulting from sale and lease-back transactions and income from sub-leasing transactions, please refer to what is said in Part C, Information of Profit and Loss.

Section 2 LESSOR

QUALITATIVE INFORMATION

The bank does not take on the lessor role for IFRS16 purposes.

QUANTITATIVE INFORMATION

The bank does not take on the lessor role for IFRS16 purposes.

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

Information pursuant to art. 149 – duodecies of Regulation 11971 of 14 May 1999 (Issuers Regulation)

The fees for 2019 for auditing services and for services other than auditing provided by the Independent Auditors itself or entities belonging to its network are set out below.

Type of services *(thousands of €)*	**Subject who provided the service**	**Recipient**	**Remuneration (1)**
Auditing	KPMG S.p.A.	Volksbank	87,500
Certification services	KPMG S.p.A.	Volksbank	1,250
Base Prospectus Comfort letter - MTN Programme	KPMG S.p.A.	Volksbank	25,000
Total			**113,750**

(1) The amounts are stated net of VAT, Consob contribution and ancillary expenses.

Financial statements of subsidiary Voba Invest S.r.l. in liquidation

Voba Invest S.r.l. in liquidation

Voba Invest S.r.l. - With single shareholder in liquidation
Registered office in Bolzano (BZ),Via del Macello no. 55
Share capital €30,000 fully paid up
Listed in the Bolzano Companies Register
Tax code 03340170277
A company subject to management and coordination
by Banca Popolare dell'Alto Adige SpA, with registered office in Bolzano - Italy

FINANCIAL STATEMENTS AS AT 31/12/2019
BALANCE SHEET

ASSETS	31.12.2019	31.12.2018
(in €)		
A. Receivables from shareholders for outstanding payments	**-**	**-**
B. Fixed assets		
I. Intangible assets		
II. Tangible assets		
1. Land and buildings	-	37,369
Total	-	37,369
III. Financial assets		
1. Investments in:		
b. connected companies	-	-
Total	-	-
3. Other securities	100	100
Total	100	100
Total fixed assets (B)	**100**	**37,469**
C. Current assets		
I. Inventories		
4. Finished products and goods	604,043	1,018,215
Total	604,043	1,018,215
II. Receivables		
1. From customers	-	80
5.bis Tax receivables	2,026	2,026
5.quater. From others	85,705	85,705
Total	87,731	87,811
III. Financial assets of current assets		
IV. Cash and cash equivalents		
1. Bank and postal deposits	1,601,880	1,044,051
3. Cash and securities on hand	58	58
Total	1,601,938	1,044,109
Total current assets (C)	**2,293,712**	**2,150,135**
D. Accrued income and prepaid expenses	**1,097**	**2,934**
TOTAL ASSETS	**2,294,909**	**2,190,538**

FINANCIAL STATEMENTS AS AT 31/12/2019
BALANCE SHEET

LIABILITIES	31.12.2019	31.12.2018
(in €)		
A. Net Equity		
I. Capital	30,000	30,000
IV. Legal reserve	6,000	6,000
VII. Other reserves		
13. Sundry other reserves	(45,000)	(45,001)
	(45,000)	(45,001)
VIII. Profits (losses) carried forward	2,086,865	2,123,962
IX. Profit (loss) for the year	128,239	(37,097)
Total	**2,206,104**	**2,077,864**
B. Provisions for risks and charges		
4. Other	53,527	53,527
Total	**53,527**	**53,527**
D. Payables		
3. Payables to shareholders for loans	-	-
7. Trade payables	450	450
12. Tax payables	18,819	23,288
14. Other payables	16,009	35,409
Total	**35,278**	**59,147**
TOTAL LIABILITIES	**2,294,909**	**2,190,538**

FINANCIAL STATEMENTS AS AT 31/12/2019
PROFIT AND LOSS ACCOUNT

INCOME STATEMENT ITEMS	31.12.2019	31.12.2018
(in €)		
A. Production value		
1. Revenues from sales and services	467,003	358,177
2. Changes to inventories in progress, semi-finished and finished products	(414,172)	(245,973)
5. Other revenues and income	188,477	11,254
Total	241,308	123,458
B. Production costs		
6. Raw materials, ancillary supplies, consumables and goods	0	5
7. For services	76,555	76,260
8. For leased assets	5,776	13,921
10. Amortisation and write-downs		
b. depreciation of tangible assets	-	21,513
	-	21,513
12. Provisions for risks	-	-
14. Other operating expenses	30,724	48,856
Total production costs	113,055	160,555
Difference between value and costs of production (A-B)	**128,253**	**(37,097)**
C. Financial income and expenses		
16. Other financial income		
b. from securities entered in fixed assets	-	-
d. income other than the above	-	-
of which from connected companies	-	-
	-	-
17. Interest and other financial expenses	14	-
Total financial income and expenses	(14)	-
D. Value adjustments to financial assets		
Net result (A-B+C+D+E)	**128,239**	**(37,097)**
21. PROFIT (LOSS) FOR THE YEAR	**128,239**	**(37,097)**

Financial statements of subsidiary Valpolyella Alta Societa Agricola S.r.l.

Valpolyella Alta Societa Agricola S.r.l.

Valpolyella Alta Societa Agricola S.r.l. - Single Shareholder
Registered office in Bolzano (BZ),Via del Macello no. 55
Share capital €10,000 fully paid up
Listed in the Bolzano Companies Register
Tax code 02625480211
A company subject to management and coordination
by Banca Popolare dell'Alto Adige SpA, with registered office in Bolzano - Italy

FINANCIAL STATEMENTS AS AT 31/12/2019
BALANCE SHEET

ASSETS *(in €)*	31.12.2019	31.12.2018
A. Receivables from shareholders for outstanding payments	**-**	**-**
B. Fixed assets		
I. Intangible assets	-	-
II. Tangible assets		
1. Land and buildings	2,053,633	2,812,642
2. Plant and machinery	-	113,066
4. Other assets	689,608	1,052,983
5. Assets under construction and advances	143,156	125,000
Total	2,886,397	4,103,691
III. Financial assets		
Total fixed assets (B)	**2,886,397**	**4,103,691**
C. Current assets		
I. Inventories		
II. Receivables		
1. From customers	67,185	221,549
5.bis Tax receivables	18,611	62,002
5. quater From others	107	107
Total	85,903	283,658
III. Financial assets of current assets		
IV. Cash and cash equivalents		
1. Bank and postal deposits	1,658,480	-
Total	1,658,480	-
Total current assets (C)	**1,744,383**	**283,658**
D. Accrued income and prepaid expenses	**1**	**1**
TOTAL ASSETS	**4,630,781**	**4,387,350**

FINANCIAL STATEMENTS AS AT 31/12/2019
BALANCE SHEET

LIABILITIES	31.12.2019	31.12.2018
(in €)		
A. Net Equity		
I. Capital	10,000	10,000
IV. Legal reserve	2,000	2,000
VII. Other reserves		
1. Extraordinary reserve	5,292	5,292
8. Payments to cover losses	8,288	5,753
13. Sundry other reserves	-	(2)
	13,580	11,043
IX. Profit (loss) for the year	584,793	(117,464)
Total	**610,373**	**(94,421)**
B. Provisions for risks and charges		
4. Other	37,500	37,500
Total	**37,500**	**37,500**
C. Employee severance indemnities	**-**	**-**
D. Payables		
3. Payables to shareholders for loans	806,156	922,060
5. Payables to banks	3,007,801	3,330,836
7. Trade payables	42,047	166,065
12. Tax payables	126,904	-
14. Other payables	-	84
Total	**3,982,908**	**4,419,045**
E. Accrued expenses and deferred income	**-**	**25,226**
TOTAL LIABILITIES	**4,630,781**	**4,387,350**

FINANCIAL STATEMENTS AS AT 31/12/2019
PROFIT AND LOSS ACCOUNT

INCOME STATEMENT ITEMS	31.12.2019	31.12.2018
(in €)		
A. Production value		
1. Revenues from sales and services	61,072	201,409
5. Other revenues and income	926,829	59,460
Total	987,901	260,869
B. Production costs		
6. Raw materials, ancillary supplies, consumables and goods	17,968	26,872
7. For services	144,956	191,689
8. For leased assets	1,147	-
10. Amortisation and write-downs		
b. depreciation of tangible assets	44,850	76,120
	44,850	76,120
14. Other operating expenses	4,378	1,728
Total production costs	213,299	296,409
Difference between value and costs of production (A-B)	**774,602**	**(35,540)**
C. Financial income and expenses		
16. Other financial income		
d. income other than the above	(62)	-
17. Interest and other financial expenses	63,147	(81,924)
Total financial income and expenses	(63,085)	(81,924)
D. Value adjustments to financial assets		
Net result (A-B+C+D+E)	**711,517**	**(117,464)**
20. Taxes for the year, current, deferred tax assets, deferred tax liabilities	(126,724)	-
21. PROFIT (LOSS) FOR THE YEAR	**584,793**	**(117,464)**

Financial statements of the subsidiary Quartiere Brizzi S.r.l.

Quartiere Brizzi S.r.l.

Quartiere Brizzi S.r.l. - Single Shareholder

Registered office in Chienes (BZ), Handwerkzone 2
Share capital €10,000 fully paid up
Listed in the Bolzano Companies Register
Tax code 02519580217
A company subject to management and coordination
by Banca Popolare dell'Alto Adige SpA, with registered office in Bolzano - Italy

FINANCIAL STATEMENTS AS AT 31/12/2019
BALANCE SHEET

ASSETS	31.12.2019	31.12.2018
(in €)		
A. Receivables from shareholders for outstanding payments	**-**	**-**
C. Current assets		
2. Work in progress and semi-finished products	6,430,834	6,000,000
5.bis Tax receivables	42,425	28,837
5. quater From others	-	-
Total	6,473,259	6,028,837
IV. Cash and cash equivalents		
1. Bank and postal deposits		
Total current assets (C)	**6,473,259**	**6,028,837**
D. Accrued income and prepaid expenses	**3,675**	**1,702**
TOTAL ASSETS	**6,476,934**	**6,030,539**

FINANCIAL STATEMENTS AS AT 31/12/2019
BALANCE SHEET

LIABILITIES		31.12.2019	31.12.2018
A. Net Equity			
I.	Capital	10,000	10,000
IV.	Legal reserve	2,000	-
VII.	Other reserves		
	8. Payments to cover losses	64,365	64,365
	13. Other reserves	(2)	-
VIII.	Profits (losses) carried forward	122,806	(217,532)
IX.	Profit (loss) for the year	(29,820)	342,538
Total		**169,349**	**199,171**
D. Payables			
3.	Payables to shareholders for loans	-	-
5.	Payables to banks	6,306,822	5,647,302
7.	Trade payables	763	174,353
12.	Tax payables	-	9,713
Total		**6,307,585**	**5,831,368**
TOTAL LIABILITIES		**6,476,934**	**6,030,539**

FINANCIAL STATEMENTS AS AT 31/12/2019
PROFIT AND LOSS ACCOUNT

	INCOME STATEMENT ITEMS	31.12.2019	31.12.2018
(in €)			
A.	**Production value**		
	2. Changes to inventories of products In progress, semi-finished and finished goods	430,834	-
	5. Other revenues and income	1	498,951
	Total	430,835	498,951
B.	**Production costs**		
	6. Raw materials, ancillary supplies, consumables and goods	43,523	-
	7. For services	346,943	53,607
	8. For leased assets	1,692	-
	14. Other operating expenses	10,564	10,489
	Total production costs	402,722	64,096
	Difference between value and costs of production (A-B)	**28,113**	**434,856**
C.	**Financial income and expenses**		
	17. Interest and other financial expenses	(57,226)	(55,220)
	Total financial income and expenses	(57,226)	(55,220)
	Net result (A-B+C+D+E)	**(29,113)**	**379,636**
	20. Taxes for the year, current, deferred tax assets, deferred tax liabilities	(707)	(37,297)
	21. PROFIT (LOSS) FOR THE YEAR	**(29,820)**	**342,338**

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